RUSSIA–US
ECONOMIC COOPERATION IN TURBULENT TIMES

RUSSIAN-AMERICAN BUSINESS COUNCIL

RSPP

Moscow, March 2019.

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INTRODUCTORY REMARKS BY ALEXANDER SHOKHIN, PRESIDENT OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS AND CHAIRMAN OF THE BOARD OF TRUSTEES OF THE RUSSIAN-AMERICAN BUSINESS COUNCIL (RABC)

Dear friends,

U.S.–Russia relations have been very tense in recent years, and this directly affects cooperation in trade, economy and investment. During these difficult times, we believe it a task of utmost importance to find a stable foundation to maintain and develop relations in the future.

In order to reconsider the current status quo and to look for solutions that will put U.S.–Russia relations on an upward trajectory, the Russian Union of Industrialists and Entrepreneurs (RSPP) and the Russian-American Business Council (RABC) with the participation of experts from the National Research University Higher School of Economics, the Valdai International Discussion Club and Russia's leading research centres have prepared the joint report "U.S.–Russia Economic Cooperation in Conditions of Uncertainty."

One of the key objectives of the paper is to assess lost profits and analyse the losses incurred by our countries and businesses as a result of the crisis and formulate proposals on measures that would give a positive impetus to the bilateral cooperation.

On behalf of the RSPP and the RABC, I would like to express my gratitude to everyone who made this report possible: **Sergei Karaganov**, Dean of the Faculty of World Economy and International Affairs at the National Research University Higher School of Economics, Honorary Chairman of the Presidium of the Council for Foreign and Defense Policy, and the head of the team of contributors to this report; **Dmitry Suslov**, Deputy Director of the Centre for Comprehensive European and International Studies at the National Research University Higher School of Economics, Deputy Director for Research Programs at the Council for Foreign and Defense Policy and the main contributor to this report; **Vladimir Potanin**, President and Chairman of the Management Board of MMC Norilsk Nickel, Member of the Board of the RSPP, Member of the Board of Trustees of the RABC; **Zakhar Smushkin**, Chairman of the Board of Directors of JSC Ilim Group, Member of the Board of the RSPP, Member of the Board of Trustees of the RABC; **Alexis Rodzianko**, President and CEO of the American Chamber of Commerce in Russia; **Anatoly Karachinskiy**, President of IBS Group, Member of the Board of the RSPP; **Anton Bazulev**, Member of the Board, Director for International Projects at UC RUSAL; **Marcus Montenecourt**, Vice-President Commercial for Europe, Russia, CIS & Asia at Amsted Rail Company Inc.; **Timofey Bordachev**, Academic Supervisor of the Centre for Comprehensive European and International Studies at the National Research University Higher School of Economics; **Leonid Grigoryev**, Chief Adviser to the Head of the Analytical Center for the Government of the Russian Federation, tenured professor at the National Research University Higher School of Economics; **Igor Makarov**, Program Academic Supervisor of the School of World Economy at the National Research University Higher School of Economics; **Vitaliy Yermakov**, Academic Supervisor of the Center for Energy Policy Studies at the Energy Institute of the National Research University Higher School of Economics; **Viktor Supyan**, Deputy Director of the Institute of the USA and Canada Studies at the Russian Academy of Sciences, Professor at the National Research University Higher School of Economics; **Mikhail Portnoy**, Head of the Center of Foreign Economic Research of the U.S. and Canadian Studies at the Russian Academy of Sciences; **Elina Kirichenko**, Sector Head of the North America Research Center of the Primakov National Research Institute of World Economy and International Relations of the Russian Academy of Sciences; **Ivan Timofeev**, Director of Programs at the Russian International Affairs Council; **Dmitry Belousov**, Head of the Laboratory for Analysis and Forecasting of Macroeconomic Processes at the Institute of Economic Forecasting of the Russian Academy of Sciences; **Oleg Solntsev**, Head of the Center for Monetary Policy and Banking Sector Analysis at the Center for Macroeconomic Analysis and Short-Term Forecasting; **Alexander Losev**, Director General, Sputnik Capital Management MC JSC; **Andrey Podchufarov**, Chair of the Joint Department with Avtopromimport at the National Research University Higher School of Economics; **Alexei Lavrukhin**, Deputy Head of the Analytical Center at Ernst & Young; **Natalia Schneider**, Vice President for Government Relations at the American Chamber of Commerce in Russia; **Igor Sorokin**, Director for Government Relations at the American Chamber of Commerce in Russia; and **Alexander Bykov**, Expert of the Pharmaceutical Committee of Business Russia; as well as **Nikita Gryazin**, research assistant at the Centre for Comprehensive European and International Studies at the National Research University Higher School of Economics; **Anna Osetrova**, departmental assistant at the Centre for Comprehensive European and International Studies at the National Research University Higher School of Economics; and **Alexei Lidin** departmental assistant at the Centre for Comprehensive European and International Studies at the National Research University Higher School of Economics.

We hope that the report will serve as a stimulus for rethinking our relations and bringing them out of the current crisis.

President of the Russian Union of Industrialists and Entrepreneurs (RSPP);
Chairman of the Board of Trustees of the Russian-American Business Council (RABC)

Alexander Shokhin

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1. SUMMARY – BULLET POINTS

1.1. Despite the secondary role that economic ties have traditionally played in U.S.–Russia relations, as the confrontation that has been raging since 2014 (and is likely to continue for a long time to come) and the sanctions, the United States is and will remain an important economic partner for Russia for the foreseeable future. The true volume of trade – and especially investment – ties could be several times larger than official statistics indicate and it would appear that the United States is among Russia's top five trade and economic partners (although officially it is in 6th place).

1.2. Russia's substantial dependence on the United States in certain sectors of the economy (metallurgy, engineering, aviation, finance, ICT) persists, both in terms of exports and imports. It is difficult to curtail imports and exports entirely within a short period of time. Gradual diversification is necessary. First of all, this would involve reducing the role of the U.S. dollar in settlements between Russia and third countries and creating measures to protect Russia's relations with third countries from U.S. sanctions. With the understanding that this diversification will take years to achieve. There is also an indirect negative dependence on U.S. extraterritorial sanctions that is detrimental to Russia's relations with third countries.

1.3. Russia's financial dependence on the United States is of particular importance. This dependence is a consequence of the fact that a significant part of Russia's national wealth is made up of exports, is denominated in dollars and is even stored in U.S. deposit accounts (it was previously stored in the U.S. national debt). What is more, in recent years, Russia has become a part of the American technological platform and, accordingly, the need to continue to use U.S. technologies. It is unlikely that Russia will be able to get away from either quickly. What is more, Russia is still interested in obtaining American technologies for the sake of modernizing the economy and attracting capital from the United States.

1.4. With partial exceptions in the nuclear sector, the mutually dependent relationship between Russia and the United States is asymmetrical. In this regard, the decision of the Russian leadership to not resort to tit-for-tat measures in response to the U.S. sanctions (banning supplies of Russian titanium alloys, rocket engines, non-ferrous metals, etc.) seems completely justified. The country's economic interests dictate that this cooperation should continue.

1.5. Despite the sharp collapse of economic relations between Russia and the United States in 2014–2015, on the whole, they withstood the stress test of the confrontation and sanctions and in many ways have adapted to the deteriorating political situation. There was a noticeable increase in trade turnover between the two countries in 2017 (by $4 billion, according to official statistics), as well as an increase in the volume of accumulated U.S. investments in Russia (by $1 billion according to the Central Bank of Russia). Russia's accumulated investments in the United States occurred one year earlier. The positive trend continued in 2018.

1.5.1. On the one hand, this indicated that the initial shock of 2014 has passed, and the sanctions are now viewed by businesses in both countries as the norm. While the adoption in the August 2017 of the Countering America's Adversaries Through Sanctions Act (CAATSA) in the United States means that the sanctions will not be lifted any time soon, it is understood that, in the absence of further sharp political escalation, it is unlikely that "total" sanctions will be imposed against Russia in the short term because of how important individual areas of economic cooperation with Russia are for the United States, its allies and the global economy as a whole.

1.5.2. On the other hand, the intensification of economic relations points to increased confidence in the Russian economy, a recognition of its stability, and it reflects the country's successful recovery from the economic recession of 2015–2016.

1.6. The main factors for the sustainability of U.S.–Russia relations are:

- Russia's continued (for now) dependence on the export of a range of products to the United States and EU countries and, consequently, the desire to avoid sanctions in this area (primarily aluminium and non-ferrous metals);
- The United States' continued (for now) dependence on the import of certain Russian products (titanium alloys and rocket engines);

- The commercial attractiveness of operating on each other's markets despite the "toxicity" of Russian companies and the Russian market brought about by the sanctions;
- The selective nature of U.S. sanctions, which (thus far) are not all-encompassing and cover a small number of sectors of the Russian economy and a range of U.S.–Russia economic ties;
- Russia's connectedness to the American technological platform;
- The continuing attractiveness of the U.S. domestic market and its financial system, including for storing its gold and foreign currency reserves, the preservation of the dollar as a world reserve currency and the currency of international settlements;
- Russia's integration into the global financial system.

They minimize the likelihood of a further dramatic decline in economic relations between the United States and Russia, provided that the confrontation does not escalate in the coming years and "total" sanctions are not introduced against Russia.

1.7. Right now, we can say that there are six **main pillars of economic relations between Russia and the United States**, which appear to be very stable:

- The export to the United States of Russian products that are important for the U.S. economy and/or the economies of its key partners (aluminium and non-ferrous metals, titanium and titanium products, RD-180 rocket engines and nuclear fuel).
- The import from the United States of products that are important for the Russian economy (aircraft and aircraft parts, software, drilling rigs and turbines, medical devices and equipment, pharmaceuticals).
- The purely market-based cooperation between the two countries (exports of Russian oil products, crude oil and mineral products to the United States and imports of American motor vehicles, spare parts), which has thus far remained untouched by the sanctions.
- The trade in services, which is determined by market factors and does not fall under the sanctions.
- The U.S. investment projects in Russia and Russian investment projects in the United States that are not subject to sanctions. Investment cooperation will likely continue at roughly the same level in the short and medium term, that is, without any large-scale fluctuations in either direction.
- The intensive financial cooperation between Russia and the United States: two thirds of Russian financial resources accumulated through exports continues to be held in U.S. dollars in deposit accounts, although these investments are gradually declining; and U.S. capital plays a significant role on the Russian stock market).

1.8. Not only will the U.S. sanctions against Russia not be lifted in the coming years or even decades, they will most probably be tightened. The most likely scenario is that they will be expanded gradually, affecting an ever-growing number of companies, entrepreneurs and types of activity. We cannot rule out the possibility of sharp, wave-live jumps in the qualitative tightening of sanctions, such as the Defending American Security from Kremlin Aggression Act (DASKAA) that was reintroduced into Congress in February 2019. However, tighter sanctions are more likely to be adopted in the event that the Ukrainian situation suddenly worsens or new crises emerge in U.S.–Russian relations. The likelihood of introducing "total" sanctions against Russia similar to those imposed against Iran is small given the size of the Russian economy and the degree to which it is integrated into the global economy. It is unlikely that the sanctions against Russia will remain at the current level, and the prospect of an easing of the sanctions is inconceivable at best.

1.9. Deglobalization, one of the fundamental trends of global economic development, will also have a negative impact on economic relations between Russia and the United States. The crisis of the international free trade regime, the growing protectionism and mercantilism in the foreign economic policy of the United States and numerous other countries, the reshoring of industrial production and the unpopularity of liberal foreign economic policies will reduce the political significance of integration into the global economy and interdependence. As a result, those factors that limit the introduction of much tougher sanctions against Russia today (the non-introduction and ultimate lifting of the sanctions against RUSAL and En+ and the direct recommendation of the United States Secretary of the Treasury to not impose sanctions on Russia's national debt) may no longer be taken into account in five to seven years' time.

1.10. Against the backdrop of the confrontation between the United States and Russia and the further strengthening of the U.S. sanctions, economic relations in strategically important sectors (aviation, space and, to a certain degree, mechanical engineering) will be drastically reduced to the minimum necessary "core." Each party will strive to produce products and components that are vital to their security independently, or in cooperation with friendly partners. This "shrinkage" will be targeted in nature and will not be characteristic of the general picture of economic relations between Russia and the United States as a whole.

1.11. Due to objective market factors, many areas of U.S.–Russia trade and investment relations that have not been affected by the sanctions, or have only been partially affected by them, will, from a commercial point of view, continue to benefit both sides and will even be able to expand in the coming years, despite the sanctions and the political confrontation. The sanctions affect an ever-smaller part of the palette of trade and economic relations between Russia and the United States, as they are focused primarily on the financial, energy and defense sectors.The sanctions do not affect such areas as household goods, the fast food industry, public catering, the automotive industry and aircraft manufacturing, and they are not likely to in the observable future, so cooperation in these areas will persist.

1.12. In the medium term (three to five years), economic relations between Russia and the United States will either remain at the current level or gradually taper off. The latter scenario is the more likely. We are unlikely to see sharp ups and downs in trade and investment. A number of factors will stand in the way of an increase in their volumes: the sanctions, the scale, quantity and severity of which will continue to grow in the coming years; the desire of both sides to reduce their dependence on each other in strategic industries, the growing competition between the United States and Russia on the markets of third countries; and the disappearance of the interest on the part of the United States in Russian energy, except as a competitor. At the same time, market factors, the integration of Russia into global financial processes and its belonging to the American technological platform will prevent a further collapse in relations.

1.13. A further reduction in economic ties is likely in the longer term (five to seven years). U.S. dependence on Russian metallurgical and mechanical engineering (rocket engine) exports will either disappear by the end of that period or will lose its current significance. The political significance of Russia's integration into the global finance system will also weaken in the context of the deglobalization of the world economy and the spread of economic nationalism. Today it still prevents the US from imposing the increasingly harsh sanctions; however, this is unlikely to be the case five to seven years from now. The general sanctions regime will probably be far more stringent than it is today. It is highly unlikely that the sanctions war will be over five to seven years from now.

1.14. In the foreseeable future, economic relations between Russia and the United States will be dominated by indirect forms of cooperation that are not reflected in official statistics: trade and investments through third countries and investments through offshore companies.

1.15. In these conditions, it would be optimal for Russia to take a selective approach to the developing its relations with the United States. In the short term, the areas of cooperation where dependence on the United States is most noticeable (ICT, the import of aircraft, aircraft parts, medical devices and pharmaceuticals) or which are important to the economy right now (the export of metallurgical products), should be preserved. At the same time, however, Russia should step up the diversification of its economic ties, substitute a number of products that are imported from the United States (or replace with imports from other countries) or try to localize their production by U.S. companies operating in Russia. The sanctions had a sobering effect on the Russian elites. The faith in the supreme reliability of Western markets and banks that had built up over the past few decades has disappeared, and pro-Western sentiments are fading. The most effective way to reduce Russia's dependence on the U.S. sanctions is to reduce the role of the U.S. dollar in trade settlements with third countries and continue withdrawing Russian deposits from American banks.

1.16. It would make sense to continue cooperation with the United States in those areas that bring commercial benefits, are not considered to be a security threat and are not prohibited by sanctions, but with the understanding that this cooperation could "shrink" as an indirect consequence of the sanctions regime. In this regard, it is necessary to continue to develop alternatives.

1.17. It is necessary to depoliticize economic relations with the United States that remain and not position them as a means of improving political relations. Otherwise, the U.S. leadership and political elite will view them as an obstacle and an irritant. Further attempts to intensify economic cooperation "from above" in order to improve political relations should be abandoned. Such actions have not led to the desired result, and could be disastrous in current conditions. Not only will the creation of various commissions and high-level groups – and their public activities in particular – not convince the American political elite of the impracticability of imposing sanctions against Russia, they may have the opposite effect right now: they will be the ones telling U.S. lawmakers and the executive branch who else to impose sanctions against. The current non-public activities of such structures as the American Chamber of Commerce, the Russian–American Council for Business Cooperation and the Russian-American Business Council appear to be quite sufficient at present.

1.18. It would be wise to create an infrastructure that helps Russian and American companies comply with the U.S. sanctions regimes and feel confident doing business within the confines of them. Many private companies, particularly small-scale operations, may be wary of developing cooperation between Russia and the United States, despite its commercial viability, because of the sanctions, even if their potential activities do not fall under sanctions and are unlikely to do so in the near future. In this regard, it would be useful to have experts and structures that could advise them on this issue and, where necessary, help them present their activities in such a way that they do not fall under restrictive measures (prepayments instead of loans, carrying out operations through third countries and partners, etc.). In the next decade, there will be greater demand for sanctions experts than for specialists in WTO regulations and private international law.

1.19. Creating mechanisms to protect economic relations with third countries from the extraterritorial sanctions of the United States is an absolute priority. To do this, interaction with major state- and quasi-state-owned enterprises in these countries that are guided by government impulses just as much as they are by market factors needs to be built, and the country needs to move away from settlements in U.S. dollars in trade with these countries. This is particularly true of Russia's trade with China and India, where settlements in U.S. dollars currently account for approximately 90 per cent of Russia's exports and over 70 per cent of its imports.

1.20. The United States remains a technological leader and the centre of the global financial system and will likely continue to be so for at least one more decade or longer if it succeeds in crushing China and forcing it to change its model of economic development. The "Trump Revolution" is also likely to spur the development of the U.S. economy. In this regard, Russia's strategic economic interest in the United States remains unchanged: gaining access to capital and technologies; using cooperation with the United States as an instrument to modernize the country's economy. From a tactical point of view, this cannot be done while the confrontation between the two countries persists and the United States desires to inflict a geopolitical defeat on Russia. However, cooperation in individual sectors is both possible and desirable.

1.21. In energy, Russia's main priorities with regard to the United States in the current conditions, which exclude a major increase in U.S. investments into the Russian energy sector and cooperation in the development of offshore fields, are the joint regulation of the world oil market; preservation of nuclear energy cooperation; and harmonization of the rules of competition in the markets of third countries.

1.22. In the metallurgical industry, it would be wise to maintain the current level of cooperation and try to prevent the United States from imposing sanctions against Russian metallurgical companies, including through lobbying on the part of EU countries. According to experts, if such sanctions are introduced, it is likely that the industry will have to be nationalized,

1.23. In mechanical engineering, it is important to maintain investment cooperation with American engineering companies, encourage them to localize production in Russia in non-securitized sectors and sectors that have not been greatly affected by the sanctions (transport, auto manufacturing, machine tool building, etc.) and expand the use of Russian-made components and materials.

1.24. In the aviation sector, Russia needs to preserve cooperation with Boeing, both in terms of importing aircraft, and in terms of delivering titanium parts to the United States. At the same time, the production of a large number of components for Boings intended for the Russian (and EAEU) market should be encouraged in Russia. At the same time, Russia should try and reduce its dependence on American components in the construction of aircraft (the Sukhoi Superjet and the MC-21), taking advantage of import substitution and cooperation with other countries. To the extent that it is possible, existing projects in the space industry should be maintained (commercial launches, delivering crews to the International Space Station and exporting RD-180 rocket engines until a replacement has been found) and a dialogue on the development of a regulatory base for non-military space activities should be initiated with the United States.

1.25. In terms of ICT, it would be wise to encourage cooperation between Russian and American IT companies, including working together in the markets of third countries, for example the former Soviet countries. Mechanisms for offering legal assistance to Russian IT companies should also be created in order to ensure compliance with the sanctions requirements and reduce the "toxicity" of these companies in the United States.

1.26. Russia's priority in the agro-industrial complex is to reduce its dependence on the import of American breeding materials, crop seeds, trout and salmon hatchlings and seed potatoes. It would be worthwhile to maintain cooperation in the food production

and catering industries.

1.27. Russia's dependence on imports of American medical and pharmaceutical products will probably continue in the short term. Given the fact that a significant amount of the goods produced by U.S. pharmaceutical companies are supplied via third countries, the United States is the second largest supplier of such goods to Russia. Russia's priorities in this area include improving the investment climate in order to attract American investments, localizing production and stimulating exports of Russian pharmaceutical products.

1.28. In the banking sector, it would be advisable to preserve the demand of U.S. portfolio investors for the financial liabilities of Russian banks and other segments of the economy, thereby reducing the likelihood of even harsher financial sanctions being imposed against Russia. It is even more important to reduce the share of operations in U.S. dollars in foreign trade settlements, primarily with the BRICS countries.

1.29. One promising area of economic relations with the United States is the provision by Russian specialists of remote services to American consumers with respect to the development of telerobotics and telepresence technologies. This primarily concerns health technologies (Russian physicians treating patients from the United States remotely) and education (Russian instructors teaching remotely at American universities), where Russian specialists are cheaper than their American counterparts yet equally competent.

2. U.S.–RUSSIA ECONOMIC RELATIONS: GENERAL STATE AND PROSPECTS

2.1. U.S.–Russia Economic Relations: Dynamics and Principal Problems

2.1.1. Over the past 80 years, economic ties have not formed the foundation of U.S.–Russia relations and have not had a defining effect on their development. However, they have an independent significance and do not depend 100 per cent on political factors.

2.1.2. The brightest period in the development of U.S.–Russia economic relations occurred in the 1990s and the first half of the 2000s. This was helped by the relatively favourable political climate, the course Moscow steered towards a strategic partnership with Washington, the quick shaping of political and legal framework of relations, and the West-cantered structure of global economy. The transformation of non-Western growth centres into full-fledged economic poles became obvious in the second half of the 2000s. Up until that time, Russian experts and most others believed the West's – and the United States' in particular – of the global economy and politics to be indisputable. According to expert estimates, Russian exports to the United States grew by more than 53 times during that period, while imports grew by 18 times. U.S.–Russia trade turnover reached its historical peak in 2011 – at $43 billion according to official US statistics and $31 billion according to official Russian statistics.[1] As of the early 2000s, the United States was the top investor in the Russian economy, accounting for 14.6 per cent of the annual inflow of foreign capital. However, its share soon began to shrink rapidly, and the largest volume of investments was accounted for by money (mostly Russian money) invested via offshores.

2.1.3. However, the parties never reached a situation of true economic inter-dependence that could significantly influence their political relations. The scale of economic relations in the 2010s was relatively small even for Russia, and it was simply minuscule for the United States. In 2011, when U.S.–Russia trade turnover peaked, Russia was the United States' 26th largest trade partner, with an 0.8-per cent share in the country's trade turnover. Of the BRICS countries, Russia is only ahead of South Africa (almost doubling the latter's trade volume with the United States), even though the Russian economy is more than five times greater than that of South Africa. In comparison, U.S. trade turnover with Brazil, whose economy is smaller than Russia's, is more than two times greater than the its trade turnover with Russia. Russia's direct cumulative investment into the United States in 2017 was less than 1 per cent of all direct cumulative investments into the American economy. However, developed countries account for the greater part of foreign investment in the United States, and Russia is slightly behind India in terms of direct investments. According to official statistics, the United States was the 11th largest direct cumulative investor in Russia in 2017.

2.1.4. The inability of Russia and the United States to achieve economic interdependence and the discrepancy between the volume of economic relations and the scales of their economies stem from both objective and subjective factors.

1 There is a significant discrepancy (sometimes exceeding $10 billion) in the U.S.–Russia trade statistics given by Federal Customs Service of Russia and the Census Bureau of the United States Department of Commerce. The reason is their different calculating methodologies (U.S. statistics takes imports via third countries into account and calculates imports in FAS prices, while Russian statistics takes direct shipments only into account and calculates exports in FOB prices). As a result, the statistics of the United States Department of Commerce demonstrate a significantly greater volumes of Russian exports and smaller volumes of American exports than the statistics of Federal Customs Service of Russia. According to official Russian statistics, Russia has had a relatively small deficit in its trade with the United States since 2012 (with the exception of 2013 and 2014, when the deficit was $5.3 billion and $7.9 billion, respectively). U.S. statistics demonstrate a significant and stable deficit oscillating between $10 billion and $26 billion (and a Russian surplus) for the entire period since 2010. The maximum deficit of the United States in its trade with Russia ($26.2 billion) was recorded in 2011, which was primarily due to imports of Russian oil and petrochemicals.

2.1.4.1. First, there is little complementarity between the economies of the two countries, unlike between the economies of Russia and the EU countries or the economies of Russia and China. The United States is one of the world's leading producers of oil and gas and it has traditional suppliers such as the countries of Latin America and the Persian Gulf; therefore, the United States does not need large volumes of Russia's energy sources. Moreover, the shale revolution boosts the competitive edge of the United States on the energy markets of third countries, as demonstrated by the U.S. desire to have Russian deliveries of natural gas to Europe reduced so that they can be replaced by American LNG.

2.1.4.2. Second, Russia could not compete with China and other developing countries as an outsourcing destination for American companies. When outsourcing was at its peak, during the emergence of the current globalization structure (which is already crumbling), developing countries had far more favourable conditions, including a cheap labour force, to to be incorporated into production chains and to serve as places for assembling goods of American and other western companies. The goods manufactured in Russia by companies with American participation are geared primarily towards the domestic Russian market and the regional market, and not for export to the United States.

2.1.4.3. Third, Russia and the United States failed to take advantage of the American technological leadership to modernize Russia's economy and fit Russia's companies into US-oriented hi-tech production chains. Rather the reverse happened: many U.S. and generally western technical cooperation programmes that were run in the periods of relatively warm relations were to the detriment of Russia and drained its intellectual capital from some advanced sectors, for instance, from civil aviation. A significant part of Soviet hi-tech potential was concentrated in the military sphere, while the United States set the task of weakening Russia's military technological potential.

2.1.4.4. Fourth, the unfavourable investment climate caused by the meltdown of the 1990s and the problems with the rule of law and the protection of property rights in Russia was a significant restricting factor. A certain role was also played in the 2000s by the policy of strengthening the involvement of the state in the economy's strategic sectors, which were brought under the control of powerful state-owned companies and state corporations. Although this transition was necessary, it scared some members of the U.S. business community who formed the backbone of the anti-Russian business lobby in the United States.

2.1.5. One of the main problems of U.S.–Russia economic relations is that they are secondary to the political and military aspects of the relationship between the two countries, and this is firmly entrenched in the mind of the elites in both countries.

2.1.5.1. First, the relatively modest volume of economic relations cannot stabilize the political relations of Moscow and Washington, defuse the confrontation, and lessen its scale. There is no influential pro-Russian business lobby in the United States, while there is an anti-Russian business lobby. As the experience of the U.S. sanctions demonstrates, the United States does not impose restrictions on areas of interaction and companies on which the United States itself or its closest allies depend in a significant way and which cannot be easily replaced. Since the United States' dependence on economic ties with Russia is generally small, there are no internal economic restrictions for confrontation politics.

2.1.5.2. Second, with the exception of the 2000s, when U.S.–Russia economic ties continued to strengthen against the background of deteriorating political relations, the dynamic of economic ties generally coincided with the cycles of political relations.[2] Thus, the collapse of economic relations in 2008 (when trade turnover fell by over $10 billion) coincided with a sharp deterioration of U.S.–Russia political relations. Similarly, a new boost in economic cooperation in 2009–2011 (when trade turnover grew by $20 billion) coincided with the U.S.–Russia "reset" of the same period, while the following drop in economic ties (which was relatively smooth in 2012–2014 and then drastic from 2015 onwards) coincided with a deterioration in relations in 2012–2013 and with the start of a new U.S.–Russia confrontation in 2014.

2 According to official U.S. statistics, U.S.–Russia trade turnover grew from a little over $8 billion in 2001 to $36 billion in 2008 despite a steady deterioration of relations in 2003–2008.

2.1.5.3. As a result, **U.S.–Russia economic cooperation came to be perceived not as an independent phenomenon that has intrinsic value, but as some addition to political relations and as a means of influencing them.** In the periods of positive political relations, the parties strove to increase economic ties working from the top, not only because it was economically advantageous, but in order to create a stabilizing ballast for political relations and to mitigate their degradation. In the periods of political confrontation, as today, economic ties and dependencies are considered a means of making the opposite party demonstrate the required political behaviour, which can be achieved through sanctions and other restrictions.

2.1.5.4. This approach appears to be a mistake and one of the reasons for the unnatural development of U.S.–Russia economic ties and the inability of those ties to form a stable political agenda. Experts are virtually unanimous on the issue. In fact, the dynamics of U.S.–Russia trade and investment up to the large-scale introduction of sanctions starting in 2014 were determined by economic factors: the cycles of economic development in Russia, the United States and global economy in general. Rapid economic growth in Russia and the United States in the 2000s, the global financial economic crisis of 2008–2009, the overcoming of the crisis in 2010–2011, the economic stagnation in Russia, the high oil prices in 2012–2014, the subsequent recession in Russia, the falling oil prices and falling rouble in 2015 – all this constituted a far greater determinant of bilateral economic relations than their political cycles.

2.1.5.5. This is largely the reason why the attempts of Moscow and Washington to deepen economic relations by "working from the top" to achieve a political result ended in failure and did not result in strengthening political relations. Instead, they created artificial expectations and distracted the parties from working on the truly important areas. The latest attempt was undertaken during the period of "reset," when the administrations of Barack Obama and Dmitry Medvedev strove to increase U.S.–Russia trade through Russia's membership in the WTO and build cooperation in innovations in order to maintain positive dynamics of political relations after the initial "reset" agenda was exhausted. The objective was to bolster political relations in general, while the United States was also trying to achieve the internal transformation of Russia to its own benefit. Not only did this attempt fail to prevent relations from souring starting in 2011, it even sped the process up and largely kept the parties from concentrating on those areas in U.S.–Russia relations that were of greater strategic importance, such as interaction in the Asia Pacific or preventing the Ukrainian crisis.

2.1.6. In 2014–2015, the already modest economic ties between Russia and the United States fell drastically. First, in 2014, official statistics record mutual capital investment falling severalfold: American direct cumulative investment in Russia fell by 10 times, Russian investment in the United States fell by a little over three times. U.S. capital drained from Russia and started to "fly the flag" of third countries. Then, in 2015, U.S.–Russia trade turnover fell by one third (by about $10 billion according to the official statistics of both countries). This drop stems from both economic and political factors. Economic factors include the recession in Russia in 2015–2016 and the falling rouble, which dealt a blow to Russia's imports. Political factors include the new U.S.–Russia confrontation that started in 2014 and Washington using anti-Russian sanctions as one of the chief instruments of this confrontation.

2.1.6.1. First, the U.S. sanctions imposed against Russia in 2014 and set for years, if not decades, to come in the CAATSA introduced a direct prohibition on an entire range on U.S.–Russia economic relations: they restrict Russia's access to the capital market (as of early 2019, CAATSA prohibits extending financing to Russian companies under sanctions for a term in excess of 14 days); prohibit exports to Russia of any sensitive technologies and equipment for developing shelf and shale deposits; and impose sanctions on large Russian energy, defence, engineering, transportation and metallurgy companies and banks. As of now, 275 Russian citizens, 476 Russian legal entities (including three agencies), eight vessels and one oil and gas deposit (the Yuzhno-Kirinskoye deposit of the Sakhalin III project) are under sanctions. The U.S. sanctions have affected approximately 90 per cent of Russia's oil sector, almost 100 per cent of the gas sector, a significant part of Russia's engineering sector (particularly defence-related engineering), and all the largest Russian state banks. The only companies that have not fallen under sanctions (or with regard to which sanctions were announced, but either not imposed or ultimately lifted) are those on which the United States itself and/or its closest allies depend (NPO "Energomash," which manufactures RD-180 rocket engines; VSMPO-AVISMA, which manufactures titanium products; and RUSAL and En+, which manufacture aluminium).

2.1.6.2. . Second, the United States intends to continue imposing new sanctions on Russia, including those that qualitatively tighten sectoral and financial sanctions (the DASKAA bill) and also deliberately maintain uncertainty as to which Russian companies and individuals will be targeted by new sanctions.[3] As a result, a stereotype of the entire Russian economy being "toxic" is formed, with the message being that there is no benefit to interacting with Russian companies and individuals, even those that have not yet been impacted by sanctions.

2.1.6.3. Third, imports of U.S. foods, which held a significant place in the structure of the U.S.–Russia trade turnover in the 1990s and the 2000s, were nullified by the food embargo Russia imposed back in 2014 on the United States, the European Union, and several other European countries in response to their anti-Russian sanctions, as well as by the growing production of Russian agricultural goods. Although the "Law on Measures (Countermeasures) Against Unfriendly Actions of the United States of America and Other Foreign Countries" that Vladimir Putin signed on June 4, 2018 envisions possible prohibitions on exporting such Russian products as titanium and rocket engines to the United States and importing many types of American products, such measures have not been introduced yet and most likely will not be introduced due to the damage they would do to the Russian economy.

2.1.6.4. Fourth, together with the sanctions, economic stagnation in Russia in 2013–2014 and the recession of 2015–2016 reduced the profitability of investment in the Russian economy and put many economic projects on "standby." This applied both to direct investments and to speculative capital. This factor mostly affected investors interested in "quick" money. Since the Russian economy and its macroeconomic situation are stable, strategic investors re-formatted their capital instead of disinvesting it, especially since Russia came out of recession in 2017 and resumed its economic growth, even if it is rather modest at the moment.

2.1.6.5. Fifth, the devaluation of the rouble caused by falling oil prices in 2015 and the sanctions increased the profitability of Russia's exports to the United States (it grew significantly in 2017–2018). However, at the same time this made imports from the United States less competitive, which fell much more than exports. Having said this, given the resumption of economic growth in Russia in 2017, imports from the United States are growing once more.

2.1.6.6. Sixth, given the confrontation, both parties are naturally striving to decrease their mutual dependence in strategic sectors. Thus, the United States is trying to find replacements for Russian RD-180 engines and rocket fuel. It should be probably expected that sooner or later, the United States will also find a replacement for Russian titanium, which is used to manufacture Boeings. Russia also views importing engineering products from the United States as a temporary measure it is forced to take.

2.2. U.S.–Russia Economic Relations: Current State and Prospects

2.2.1. Despite U.S.–Russia trade and investment relations falling significantly in 2014–2015, **the United States remains an important trade partner for Russia**. Official data for 2017 make the United States Russia's sixth largest trade partner (making up almost 4 per cent of Russia's foreign trade turnover, which is almost equal to the country's trade turnover with Italy and greater than its turnover with Turkey and South Korea). The US is Russia's tenth largest export partner (3 per cent) and the third largest imports partner behind China and Germany (5.5 per cent). Despite a sharp drop in the trade turnover in 2015–2016, the share of the United States in Russia's foreign trade grew: in 2011, 2012 and 2013, the United States was Russia's eighth, ninth and tenth largest trade partner respectively. This means that **U.S.–Russia trade was affected by the sanctions and the recession in Russia less than Russia's trade with the majority of third countries**. Cooperation with the United States in such sectors as finance, ICT, metallurgy, aviation and mechanical engineering still plays an important part in the Russian economy.

3 Thus, in compliance with CAATSA, a list of persons "close to Vladimir Putin" was compiled, and potentially, they may be targeted by the U.S. sanctions. The list includes Russia's entire political and business elite. On September 20, 2018, Donald Trump signed an executive order that tightens the measures envisioned by CAATSA. In particular, the order introduces "a prohibition on any financial transactions with persons with ties to the Russian authorities." The list of such persons is determined on a case by case basis by the President and Secretary of State.

Table 1. U.S.–Russia Trade Turnover in 2010–2018 ($ million) according to Official U.S. and Russian Statistics

U.S.–Russia	2010	2011	2012	2013	2014	2015	2016	2017	January – September 2018
Turnover ***Federal Customs Service of Russia***	23,416.6	31,009.0	28,233.5	27,637.1	29,078.9	20,909.9	19,972.0	23,129.9	18,018.7
Turnover ***U.S. Department of Commerce***	31,787.0	43,068.0	40,201.0	38,326.0	34,497.0	23,526.0	20,327.7	24,019.9	20,855.9
Exports from Russia to the U.S. ***Federal Customs Service of Russia***	12,319.9	16,425.3	12,867.1	11,135.1	10,582.7	9,456.4	9,269.4	10,632.2	8,610.8
Imports from Russia to the U.S. ***U.S. Department of Commerce***	25,713.0	34,652.0	29,398.0	27,120.0	23,689.0	16,388.0	14,536.1	17,021.4	15,885.7
Imports from the U.S. to Russia ***Federal Customs Service of Russia***	11,096.7	14,583.7	15,366.4	16,502.0	18,496.2		10,702.6	12,497.7	9,407.9
Exports from the U.S. to Russia ***U.S. Department of Commerce***	6,074.0	8,416.0	10,803.0	11,206.0	10,808.0	7,138.0	5,791.6	6,998.5	4,970.2

Source: Federal Customs Service of Russia (FCS), www.customs.ru; United States Census Bureau of the Unites States Department of Commerce https://www.census.gov/foreign-trade/balance/c4621.html.

Table 2. U.S.–Russia Trade in Services in 2011–June 2018 ($ million) according to Official Russian Statistics

	2011	2012	2013	2014	2015	2016	2017	January – June 2017	January – June 2018
Turnover	**9,225.4**	**10,242.8**	**10,912.3**	**10,285.6**	**7,696.3**	**7,397.1**	**7,657.1**	**3,360.0**	**3,894.2**
growth, +/– %	–	*+11.0*	*+6.5*	*–5.7*	*–25.2*	*–3.9*			*+15.9*
Exports	**4,366.9**	**4,110.9**	**4,275.1**	**3,677.7**	**2,774.9**	**3,384.7**	**3,566.5**	**1,591.4**	**2,115.4**
growth, +/– %	–	*–5.9*	*+4.0*	*–14.0*	*–24.5*	*+22.0*	*+5.4*		*+33.0*
Imports	**4,858.5**	**6,131.9**	**6,637.2**	**6,607.9**	**4,921.4**	**4,012.4**	**4,090.7**	**1,768.6**	**1,778.8**
growth, +/– %	–	*+26.2*	*+8.2*	*–0.4*	*–25.5*	*–18.5*	*+2.0*	–	*+0.6*
Balance	**–491.6**	**–2,021.0**	**–2,362.1**	**–2,930.2**	**–2,146.5**	**–627.7**	**–524.2**	**–177.2**	**336.5**

Source: Central Bank of the Russian Federation, https://www.cbr.ru

Table 3. Direct Investment: The United States in Russia and Russia in the United States in 2013–2018 ($ million) According to Official Russian Statistics

U.S. direct investment in Russia and Russian investment in the United States	2013		2014		2015		2016		2017		January – June 2018	
	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia
Equity participation	306	1,020	256	941	27	489	345	819	297	1,055	289	201
Revenues reinvested	103	41	227	244	–5	0	–7	10	4	0	–11	0
Debt instruments	76	–322	225	468	187	330	63	43	194	–929	–21	107
Total incoming	485	739	708	1 653	209	819	401	872	495	126	258	308
Direct cumulative investments of the United States in Russia and of Russia in the United States	**2013**		**2014**		**2015**		**2016**		**2017**		**January – June 2018**	
	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia	From the U.S.	From Russia
Equity participation	17907	19895	1,969	5,574	1,461	5,054	2,307	5,963	2,413	6,066	2,729	6,117
Debt instruments	72	1,048	–283	1,002	–125	1,102	–69	1,256	728	999	571	1,032
Total cumulative	17979	20943	1 686	6 576	1 336	6 156	2 238	7 219	3 141	7 065	3 300	6 117

Source: Central Bank of the Russian Federation, https://www.cbr.ru

2.2.2. Table 1 shows that by 2011, U.S.–Russia trade had overcome the previous drop caused by the economic crisis of 2008–2009 and reached its highest level since the early 1990s, which was generally maintained up to and including 2014. Starting in 2015, sanctions, economic and the falling rouble resulted in the U.S.–Russia trade turnover falling by one third: from $29 billion ($34.4 according to U.S. statistics) in 2014 to $20.9 billion ($ 3.5 billion according to U.S. statistics) in 2015. In 2016, the falling trade turnover continued for the same reasons. Since 2017, even though United States Congress passed the Countering America's Adversaries Through Sanctions Act (CAATSA), the trade turnover began a slow rise that continued in 2018. This indicates that the shock from imposing the sanctions is being gradually overcome, and that business is beginning to adapt to the new situation. It also reflects the general improvement of the Russian economy. Nonetheless, the volume of the U.S.–Russia trade turnover in recent years is clearly insufficient to exert significant influence on political relations between the two countries.

2.2.3. Table 2 demonstrates that trade in services plays an important role in U.S.–Russia economic relations, and its volume is comparable to the direct cumulative investment of the United States in Russia according to official statistics. In 2015, trade in services dropped far less drastically than trade in goods and particularly investment, and since 2016, trade in services has been growing again, primarily due to exports of Russia services to the United States. In 2016, trade in services grew by 22 per cent, and in January–June 2018, it grew by 33 per cent. Imports of services from the United States grew rapidly until 2014 before falling dramatically by 25.5 per cent and 18.5 per cent in 2015 and 2016, respectively, and its subsequent growth has

been insignificant. This is due, first of all, to the falling rouble and Russian services becoming cheaper and, secondly, to the trade in services being much less subject to the negative impact of sanctions than investment and trade in goods.

2.2.4. Table 3 demonstrates that, in 2014, direct cumulative U.S. investment in Russia dropped sharply (tenfold) to the measly sum of $1.6 billion (according to official statistics). Since the annual flow of investments from the United States even grew in 2014 compared to 2013, and reached pre-crisis and pre-sanctions level in 2016 and 2017, we are talking about the drain of U.S. capital or, to a greater extent, moving capital to third countries. The scale of the drop in U.S. investment is much deeper than the drop in trade volume. Of note, too, is the fact that Russia's direct investment in the United States has steadily exceeded direct U.S. investment in Russia, a trend that emerged in the late 2000s and continues today. Russia's investment in the United States has fallen, too, since 2014, but not quite so radically as U.S. investment in Russia. Russian investment in the United States was two to three times greater than American investment in Russian in 2014–2018. This is a direct result of the U.S. sanctions and the resulting "toxicity" of the Russian economy against the background of the continuing investment attractiveness of the U.S. economy.

2.2.5. Overall, the structure of U.S.–Russia trade has remained stable since the second half of the 2000s: Russia's exports to the United States mostly include oil products and minerals, metals, chemical products and nuclear fuel, while imports include engineering products (primarily aeroplanes, automobiles and spare parts), pharmaceuticals and medical equipment. Russia's key commodity exports to the U.S. in 2017 were: oil products ($3.2 billion), aluminium ($1.6 billion), cast iron ($1 billion), platinum ($800 million), engines and power plants ($300 million), mineral fertilizers ($300 million), crude oil ($200 million), semi-finished iron or non-alloy steel products ($200 million), and titanium and titanium products ($200 million). The main U.S. export commodities in 2017 were: aeroplanes and other aircraft ($3.4 billion), automobiles and other vehicles ($837 million), spare parts for motor vehicles ($365 million), pharmaceuticals ($336 million), medical devices and equipment ($283 million), human and animal blood, immune serums ($221 million), gas turbines, and turbo-propeller and jet engines ($212 million).

2.2.6. The economic recession of 2015–2016, the depreciation of the Russian rouble, the anti-Russia sanctions and Russia's retaliatory measures (the ban on food imports) made it possible to **somewhat refine the structure of Russia's trade with the United States**. In 2017, the raw material component of export supplies decreased (exports of crude oil went down to $200 million), and the share of metals and metal products increased to 35 per cent. The share of innovative products in Russia's export supplies increased to10 per cent in 2017, and to 11 per cent in 2018. At the same time, back in 2011, oil and oil products accounted for 74 per cent of Russia's exports to the United States, while the share of metals was only 11 per cent. The United States no longer supplies meat and meat by-products to Russia. To compare, in 2011, meat was the second-largest commodity export group after engineering products (with a share of 9 per cent), and in 1996, meat and by-products accounted for 30 per cent of Russia's imports from the United States.

2.2.7. U.S. investments in Russia are for the most part in the fuel and food industries, public catering and mechanical engineering, including the automotive industry, wholesale and retail. Back in 2011, 71 per cent of U.S. investments were in the fuel and food industries. Currently, the proportion of engineering industries is growing, as are investments in software, IT and financial services. Nevertheless, the fuel and energy complex and FMCG still prevail in the structure of U.S. investments in Russia. Also notable is their concentration in those Russian regions that have the largest mineral reserves, as well as in the largest metropolitan areas where the chemical, metals, aerospace, automotive and food industries are located. Russian investments in the United States are primarily in the metals and chemical industries, as well as in the oil business. The main Russian investors in the United States are LUKOIL, Norilsk Nickel, Severstal and EvrazGroup.

2.2.8. Notably, **neither Russia nor the United States provides accurate bilateral trade statistics. The real trade volume is markedly – and in some cases several times – more**, and this applies to both U.S. investments in Russia and Russian investments in the United States, as well as to bilateral trade. According to a survey of U.S. companies operating in Russia conducted in May 2018 by the American Chamber of Commerce in Russia in partnership with Ernst & Young, the total amount of direct cumulative investments in Russia by 72 surveyed companies amounted to $82.6 billion.[4] Independent experts point to

4 Investment and Import to Russia: Aiming for Careful Growth. 3rd annual survey of the American Chamber of Commerce in Russia. Report prepared in partnership with EY. May 2018.

the fact that Russian investments in the United States also appear to be significantly higher than the figures reported by the Central Bank of Russia.[5] A similar pattern, albeit to a lesser scale, is also characteristic of U.S.–Russia commodity trade. Even if we have a certain "golden mean" benchmark between official statistics and reports published by market traders, the United States is easily one of Russia's top five trade partners and one of the leading foreign investors in its economy.

2.2.9. This discrepancy can be attributed to the trans- and multinational nature of most of the big American companies and their operation via third countries and offshore businesses for both purely commercial considerations and the desire to safeguard themselves against sanctions. According to the abovementioned survey by the American Chamber of Commerce in Russia in association with EY, about 38 per cent of combined U.S. investments in Russia come via third countries. The situation is similar with Russian investments in the United States. Most U.S. companies operating in Russia are multinational, and investments from their non-U.S. branches are indicated in official statistics as investments from third countries. In addition, a significant amount of both U.S. investments in Russia and Russian investments in the United States goes via offshore companies and is also not included in official statistics. Finally, official statistics do not reflect Russia's imports of goods, components and equipment manufactured by U.S. corporations in third countries (for example, Apple products).

2.2.10. Russia remains heavily dependent on the United States in the financial sector, due to its integration into the global financial system and the central role of the U.S. dollar in this system as the global reserve currency and international settlement currency.

2.2.10.1. First, most of Russia's foreign trade deals with third countries, including the BRICS economies, are still settled in U.S. dollars, which is largely due to the predominance of oil and oil products in Russia's export supplies, with their price set in U.S. dollars.

2.2.10.2. Second, Russia still keeps about two-thirds of its accumulated export capital in U.S. dollars. Although in 2017–2018, Moscow sold almost all of its U.S. government bonds, deposits of the Central Bank of the Russian Federation in such American banks as J.P. Morgan and the Federal Reserve Bank of New York increased. The total amount of U.S. dollar-denominated Russian money has shrunk imperceptibly in recent times. According to experts, of the $3.5 trillion earned by Russian oil companies over the past decade, $1.5 trillion is kept in U.S. dollar deposits.

2.2.10.3. Third, U.S. capital continues to play an essential role in the Russian stock market. According to experts, U.S. portfolio investments in Russian stocks may amount to $50 billion (with total market capitalization of $600 billion). Importantly, this also concerns the U.S. participation in the capital of major Russian companies (according to experts, about 37 per cent of Sberbank shares are owned by U.S. residents). Americans own about 6 per cent of Russian government bonds (OFZs). On the whole, foreign (primarily American) investors own more than a third of Russia's international sovereign bonds. The three largest holders of rouble-denominated debt with investments of approximately $4.9 billion are the U.S.-based companies BlackRock Inc., Stone Harbor and JPMorgan Chase & Co.

2.2.10.4. This financial dependence is for the most part one-sided: due to the global nature of the world financial system, its disruption would cause Russia much more damage than it would the United States. However, most of the experts interviewed said it would be hard to get rid of this dependence quickly – primarily due to the fact that the U.S. dollar remains the main global reserve currency and the currency of international settlements, and most of Russia's national wealth is formed by exporting industries.

2.2.10.5. At the same time, the high intensity of financial relationships and Russia's deep integration into the global financial market still have a restrictive effect on the U.S. sanctions policy. For example, in early February 2019, the U.S. Treasury opposed the proposal to further expand U.S. sanctions over the Russian government debt and derivatives (envisaged by the DASKAA bill), saying that the move could destabilize markets and have negative consequences outside of Russia. Apparently, the concerns that tough measures could not only enhance, but also provoke a massive flight from the American financial market played an important role in this.

5 See Vadim Grishin. U.S.-Russia Economic Relations. Myths and Realities. A Report of the CSIS Russia and Eurasia Program. October 2017.

2.2.10.6. According to experts, U.S. portfolio investors, lenders and speculators successfully circumvent the previously imposed ban on financial transactions with Russia by working via third parties. Even if sanctions against the Russian financial sector and banking system should be further tightened, the engagement between Russia and the United States in the foreign exchange market, stock market, and capital market will continue, albeit on a slightly reduced scale.

2.2.11. Therefore, **the overall structure of the economic relationship between Russia and the United States is currently based on six main pillars**.

2.2.11.1. First, **Russian exports to the U.S., which are important for the U.S. economy and/or the economies of its key partners, remain**. These include supplies of Russian aluminium and non-ferrous metals, RD-180 rocket engines, Russian titanium and titanium products for the American aircraft engineering industry, and deliveries of Russian nuclear fuel for U.S. nuclear power plants.

In the short term, these areas of engagement will remain. As the track record of U.S. sanctions against RUSAL and En + has shown, Washington seeks to avoid sanctions that would prove painful for the United States itself and cause resistance to its policy of sanctions on Russia in European countries, including direct opposition (as was the case with sanctions against Iran).

However, in the medium and long term, the drying up of this type of interaction is quite possible and even likely: Washington makes no secret of the fact that it seeks to get rid of the continued dependence on Russia and find an alternative wherever possible. It is entirely possible that repeat or further sanctions could be introduced against Russian metals companies. Such a scenario will have very painful consequences for Russia, as some of these areas are of crucial importance for its industries, primarily metals exports. As of today, Russia exports up to 40 per cent of the output of its ferrous metallurgy and up to 85 per cent of the output of its non-ferrous sector. The contribution of metallurgy to Russia's GDP is 2.5 per cent, and its share in the value added of the manufacturing sector is 17.4 per cent.

2.2.11.2. Second, **imports from the United States that are currently crucial for the Russian economy and society remain**. These include U.S. aircraft and spare parts, U.S. information and communication sector products and software, a number of products of the U.S. engineering sector (spare parts for motor vehicles, drill rigs and turbines, etc.), medical devices and equipment, pharmaceuticals and some seeds. It will hardly be possible to reduce this dependence in the short term, let alone eliminate it (although the process has already been launched in a number of areas). This is especially true for ICT: due to natural civilizational factors, Russia belongs to the U.S. technology platform, and some experts believe that the full transition to an alternative platform (China's) is expensive and probably undesirable. Whether or not Russia should form – together with China and its EAEU partners, and subsequently with European countries – a third, "hybrid", technology platform is a different matter entirely. IT is unlikely that Moscow will be able to give up imports of U.S. Boeings (which would make it entirely dependent on Europe's Airbus) and components for Russian aircraft and other equipment any time in the medium term as well.

2.2.11.3. Third, the **types of purely market-based trade engagement that bring profit to traders and (so far) are not prohibited by sanctions also remain in place**. These include, for example, deliveries to the United States of Russian oil products, crude oil, and mineral products, including fertilizers, and U.S. supplies of automobiles and spare parts. This area does not have a considerable impact on the economic security of Russia and the United States, so its dying out and even complete elimination is unlikely to have painful consequences for their respective economies. Another thing is that the likelihood of this dying out, let alone a complete ban, is small in the short term: these areas are not of strategic importance for the Russian economy and will barely be hit by sanctions. But even if sanctions should be imposed, an alternative will be found without much difficulty.

2.2.11.4. Fourth, **service trade is ongoing between Russia and the United States, and official statistics for the last couple of years show a positive trend**. Trade in services, as shown in **Table 2**, is about three times less than commodity trade (according to official statistics) and amounted to $7.6 billion in 2017. Since this area is determined by market factors and is subject to almost no sanctions, it is likely to remain in the medium and long term.

2.2.11.5. Fifth, **major U.S. investment projects in Russia and Russian investment projects in the United States that are not prohibited by sanctions continue**. In general, investments were a lot more susceptible to political factors and the sanctions pressure than trade. The overwhelming majority of U.S. investments in Russia, and a significant portion of Russian investments in the United States, were withdrawn or transformed into some latent forms. In a number of cases, American investments were indeed withdrawn from the capital of Russian companies, which resulted in the termination of businesses. For example, ExxonMobil froze its strategic engagement with Rosneft in the development of offshore fields due to a direct ban imposed by the U.S. government. However, for the most part, U.S. companies moved their money to other, primarily offshore, "flanks" (Singapore, Seychelles, etc.).

In the short and medium term, investment cooperation will likely continue at approximately the current level – with no marked fluctuations, either downward or upward. According to the abovementioned survey by the American Chamber of Commerce and EY, 65 per cent of the U.S. companies surveyed view the Russian market as strategic, and 24 per cent see it as critical (one of the most important in the world). The vast majority of these companies have operated in Russia for over a decade and have no intention of leaving, despite the current level of sanctions and the "toxicity" of the Russian economy. Only 1 per cent of the respondents said they intended to scale down their activities in Russia, while 92 per cent declared their intention to expand their businesses. What is more, 87 per cent said that they would either increase investments in Russia or keep them at the current level, and 69 per cent said they intended to launch new projects in Russia in the near future.

Indeed, even after the adoption of the CAATSA in the United States, which made the current U.S. sanctions against Russia virtually irrevocable, major U.S. companies continue to launch new projects in Russia and set up joint ventures with Russian corporations, including those on the sanctions lists (General Electric–Rosneft joint venture for the development and operation of Industrial Internet in Russia, the opening of the new Ural Boeing Manufacturing 2.0 industrial facility in Verkhnyaya Salda as a result of cooperation between Boeing and Rostec, etc.). Since 2016, U.S. direct investments accumulated in Russia started to grow again, and according to official statistics, reached $3.1 billion as of 2017. In the first half of 2018, their volume further increased to $3.3 billion. This engagement will be curtailed only if the United States imposes so-called "total" sanctions against Russia the way it did with Iranian, supported by the European Union. At the moment, such a possibility will only seem likely in the event of a direct military clash between Russia and NATO; however, this probability remains moderately low.

At the same time, a substantial increase in the volume of U.S. investments in Russia is hardly a possibility. It will be hampered by sanctions (the severity and scope of which will most likely increase), the resulting "toxicity" of the Russian market and the lack of strategic interest in the United States to enhance its presence in Russia. For example, the shale revolution, which has enabled the United States to become a net exporter of energy resources, and macro-regionalism of the world oil market have caused the United States to lose any interest in obtaining and expanding its access to Russian energy resources and, consequently, in new large-scale investments in this sector. At the same time, the energy sector remains the leader in terms of direct accumulated U.S. investments in Russia.

Russian direct investments in the United States also declined significantly in the wake of the U.S.–Russia confrontation and the launch of the sanctions. However, the drop is not as bad as in the case of U.S. investments in Russia. In 2014, direct Russian investments accumulated in the United States decreased from nearly $20 billion to $5.5 billion before cautious growth resumed in 2016–2017: according to official data for June 2018, Russian investments in the United States amounted to $6.1 billion (twice the amount of U.S. investments in Russia). Although no unofficial data regarding the volume of Russian investments in the United States is available (there have been no surveys of Russian businesses in the United States similar to that conducted by the American Chamber of Commerce in Russia in partnership with EY), it can be assumed that their real volume also exceeds official figures. This also attests to a certain stability of Russian investments in the United States and the reluctance to withdraw them until they are expressly prohibited by sanctions or other discriminatory measures. Since most of the investments are in non-strategic sectors of the U.S. economy (metals), the probability of prohibition is low. Furthermore, a serious increase in Russian investments in the United States is also unlikely in the foreseeable future.

2.2.11.6. Sixth, **intense financial engagement between Russia and the United States remains**. Over the past few years, this engagement has demonstrated its resilience, as it continues despite the U.S. sanctions on the one hand (including those levied against Russian banks and the financial sector), and the willingness of the Russian leadership to reduce the role of the U.S. dollar in trade payments with third countries and in the structure of Russia's financial assets on the other. It seems that as long as there is no large-scale escalation between Russia and the West, the probability of "total" sanctions against Russia fraught with attempts to oust Russia from the world financial market is quite low. The most likely scenario is a gradual, long-term and conservative reduction of this engagement through a smooth reduction of the proportion of dollars in the basket of incomes accumulated by Russia's export industries, which might happen only if the de-dollarization policy is a success.

3. ISSUES AND CHALLENGES FACING U.S.–RUSSIA ECONOMIC TIES IN THE MEDIUM TERM

3.1. Prospects of the U.S. Anti-Russian Sanctions

3.1.1. The U.S. sanctions against Russia have become an important tool of the country's confrontational policy. Formally speaking, the existing restrictive measures have been introduced in response not only to the situation in Ukraine, but also to many other aspects of Russia's foreign and even domestic policy that go against American interests: the "interference" in the U.S. elections; the "evil" cyber activity; the use of chemical weapons (the sanctions imposed as a result of the Skripal case); the proliferation of weapons of mass destruction; Russia's support for the Bashar Assad regime in Syria and its "conniving" with the regime on the use of chemical weapons; the illicit trade with North Korea; human rights violations and corruption (the Magnitsky Act), etc. In recent years, the United States has started to introduce new sanctions on Russia without so much as a formal link to any foreign policy developments at all, all the while pointing to the fact that Russia is Washington's adversary and a rogue player in general, while the earlier sanctions have failed to achieve the desired result of fundamentally changing Russian foreign and domestic policies. This is because one of the actual drivers behind the introduction of an increasing amount of sanctions against Russia is the intense domestic political struggle at home in the United States, which is showing no signs of abating any time soon. It looks like the American elite just cannot exist without an enemy, even an imaginary one. While its adversarial focus is gradually moving towards China, that country is unlikely to ever fully replace Russia as an "adversary."

3.1.2. The U.S. sanctions are affecting Russia's economy and foreign trade, including its relations with the United States, both directly and indirectly. The direct impact involves freezing or substantially complicating a large number of operations and trade and economic cooperation activities between Russia and the United States, both at the level of individual companies and entire economic sectors that fall under the sanctions, in additions to seizing the American accounts of Russian individuals or entities included in the U.S. sanctions lists (the SDN List, the SSI List and the Entity List).[6] As of the beginning of 2019, these lists included some 650 Russian companies and individuals. The hardest blow has been dealt to the defence, energy and financial sectors, as well as defence-related mechanical engineering (Rostec) and IT (Kaspersky Lab). The affected companies find it more difficult or even impossible to access the U.S. credit and financial system and to obtain loans, investments, guarantees or any other financial instruments. Bans have been imposed on supplying them certain equipment and on joint participation in certain investment projects (the development of Russia's offshore, deep-water or Arctic deposits, as well as international projects with controlling stakes held by companies on the SDN or SSI lists). Restrictions have also been placed on importing their products or launching new investment projects, while defence enterprises are under a complete ban on any kind of interaction with them.

3.1.3. Outside of the defence sector, the U.S. sanctions do not generally apply indiscriminately, but only to certain types of cooperation with Russian companies. The first attempt to take sanctions to a new level and impose a total ban on cooperation with Russian companies that are not involved in the defence industry but are at the same time among Russia's largest players and global market leaders segment involved the sanctions imposed against RUSAL, En+ and Basic Element, companies owned at the time by Oleg Deripaska (who is on the U.S. sanctions list), which were announced in April 2018 but never went into force. The sanctions were lifted in January 2019 after Oleg Deripaska relinquished direct control of the companies.

3.1.4. We believe the indirect impact of U.S. sanctions is more serious, due primarily to their exterritorial nature. Manipulating access to its own market and abusing the role of the U.S. dollar as a global reserve currency and a currency for international settlements, the United States not only prohibits its own citizens and companies from engaging in certain types of relations with Russian individuals and entities on sanctions lists, but it also extends those prohibitions to citizens and companies of third

6 The SDN List (Specially Designated Nationals and Blocked Persons List) and the SSI List (Sectoral Sanctions Identifications List) are both published by the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury. The Entity List, published by the United States Department of Commerce, involves export regulations and includes companies denied an export license.

countries too. Where the latter attempt to build relations proscribed by American sanctions with prohibited Russian companies or individuals, Washington introduces or imposes serious fines, seizes their American assets, restricts their access to the U.S. market or freezes their U.S. dollar transactions. In effect, the so-called "secondary sanctions" are imposed on representatives of third countries that are in breach of the U.S. sanctions.

3.1.5. As a result, the U.S. sanctions are dealing the hardest blow to Russia's trade and investment relations with third countries, including its key economic partners in Europe and Asia. Companies in those countries, especially smaller-sized or privately owned companies or companies that are not protected by the state, fear losing access to the American market and forfeiting their assets in the United States or the ability to conduct U.S. dollar transactions, and they thus avoid the kinds of cooperation with Russia proscribed by the American sanctions, even though the governments of these countries may officially oppose the sanctions. The sanctions against RUSAL are a case in point. If these sanctions had gone into effect, Russian aluminium deliveries would have stopped flowing not only to the United States (15 per cent of the Russian metals market), but also to the European Union (50 per cent of the market), which would have been fraught with an industry-wide crisis. Another example involves the reluctance of private banks and credit institutions to lend to Russian companies that are under U.S. sanctions.

3.1.6. This situation will persist for as long as the American market remains one of the world's most attractive and the U.S. dollar serves as a global reserve currency and a currency for international settlements. Based on Russia's experience over the past few years, the best way to overcome this conundrum is to work with third countries on a non-market basis, engaging with state-owned or state-protected enterprises that do not fear restrictions on the part of the United States. (Sanction evasion and sanctions-busting are not the subject of this report.)

3.1.7. The negative impact of sanctions also applies to areas that are yet to be affected by the existing restrictions. By imposing more and more sanctions on Russia – based both on laws passed by Congress and on the President's new executive orders and Treasury regulations, including those without a definite link to Moscow's foreign policy actions – the United States is purposely fostering an impression that no industry is immune to sanctions, which can be introduced at any time against anyone. A list released by the Trump administration under the CAATSA legislation, which included Russian politicians, statesmen and businesspeople with close ties to Russia's top leadership, covering an overwhelming majority of the country's political and business elite (including those who do not have anything to do with government authorities), and the announcement of the intention to impose sanctions on RUSAL have played an important role. The latter has been perceived as a signal of Washington starting an all-out sanctions campaign against companies owned by the "Kremlin List" protagonists.

3.1.8. This has caused private business to perceive the entire Russian market and all Russian companies as "toxic" and to avoid working with them in favour of other alternatives, if they exist. Companies have been overcompensating to be on the safe side. "Overcompliance" has become commonplace, where private companies try to avoid even those aspects of cooperation that are not currently prohibited. As with Russia's economic ties with third countries, the impact is strongest on relatively small private companies that operate on market principles and are not protected by a special regime by their governments.

3.1.9. Finally, the U.S. sanctions produce both short- and long-term negative impacts. In the short term, they limit economic cooperation with the United States and, much more detrimentally, with third countries and place Russian companies under much stricter conditions (with restricted access to capital, technology and markets), where they lose out competitively to their international (including American) competitors.

3.1.10. According to most experts, the Russian economy and its economic relations with the United States have adapted somewhat to the existing level of U.S. sanctions in terms of their short-term effects. Evidence of this includes Russia's exit from recession and the transition to growth in 2017–2018, as well as a positive dynamics of its trade and investment ties with the United States over that period. Not a single economic sector or large enterprise has been shut down in Russia as a result of the sanctions. Not only that, but the sanctions have had a sobering effect on Russia's economic elites, who have been forced to rethink the tendency, inherited from the past couple of decades, to view Western markets and banks as the most reliable. The pro-Western mood within Russia's political and economic elites is waning.

3.1.11. At the same, the introduction of qualitatively new and increasingly harsher sanctions against Russia (such as renewed sanctions on its metals companies or the DASKAA-mandated sanctions on its sovereign debt and all of its overseas energy

projects) will hurt the Russian economy every single time, to say nothing of the more devastating damage to Russia's economic ties with the United States and other countries.

3.1.12. The long-term effect of the sanctions will be the complication and slowdown of technological modernization, as well as difficulties in implementing large-scale national priorities and objectives (such as the development of Siberia and the Russian Far East) as a result of Russia's market relations with third countries becoming more complicated. It will be difficult to implement projects on such a scale by relying solely on state-owned enterprises and non-market mechanisms. It is necessary to engage private capital – not only from China, but also from elsewhere in Asia and the Asia Pacific. Countries from the latter, however, are proceeding with caution or not at all for fear of sanctions.

3.1.13. Also in the long term, sanctions will greatly hinder the successful development of the most advanced economic sectors, such as ICT and IT. Experts believe that using the usual method of protection from sanctions – nationalization – in this particular sector makes no economic sense given the extremely negative effect that this would have on the competitiveness of the companies affected by the sanctions.

3.1.14. There is absolutely no chance that the United States will lift the existing sanctions against Russia in the coming years or even decades. Even the formal reasons for introducing the sanctions in the first place (the Ukrainian crisis, Russia's policy in Syria, etc.) are far from resolved. More importantly, the United States considers its sanctions as one of the most effective tools for containing and confronting Russia and eventually defeating it geopolitically to guide it back to what the United States believes is the "correct" foreign policy and domestic development model.

3.1.15. This confrontation is long-term and unlikely to be overcome unless one of the parties fundamentally changes its policy. The perception of Russia as an adversary and the need to confront it "to the bitter end" remain the consensus for the time being among an overwhelming majority of the American political and foreign political elites, and it is shared by the Trump administration, his opponents in Congress, and the Democrats. Russia is viewed as a country that has openly challenged the United States and its global leadership, encroaching on the foundations of its global domination without, in the opinion of the United States, the necessary resources to take its place, and was the first to upset the "correct state of affairs" that had existed since the end of the Cold War. Thus, Russia must not only be "punished," but also reduced to a position that is acceptable to the United States. Washington so far sees only two viable models for relations with Russia: either its integration into the America-centric order as a subordinate player, or confrontation and containment. The option of a partnership with Russia as an independent centre of power beyond the American-led order that rejects its leadership is unacceptable to the U.S. elites. It will take a long time for them to adapt to the new world order and the role of the United States in it.

3.1.16. What is more, the United States views geopolitical victory over Russia as a necessary pre-condition for the successful realization of its even more fundamental and strategic objective of containing China and undermining its current development model. The United States views China as its strategic adversary, and confronting it will apparently constitute the backbone of American foreign policy and the main axis of international relations and the global economy for the foreseeable future. Russia is a secondary yet crucial target in this scenario.[7] Accordingly, the sanctions will remain in place until the United States eithers claim a victory over Russia (Russia abandoning its independent role in the world, securing a change of regime in the country), or comes to the conclusion that it is impossible to defeat Russia and China at the same time and must thus pull Moscow over to its side as an ally against Beijing. A transition to such a policy even in theory cannot take place before the next presidential cycle in the United States (i.e. not until 2025). The sanctions are extremely unlikely to be lifted before then.

3.1.17. The legal reason behind the extremely low probability of the existing sanctions against Russia being lifted is that they have been introduced by Congress through the Countering America's Adversaries Through Sanctions Act (CAATSA), the Ukraine Freedom Support Act (UFSA), the Support for the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act (SSIDES) and the Magnitsky Act. CAATSA has made it impossible to lift the economic sanctions imposed against Russia by an executive order of the president of the United States without congressional approval. The odds of Congress acquiescing to the lifting of

7 A rough yet correct analogy would be the perception by Napoleon Bonaparte of his 1812 war against Russia as an important element of his strategy to weaken Great Britain, his main adversary at the time.

Russia sanctions are zero. If the history of the Jackson–Vanik amendment is any indication, the United States Congress will judge it the wrong time to lift the sanctions for as long as the American elites have complaints against Moscow and until Russia's policy becomes fully and firmly pro-American, which is an impossible goal in principle. But even if the U.S. leadership decides that it would make sense to lift the sanctions, it is impossible to accomplish within the existing U.S. political system.

3.1.18. On the contrary, the odds of further tightening of the U.S. sanctions pressure on Russia appear to be high. First of all, the anti-Russian sanctions have become an important tool of the domestic political struggle in the United States, above all for the Democrats and the traditional elites to keep Donald Trump in check and to win back their dominance. Yet this would be far from the end of domestic political infighting in the United States, which has existed for a long time and will continue after Trump leaves and has to do with a qualitative renewal of the elites and a transformation of political platforms of both parties. Until that process runs its course, sanctions will continue to be slapped on Russia as a rather convenient tool for domestic political fights.

3.1.19. Second, the logic of the U.S.–Russia confrontation demands that the sanctions pressure on Russia be intensified. We can expect a more or less constant flow of new sanctions against Russia until at least 2025–2026.

3.1.20. Third, as the U.S.–Russia confrontation continues, new crises along the lines of the Skripal affair, the Kerch Strait incident or the use of chemical weapons in Syria are bound to emerge again and again, with each new crisis leading to the introduction of more sanctions against Russia.

3.1.21. Fourth, the DASKAA bill, which calls for much tougher sanctions on Russia, has been resubmitted to the United States Congress. Like the CAATSA, if approved, it will unleash a new cycle of Russia sanctions to be implemented by the U.S. Executive Branch.

3.1.22. This brings us to the key question of how exactly the new sanctions will be introduced – gradually or abruptly and in waves. The latter case would have a much more negative impact on Russia and its economic relations with the United States and other countries, especially in the short term. A gradual tightening of the sanctions regime appears to be a more likely scenario (including by ridding the DASKAA of provisions that would hurt the global economy worst). The scenario of a wave after wave of increasingly tougher sanctions will be implemented in the event that the political and military-political confrontation between Russia and the United States worsens dramatically (such as an all-out war in Ukraine, a military incident between Russia and NATO, a new crisis in a former Soviet country similar to the one in Ukraine).

3.1.23. The announcement, postponement and eventual lifting of the U.S. sanctions from RUSAL and En+ make for a controversial story. On the one hand, the high degree of these companies' integration into the global economy and value chains, their important market positions and the serious dependence of the United States and its closest allies on them have acted as deterrents for the sanctions policy. The lifting of the sanctions became possible because RUSAL accounts for 30 per cent of all aluminium consumed in the European Union, and for 30 per cent of all aluminium feedstock in the European Union. European countries put a lot of pressure on the United States, causing Washington, namely the Trump administration, to back down.

3.1.24. On the other hand, given the current trends in the global economy and U.S. foreign economic policy, Washington's sensitivity to its allies' dependence on Russian supplies or projects may decrease. Besides, a precedent has been created for wrenching companies from the hands of owners "disliked" by the United States without destroying an entire economic sector. This exercise is highly likely to be repeated on other companies.

3.1.25. Under the circumstances, Russia's best strategy would be to "hope for the best, but prepare for the worst." In the short term, it would be advisable, first, to encourage and wherever possible increase the dependence of the United States and Europe on Russia in areas that are critically important for the Russian economy (such as metals). Limiting these ties at Moscow's initiative would be counterproductive. On the contrary, additional support for exports to Western countries is desirable. Second, the dialogue with the United States' allies should be intensified so that they lobby against the adoption of new sanctions against Russia. Third, it is important to establish an industry of compliance by Russian and international companies with U.S. sanctions without pulling out of the majority of areas of cooperation that are not affected by the sanctions. This industry might comprise law firms specializing in sanctions legislation and practice, and consulting firms affiliated with universities or research centres.

3.1.26. In the long term, it is necessary to set up mechanisms to mitigate the negative short-term impact of the sanctions on Russian companies and their relations with third countries. These include the transfer of companies into state property, up to and including nationalization, and working with state-owned or state-affiliated enterprises abroad. Key long-term priorities are diversifying Russia's foreign economic ties, emphasizing the development of trade with Asian and Eurasian countries, reducing of the role of the U.S. dollar in settlements with them, and creating technological alliances with China, India and other BRICS and ASEAN member countries.

3.2. Global Economic Outlook

3.2.1. The two major global economic trends that will be key to shaping U.S–Russia economic relations in the coming years are partial de-globalization and the emergence of two global technology platforms – the American and the Chinese, with Russia so far belonging to the former.

3.2.2. The crisis of the so-called "liberal economic order," and of the international free trade regime in particular. The weakening of key global governance institutions. The trade war between the United States and China. And Washington's efforts to tip economic relations with its key trading partners in its own favour by resorting to harsh pressure and blackmail have all much deeper roots than the personality of President Trump. Globalization as we knew it in the 1970s and 1980s is history. The global economy has entered a new extended phase that will be characterized by key players conducting far more mercantilist, inward-looking and sometimes protectionist policies, the weakening of free trade regimes and free capital flows, the re-shoring of traditional industries, the establishment of macro-regional trade and economic regimes, and the loosening of the global trade and investment interdependence.

3.2.3. There are at least three reasons are behind this transition. First of all, globalization in the past gave such a strong impetus to the development of non-Western emerging economies that the traditional leaders started to fear that they would lose their dominant and privileged position in the global economy that had allowed them to redistribute the gross world product in their own favour. The 500-year era of Western dominance has ended suddenly and unexpectedly for the West itself – precisely when it was still resting on its laurels after what seemed to be its final victory of 1989–1991. Both the United States and European countries are increasingly viewing the economic growth and expansion of China as a threat and are beginning to seek ways to eliminate the conditions that have enabled China to develop so fast, including in terms of technology. And that means getting rid of globalization as we know it.

3.2.4. Unlike the Obama administration and European leaders, the Trump administration has not been mincing its words and acting more openly and straightforwardly. The U.S.–China conflict is rooted not so much in the issue of the United States' trade deficit as it is in American fears that China's continued development and modernization will undermine Washington's technological and then economic superiority, thus eroding the basis of its prosperity and security. (The USSR was the first to eliminate the West's military superiority, which had formed the basis of its dominance for centuries, and modern Russia prevented it from being rebuilt.) The United States thus seeks not only to make China to buy more American products, but to force it to change its economic development model, thereby sharply slowing down its growth and technological development. To that end, Washington is scrapping the rules and destroying the environment that has benefited China over the past 40 years.

3.2.5. Second, the previous form of globalization has ceased to benefit a substantial part of the population in developed countries, decimated their middle class and ultimately proved to be destructive for their political systems. As a result of deindustrialization and explosive growth in the share of non-white people, the United States and Europe now have substantial populations that see their economic (loss of jobs, shrinking incomes) and socio-cultural (identity and security) problems as being caused by globalization, turning them against the traditional elites who have been conducting pro-globalization neoliberal policies for decades. An objective demand for protectionism, mercantilism and increased economic and migration insulation has emerged. Donald Trump's presidency, along with the crisis of traditional political parties and the rise of "populist" parties in Europe, is merely a result of those processes rather than the reason behind them. Since the anti-globalist and nationalist layers of society are not going anywhere and their votes will be a prize for all political parties (including the traditional ones) to chase, the shift towards protectionism and mercantilism in the foreign economic policies of Western countries appear to be a long-term trend. It is unlikely that we will see a return to openness and the neoliberal paradigm once Trump is out of the picture.

3.2.6. Third, technological progress (robotization, 3D printing, the shale revolution, etc.) reduces the need to outsource production, encourages re-shoring (the return of industrial manufacturing into developed countries to be performed by robots) and weakens global economic interdependence. Value chains are becoming increasingly regional or macro-regional, while global interdependence is growing weaker. This trend first emerged in Asia (in the form of the "Asia for Asia" model), but has already started spreading to North America too.

3.2.7. The weakening of free trade regimes, free capital flows and de-globalization in general are bound to lead to a slowdown of global economic growth and, consequently, to the further loosening of trade and economic ties between Russia and the United States. What is more, U.S.–Russia relations will weaken as a result of the decrease in inter-regional trade and investment regimes and the expansion of regional and macro-regional ones instead.

3.2.8. The reduced political relevance of economic interdependence appears to be an even more important consequence of the global economic transformation for Russia and its economic relations with the United States. The development of U.S.–China relations has demonstrated that it is already having a weaker effect on political decision-making. With time, as mercantilism strengthens further and global links weaken in favour of regional links, the factor of the depth of integration of companies into global markets, which has so far protected Russia from even tougher U.S. sanctions, may stop working.

3.2.9. As part of overall strengthening of economic mercantilism and unilateralism, the United States will step up the economic containment of its adversaries, including Russia, using not only sanctions and tariffs, but also tighter export controls, including technology exports, and tougher competition on external markets. In this regard, it will be difficult for any country that remains an adversary of the United States to obtain advanced American technologies in the foreseeable future, even without considering sanctions. What is more, Russia will face intense competition in markets that play an important role in its economy but where it competes with the United State – such as energy and arms. Washington will continue its attempts to decrease Russia's share of the European natural gas market and the Asian arms and military equipment markets in order to boost its own market shares.

3.2.10. One of the few global economic trends that could boost economic ties between Russia and the United States involves an increase in the outsourcing of hi-tech and skilled services and industries involved in the development of IT and emerging technologies such as telepresence, telerobotics, telemedicine and online education. With its high level of competencies in many sectors and a large share of English-speaking specialists, Russia could become a supplier of such services to the United States. The most promising areas appear to be education (with Russian instructors teaching American students remotely at prices that are lower than those in the United States) and medicine (Russian doctors seeing American patients remotely).

3.2.11. The other key global economic trend is the data-driven platform revolution. The global economy is gradually moving to a platform model that is underpinned not by the manufacturing of goods, but rather by the creation of a venue where consumers and manufacturers can interact. Even now, six out of the world's top ten companies use the platform model as a basis for their operations. Examples of company-wide platforms include Amazon, Google and Alibaba. By hooking up to one another, such platforms form large technology platforms. Platforms are differentiated by standards and rules, and they compete on standards. As a result, a radically different model for global interdependence and globalization is emerging, one where data replaces trade and investment as the primary connecting factor holding the global economy together.

3.2.12. As stated above, two global technology mega-platforms have emerged to date: an American platform and a Chinese platform. For instance, out of the 20 biggest global IT companies, eleven are American and nine are Chinese. A European technology platform, considered to be viable as recently as 10 to 15 years ago, has failed to materialize, with EU countries left operating on the American platform.

3.2.13. Like the European Union, Russia is objectively part of the American technology platform, a fact most obviously evidenced by Russian people using Facebook and Amazon rather than WeChat or Alibaba. Most Russian companies have been built into value chains established by Western companies. Industrial cooperation between Russia and China is developing slowly. What is more, the Chinese technology platform still remains more closed and relatively backward, and using it involves overcoming cultural and language barriers.

3.2.14. Russia's inclusion in the American technology platform appears to represent a much more fundamental link between the two countries than trade and investment, particularly in the long term. While this reality runs counter to geopolitical trends, experts believe that it seems objective and long-term. This needs to be taken into account as a mitigating factor in the confrontation with the United States on the part of Russia, which in not interested in breaking off relations completely.

3.2.15. At the same time, being on the American technology platform keeps opportunities open for Russian IT companies to continue building cooperation with the United States and participate in American value chains. Joint work in the markets of third countries, including the Greater Eurasian space, is desirable. China's efforts to engage countries of that region into its own technological platform is a matter of concern for them, which thus creates an object demand for an alternative. In addition, it would be wise to conduct an in-depth study of the opportunities and challenges of joining the Chinese technology platform or, even better, moving towards a hybrid "Eurasian" Russia–China–EU platform.

4. U.S.–RUSSIA COOPERATION: BREAKDOWN BY INDUSTRY

4.1. Energy

4.1.1. The nature of U.S.–Russia energy relations is undergoing a fundamental transformation. The United States' interest in Russia's energy has historically been driven by the desire to secure access to energy resources and the fact that it has always considered Russia a potentially important energy supplier. Yet this interest in on the wane as a result of the shale revolution and the United States turning into a net exporter of natural gas and (very soon) oil. Investing into the Russian energy sector is no longer seen as a viable way of meeting America's vital interests and building an energy security cushion for the United States. On the contrary, Russia and its energy sector are now perceived as a competitor for U.S. oil and LNG in third-country markets and an obstacle to American domination of the global energy market.

4.1.2. This means that a substantial increase in Russia's oil and oil product exports to the United States, much less a serious expansion in American investments in Russia's energy, are out of the question in the foreseeable future. At the same time, U.S. companies are unlikely to pull investments from the Russian energy sector as long as their existing investments are not subject to sanctions. The scale of cooperation will either remain at the current level or, more likely, decline slowly. The share of energy in the overall structure of U.S.–Russia trade and investment will decline.

4.1.3. Energy cooperation has prevailed in the structure of U.S.–Russia trade and investment over the past 15 years. Even though its share has been declining in recent years, it still the number one Russian export to the United States and the top American investment into Russia. Table 4 demonstrates that in 2018 oil products (mineral fuels, oil and oil products: straight-run gasoline and biodiesel-free liquid fuels) accounted for almost 40 per cent of Russia's total $4 billion worth of exports to the United States. Russian also exports power engineering products to the United States, although not a significant amount. For example, OOO Neft Servis (Chelyabinsk Region) has been supplying oil and gas equipment to the United States since 2016, while Samara's OOO NTF BAKS (which engages in the engineering, manufacturing, supply and assembly of technological and analytical equipment and automated control system of technological processes for the oil and gas industry) has been present in the U.S. market since 2017.

4.1.4. Energy imports from the United States primarily include power engineering products: topographic and other instruments, special-function electric power generators, pumps and compressors, machines and mechanical devices, liquid and gas filtration equipment, and pipeline and boiler fittings.

Table 4. Mineral Products (Mineral Fuel, Oil and Distillates) in the Structure of Russia's Exports to the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ billion)	3.8	3	3.3	3.4	4
Share of total exports, %	35.7	33.7	35.6	32.0	39.9

4.1.5. The energy sector also accounts for a significant portion of U.S. direct investment in Russia: 34 per cent of total accumulated investments and 39 per cent of investments in 2017 and 2018.[8] ExxonMobil, ConocoPhilips, Chevron and other U.S. energy companies are active on the Russian market. For example, ExxonMobil is the operator of the Sakhalin-1 international consortium, one of the most important U.S.–Russia energy projects, with a 30 per cent equity stake. In addition to ExxonMobil, participants include Rosneft (20 per cent), ONGC (India, 20 per cent) and SODECO (Japan, 30 per cent). Despite ongoing litigation between

8 Investments and Import to Russia: Aiming for Careful Growth. 3rd annual survey of the American Chamber of Commerce in Russia. Report prepared in partnership with EY. May 2018.

the stockholders, the project continues to function and has not been impacted by the sanctions so far. In addition, ExxonMobil, together with Baker Hughes (another U.S. company) participates in an oil refinery project in the Tyumen Region. Another successful project involves the participation of ConocoPhilips in the Polar Lights joint venture to develop the Ardalinskoye oil field in the Komi Republic. The U.S. company Chevron is a stockholder in the Caspian Pipeline Consortium (CPC). Finally, U.S. shareholders own a majority share in BP, the owner of a 19.75-per cent stake in Rosneft.

4.1.6. Russia is also investing in the U.S. energy sector. For example, Lukoil owns 2200 gas stations in New Jersey and Pennsylvania, many operating under the original Russian brand name. The company has also invested in a ConocoPhilips project to build a new refinery on the U.S. East Coast geared for Russian oil blends.

4.1.7. This cooperation is based on the fact that, from the 1950s onwards, the United States was a net importer of oil, and until recently it was interested both in Russian oil imports and in securing its companies better access to Russian oil and gas deposits, including on the Arctic shelf. However, with the onset of the "shale revolution" in 2012, the position of the United States on the global energy market started to shift. By 2017, the United States had become a net exporter of natural gas, and beginning in 2020, according to the International Energy Agency (IEA) forecasts, it will become a net exporter of oil too, a situation that will persist until the middle of the century. As a result, the United States has lost interest in expanding its presence in Russia's energy sector, as well as in imports of Russian oil. On the contrary, Russia has come to be viewed as a competitor to American oil and LNG exports.

4.1.8. Despite the elimination of even the theoretical energy dependence of the United States on Russia and its loss of interest in Russia as a potential supplier of energy and a source of work for American energy corporations, U.S. companies are in no hurry to wrap up operations in Russia that are not under sanctions or pull out of all of their existing investments, especially as they continue to benefit from having a presence on the Russian market. However, further tightening of U.S. sanctions against the Russian energy sector might encourage American companies to withdraw completely. In any case, the possibility of U.S. investments picking up in Russia's energy sector is practically zero.

4.1.9. Russia, in turn, is still interested in the import of technology and engineering products from the United States for the energy sector. This includes, above all, equipment for the exploration and extraction of natural resources, digital technologies for predicting the location of oil deposits, offshore drilling rigs capable of working at northern latitudes on the Arctic shelf, and oilfield services in general. It is telling that Schlumberger and other American oilfield services companies still hold leading positions on the Russian market.

4.1.10. With this in mind, a further tightening of U.S. sanctions against the Russian energy sector is a serious risk. The sanctions that are already in place, including those imposed under the CAATSA legislation, prohibit American companies from participating in shale oil production at Russia's deep-water and Arctic deposits. This has affected the Kirinskoye offshore gas condensate deposit in the Sea of Okhotsk, the Yuzhno-Tambeyskoye gas field in the Yamalo-Nenets Autonomous Area, Gazprom's LNG terminal in the Kaliningrad Region and some other projects that require foreign technology and equipment to be developed. As early as in 2014, ExxonMobil froze participation in a strategic partnership with Rosneft on nine out of their ten joint projects (excluding Sakhalin-1), withdrawing, in particular, from the exploration and development of Black Sea, Arctic, West Siberian and Kara Sea offshore deposits.

4.1.11. Experts believe that the possible enactment by US Congress of the Defending American Security from Kremlin Aggression Act (DASKAA), which would introduce sanctions against Russian energy projects located outside Russia, and in general against any persons or companies investing in Russian oil production or supplying it with goods, technology, investments or services required for the production of crude oil (essentially an economic blockade of the Russian energy sector) is fraught with a slowdown in Russia's oil output in the medium term.

4.1.12. In this regard, we believe Russia's top priority in the energy area should focus on import substitution and the development of proprietary (or shared with other countries) technologies for oil and gas exploration and production at hard to access deposits, as well as for oilfield services.

4.1.13. As far as cooperation with the United States in the oil and gas sector is concerned, we believe the most promising track under the current circumstances is to jointly regulate the global energy markets to prevent shocks and abrupt price fluctuations, and to work together on the development of new rules for the global energy sector.

4.1.14. It is important to maintain cooperation with the United States on nuclear energy, not supplies of Russian nuclear fuel to American nuclear power plants, but also jointly designing new-generation nuclear reactors, working together in third countries, and developing safety rules and standards for nuclear materials and energy.

4.1.15. Finally, it would be worthwhile petitioning the United States to lift its sanctions on green energy. Such a dialogue appears especially promising in the event of a Democrat administration coming to power in the United States.

4.2. Metals

4.2.1. Metals and metal products have featured prominently in Russia's exports to the United States for years. In the four years starting in 2014, the sector accounted for 30 per cent of Russia's total exports to the United States on average. Russia actively exports raw aluminium (worth $1.6 billion in 2017), pig iron ($1.0 billion), unprocessed platinum ($0.8 billion), semi-fabricated goods from iron or non-alloyed steel ($0.2 billion), and titanium and titanium products ($0.2 billion).

Table 5. Russia's Metals and Metal Product Exports to the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ billion)	3.2	2.4	2.7	3.8	2.5
Share of total exports, %	31.7	28.0	29.2	36.0	25.1

4.2.2. Russia's dependence on the United States in metallurgy is primarily indirect, although it is tangible for the country's economy. According to the 2016 Strategy for the Development of Russia's Metals Industry until 2030, exports account for 40 per cent of ferrous metallurgy output and up to 85 per cent of non-ferrous output. The lion's share of exports goes to the European Union (up to 50 per cent of all metals exports) and the United States (around 15 per cent). According to experts and market players, it will be difficult to redirect Russian metal exports cannot from the European Union and the United States towards Asian markets: China, for one, does not need Russia's metals, and is in fact a direct competitor.

4.2.3. Accordingly, if exports to the United States, and especially the European Union, become unviable (as a result of sanctions, for example), then the Russian ferrous metallurgy will face serious difficulties, while its non-ferrous metallurgy will fall into a deep crisis. This, in turn, would hurt the Russian economy in general: metallurgy accounts for 2.5 per cent of Russia's GDP, 17.4 per cent of added value in manufacturing, 10.0 per cent of exports, 29.2 per cent of manufacturing exports, and 2.6 per cent of employment.

4.2.4. As the case with U.S. sanctions against RUSAL has demonstrated, a total blockade of Russia's metals exports with sanctions is unlikely in the short term. This is because the European Union is dependent on Russian supplies: RUSAL accounts for almost 30 per cent of all primary aluminium consumed in the European Union and for another 30 per cent of its aluminium feedstock. Yet in the future, as anti-Russia sanctions escalate and the factor of economic interdependence becomes less important for the United States, such eventuality appears plausible.

4.2.5. Constituting no more than 4.2 per cent of Russia's total imports, metals do not appear to have a very important import profile. Russia mainly imports ready-made products, such as various ferrous metal articles, pipeline and boiler fittings, gum or plastics processing equipment, etc.

4.2.6. Metals also account for the bulk of Russia's direct investments in the United States. For example, in 2003 Norilsk Nickel paid $364 million for a 56-per cent stake in Stillwater Mining, a Montana-based producer and seller of platinum-group metals (PGMs), primarily palladium. That same year, Severstal acquired a plant and other assets of Rouge Industries for $285.5 million. In 2007, Russian steelmaker EVRAZ (then called Evraz Group) paid $2.3 billion for Oregon Steel Mills as well as for 73 per cent of Startcor, a large American vanadium producer. EVRAZ remains the owner of Oregon Steel Mills in Portland, Oregon (officially called EVRAZ Portland), in addition to three steel mills located in Colorado.

4.2.7. In 2004, Severstal acquired Rouge Steel, a bankrupt steelmaker from Dearborn, Michigan, and renamed it Dearborn. In 2006, Severstal negotiated a merger with Arcelor, another global steelmaking leader, and after the idea was turned down, Arcelor merged with Mittal Steel, creating ArcelorMittal, the world's largest steelmaker. In 2008, Severstal agreed to acquire Sparrows Point, a steel mill in Baltimore, from ArcelorMittal for $810 million (Severstal's plants produce a total of 8.5 million tonnes of steel annually in the United States). That same year, Severstal acquired WCI Steel, a company based in Warren, Ohio for $140 million. In 2011, Severstal sold off most of its assets before selling its Dearborn and Columbus plants, thus exiting all of its U.S. assets.

4.2.8. NLMK Group (formerly Novolipetsky Metallurgical Works), a Russian steelmaker, owns large mills both in Russia and in the United States. The company operates in the United States through three steelmaking and steel-rolling companies: NLMK Indiana (Portage, Indiana, 0.7 million tonnes of output annually, including steel, hot-rolled products, production and sales of hot-rolled coils), NLMK Pennsylvania (Farrell, Pennsylvania, 1.1 million tonnes of output annually, carbonized and alloyed steel), and NLMK Sharon Coating (Sharon, Pennsylvania, 0.5 million tonnes annually). NLMK Pennsylvania manufactures various zinc hot-coated rolled products.

4.2.9. The key risk to U.S.–Russia cooperation in metals is the threat of U.S. sanctions being imposed against the industry that are similar to those introduced in April 2018 against RUSAL, En+ and Basic Element, all owned by Oleg Deripaska at the time, but which never went into effect. Immediately after the United States announced plans to impose sanctions, RUSAL's stock plunged 46.9 per cent. RUSAL's market capitalization shrank by almost two-thirds in 2018. The situation only started to return to normal after the United States Department of the Treasury's decision to lift the sanctions after Oleg Deripaska sold his controlling stake in the company.

4.2.10. The second most important risk is the further escalation of the trade war between the United States and China, which led Washington to introduce a 25-per cent import duty on steel and a 10-per cent duty on aluminium imports effective March 23, 2018. Not only will the competitiveness of Russian exports of those two metals to the United States suffer, but Russia will also face growing pressure from China, potentially creating problems for the entire Russian metals industry. Experts point out that China already has a substantial metallurgical overcapacity. As the trade war with the United States escalates, Beijing will try to re-direct its metals exports towards Russia and the European Union, creating direct competition for Russian companies.

4.2.11. In view of the above, in the short and medium term, Russia should try to stave off U.S. sanctions against Russia's metals industry wherever possible, including by lobbying through European countries, as well as to step up metals exports to the European Union, including through additional export incentives, in order to foster interdependence. Experts believe that, in the long term, it may be necessary to think about the nationalization of some major metallurgical enterprises in order to protect them from potential U.S. sanctions.

4.3. Mechanical Engineering

4.3.1. Machinery imports from the United States to Russia occupy a substantial niche in U.S.–Russia trade and economic relations. According to the United States Department of Commerce, mechanical engineering products hold almost all the top ten positions in U.S. supplies to Russia, the only exception being medicines (see **Table 6**).

Table 6

Rank	Product group	Trade volume
1	Aircraft parts	$1.61 billion
2	Motor engines	$228.43 million
3	Motor engine components	$205.24 million
4	Various machinery components	$123.13 million
5	Tractors	$100.56 million
6	Heavy industry equipment parts	$93.01 million
7	Laser medical equipment	$88.39 million
8	Cranes and drilling rigs	$85.62 million
9	Medicines	$72.65 million
10	Surgery tools	$67.4 million

4.3.2. U.S.–Russia ties in mechanical engineering are developing in fits and starts. For example, between 2013 and 2017, exports and imports of the industry's products shrank from $12.4 billion to $8.1 billion, while some fluctuations were observed with regard to specific items. According to UNCTAD, commercial ties between Russia and the United States for the SITC 7 product group ("Machinery and Transport Equipment") were as follows (**Table 7**):[9]

Table 7

Exports, $ million	2013	2014	2015	2016	2017	Change	Source
From the U.S. to Russia	5144.892	4938.885	2627.605	2481.897	2514.096	–0.20	U.S.
From Russia to the U.S.	360.476	344.081	716.203	432.038	552.346	0.17	Russia
Imports, $ millions	**2013**	**2014**	**2015**	**2016**	**2017**	**Change**	**Source**
From Russia to the U.S.	408.2	465.499	562.85	519.195	644.288	0.11	U.S.
From the U.S. to Russia	6492.921	7219.868	4011.137	3166.355	4413.836	–0.15	Russia

4.3.3. Thus the flow of machinery and associated equipment from the United States into Russia substantially (by a factor of 5 to 6) exceeds the flow of similar products from Russia to the United States. This situation will continue for the foreseeable future, despite certain progress achieved through Russia's import-substitution programmes. The weakening of the rouble against the U.S. dollar caused by the fall in global oil prices, the recession in Russia and sanctions, led to a certain increase in Russian machinery exports to the United States between 2014 and 2018. At the same time, imports from the United States contracted by 15–20 per cent annually. Growth in imports of U.S. products resumed in 2017. Cross-border movements of machinery repair services is the only category of U.S.–Russia machinery and equipment trade that posted a steady contraction during the entire

9 UNCTAD STAT. Merchandise trade matrix. URL: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=24739
URL: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=24741

period since the start of confrontation between Russia and the United States (**Table 8**). The main reason behind this is a certain rollback of operations by U.S. service companies in the Russian market and by Russian firms in the United States.

Table 8

Exports	**2014**	**2015**	**2016**	**Source**
From U.S. to Russia	120	122	108	U.S.
From Russia to U.S.	60	50	49	Russia
Imports	**2014**	**2015**	**2016**	**Source**
From U.S. to Russia	100	78	80	Russia
From Russia to U.S.	5	3	3	U.S.

4.3.4. Investment flows also play an important role in U.S.–Russia relations in the mechanical engineering. Data on Russian direct investments in the United States in this segment are fragmented and cannot be reliably verified (for instance, the OECD does not break Russian statistics down by industry sector, while the Bureau of Economic Analysis of the United States Department of Commerce includes it in the "Other" category). This is mainly explained by Russia's negligible role in the U.S. foreign investment market, especially in mechanical engineering, a segment where Russia is a net importer.

4.3.5. According to the U.S. Bureau of Economic Analysis, annual direct investments from the United States in the Russian mechanical engineering sector were reported as shown in **Table 9** during the period 2012–2017. Both a sharp drop in foreign direct investment after 2014 and its recovery by 2017 are remarkable. The latter can primarily be explained by the Russian economy's emergence from the recession and resumption of growth, as well as by recognition on the part of foreign investors of Russia's favourable overall macroeconomic situation. This is completely in line with the broader picture of foreign direct investment in Russia during 2014–2018 in general.[10]

Table 9

FDI, $ millions	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
From the U.S. to Russia	417	-	397	344	255	302

4.3.6. However, despite the substantial instability of trade and investment relations and the continuing pressure of sanctions, Russian and American businesses continue to cooperate intensively. For example, Ford opened four plants in 2015 (three vehicle assembly factories and one engine plant) at the Yelabuga Special Economic Zone (SEZ) in Tatarstan. The U.S. auto giant also owns assembly capacity in the Leningrad Region. What is more, Ford actively uses loans from Russia's Vnesheconombank to work with the Russian automaker Sollers. General Motors is ready to follow in Ford's footsteps and reactivate the plant it owns in a St. Petersburg suburb. In 2016, Rosneft and General Electric signed a partnership agreement on manufacturing drilling equipment, which could be used in the future to develop oil and gas deposits in Russia's Extreme North and Far East. This suggests that the American mechanical engineering industry is not going to pack up and go just yet, as it sees potential in the Russian market. It appears unlikely that U.S. companies are going to withdraw their investments.

10 Foreign Direct Investment in the Russian Economy by key Investor Countries. Bank of Russia. URL: http://www.gks.ru/bgd/regl/b18_13/IssWWW.exe/Stg/d02/13-12.doc

4.3.7. In view of the above, we believe it makes sense to maintain the existing cooperation with U.S. mechanical engineering corporations and seek to expand it in areas that are not securitized or vulnerable to sanctions, such as transportation, auto manufacturing, machine-tool building, etc. It also makes sense for American partners localize their manufacturing to a greater extent by using locally sourced Russian components and materials.

4.4. Aerospace

4.4.1. The aerospace industry holds a special place in economic relations between Russia and the United States. The situation is characterized on the one hand by continued interdependence, and on the other, by the desire of both sides to weaken this interdependence, especially in the strategic space industry.

4.4.2. The importance of Russia's relations with the United States in this segment is due to the following factors:

- The Russian civil aviation market is almost 80 per cent served by foreign-made aircraft, of which just over a half are U.S.-made Boeings. Accordingly, the renewal and maintenance of around 40 per cent of Russia's civil aviation fleet is contingent on the U.S. aviation industry.
- Russia's ability to manufacture domestic aircraft in order to replace imports is held back by technological limitations. Russia must rely on the supply of a whole range of key aircraft components, including those supplied by the United States. For example, the share of imported components in the Sukhoi Superjet is 50 per cent, with the United States supplying the hydraulic system, the fire suppression system, and the cabin climate system, among others. Russia's MS-21 production depends on American wing composites.
- The high share of American components enables the United States to restrict deliveries of Russian-made aircraft to third countries (in particular, supplies of a Sukhoi Superjet 100 modification to Iran was blocked by U.S. Department of the Treasury in January 2019 as it contained U.S.-made dual-purpose components). Russia's dependence also applies to manufacturing equipment and design software.
- The United States controls the manufacturing and supply of key components for drones (including drone engines).
- Russia depends on imports from the United States of high-precision aviation industry equipment (processing centres, industrial automation, etc.), as well as specialized software used on design Russian-made aircraft.

4.4.3. The dependence of the United States on Russia in the industry is as follows:

- VSMPO-AVISMA, a Russian producer of titanium and titanium products, dominates the global titanium market and is a critical supplier for Boeing (35 per cent of all titanium purchased by Boeing).
- The American rockets Antares and Atlas are powered by the Russian-made RD-180 and RD-181 engines, which have no viable replacements at the moment.
- Russia shuttles U.S. astronauts to the International Space Station. Russia is now the only country capable of delivering crews to the ISS. However, in a bid to break free from its dependence on Russia, the United States has been working diligently to develop its own vehicles (the biggest progress has been made on the Dragon 2 spacecraft), which will reach the flight-testing stage in a few years. In addition, the United States in planning to stop funding the ISS in 2024–25.
- Services. Russia is a key player in commercial space launches, including for U.S. companies. At the same time, the United States (the leading launcher, with Russia and China vying for the second spot) is working hard to improve its competitive position and reduce its dependence on Russia.

4.4.4. At the same time, in view of the political confrontation, relations are being wound down in a controlled manner in order to reduce interdependence in critical areas, primarily (but not limited to) defence. A number of critically important "core" projects are gradually emerging that both sides are interested in seeing through and that are unlikely to be cancelled even if the U.S.–Russia confrontation continues to escalate. There is zero probability of a complete halt to cooperation between both sides in this area. Not only that, but there is a certain scope for expanding cooperation, driven either by new and growing markets or by the development of mutually beneficial "core" projects.

4.4.5. According to the United States Department of Commerce, aircraft and aircraft components account for around 33 per cent of U.S. exports to Russia in value terms. Between 2014 and 2018, the share of aircraft, aircraft engines and other components in total U.S. exports to Russia rose from 21.8 per cent to 33.4 per cent. **Table 10** shows the dynamics of exports and imports to and from Russia under the "Aircraft, Spacecraft, and Parts Thereof" category according to USDC data.

Table 10

$ millions	2013	2014	2015	2016	2017
Imports from Russia to the U.S.	172.31	172.99	191.50	184.02	187.42
Exports from the U.S. to Russia	1960.844	2357.349	1918.965	1328.298	2342.08

4.4.6. American imports from Russia largely consist of the RD-180 and RD-181 rocket engines. A total of 130 have been delivered since the 1990s. In 2015, RKK Energia signed a new contract with Orbital Sciences Corporation for the supply of the RD-181s (manufactured by NPO Energomash in Khimki). Titanium alloys are the second most important Russian export, with VSMPO-AVISMA supplying this product to Boeing. Boeing and AVISMA have set up a joint venture called Ural Boeing Manufacturing, which operates two plants in Russia, both located in Verkhnyaya Salda in the Sverdlovsk Region. The second plant was launched at the Titanovaya Dolina Special Economic Zone in 2018. The joint venture is expected to receive $82.3 million in investments in 2019.

4.4.7. U.S. exports almost exclusively comprise aircraft and components. **Table 11** shows Boeing's data on the number of planes delivered to Russia. In addition, the American company B/E Aerospace supplies oxygen systems and interior fixtures for the Sukhoi Superjet 100. Another U.S. manufacturer, Pratt & Whitney, has supplied engines for the new MS-21 plane, whose serial production was delayed due to sanctions introduced against Rostec. Now they are expected to be fitted with Russian-made engines in time for serial production.

Table 11

	2013	2014	2015	2016	2017	2018
Units	7	12	7	4	13	5

4.4.8. So far, the continuing interdependence has limited the negative impact of the confrontation and sanctions on U.S.–Russia relations in the aerospace industry. The U.S. sanctions contain exemptions for the RD-180 and RD-181 rocket engines, which have no viable alternative (proprietary development is extremely expensive and is moving along at a snail's pace). In turn, Russia has refrained from imposing restrictions on titanium supplies and rocket engine deliveries to the United States due to the risk of losing a vital part of business forever.[11] However, over time, the sides are likely to move away from this interdependence. Sooner or later the United States will develop a replacement for the RD-180, and Japan could replace Russia as a titanium supplier.

4.4.9. In the space industry, the following areas for cooperation with the United States appear to hold promise:

- The operation of the Search and Rescue, Satellite (SARSat) international system for searching and rescuing distressed ships and aircraft. This is a highly effective, internationally standardized setup that can be enhanced to speed up the routing of distress calls (including connection to global automatic satellite telecommunications networks, the use of light guided missiles to send distress signals from ships, or a swarm of unmanned "atmosphere-level satellites").

11 https://www.vedomosti.ru/business/articles/2018/04/18/767100-zapreschat-postavki-titana-boeing-airbus

- The joint creation of a low Earth-orbit satellite-based global internet access network. Two global internet groupings have emerged, the U.S.-only StarLink and the international OneWeb co-owned by the United States. Russia would be interested in taking part in the latter project.
- The joint development of a legal framework for operating in space. Currently, the United States is unilaterally drafting laws and regulations for economic activities in space and on celestial bodies, including the issue of sovereignty and the appropriation of the results of economic activity there. Unless Russia takes part in the dialogue on drafting this legal framework in a collective manner, it might find itself unable to secure its economic interests in space and on celestial bodies in the future.

4.5. Information and Communication Technologies and the IT Industry

4.5.1. Russia's adherence to the American technology platform gives the ICT industry a place of special importance in the structure of U.S.–Russia economic cooperation. The United States remains the leader in developing, funding and organizing the manufacturing of electronic devices and software. For Russian developers, U.S. companies represent the main source of orders (often carried out remotely). The key infrastructure of the global digital economy is supported by U.S. companies, so the only way to make money is to export such services from Russia.

4.5.2. Table 12 shows UNCTAD's export and import data for the ICT (Information, Communication and Technologies) product group trade between Russia and the United States.[12] This category is rather broad and covers computers and computer peripherals, telecommunications devices, consumer equipment and electronic components.

Table 12

Exports, $ millions	**2014**	**2015**	**2016**	**Source**
From the U.S. to Russia	329	304	253	U.S.
From Russia to the U.S.	32	38	35	Russia
Imports, $ millions	**2014**	**2015**	**2016**	**Source**
From the U.S. to Russia	389	356	362	Russia
From Russia to the U.S.	23	20	24	U.S.

4.5.3. Despite some discrepancies, the data gives an idea of three key trends that emerged in U.S.–Russia ICT interactions during 2014–2016:

- the flow of ICT goods from the United States to Russia was declining due to the economic recession and the weakening of the rouble;
- the flow of ICT goods from Russia to the United States remained relatively steady (with a slight increase); and
- the flow of ICT goods from the United States to Russia was much larger than the flow of ICT goods from Russia to the United States (by a factor of approximately 12 to 14, i.e., by at least by one order of magnitude).

4.5.4. Table 13 shows statistical data on the computer and IT services trade between Russia and the United States according to UNCTAD.[13] It shows large discrepancies between Russian and American statistics. According to Russian data, exports of services from Russia to the United States are substantially larger than imports of these services from the United States to Russia (by a factor of 1.5 to 2). Conversely, according to U.S. data, exports of U.S. services to Russia consistently exceeds U.S. imports

12 https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=15850

13 https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=135718

of computer services from Russia. The Russian data points to strong growth in Russian exports of these services to the United States, while the U.S. data suggests a recovery to the status quo after a retreat in 2015. The American data suggests an overall decline in exports of U.S. IT services to Russia, while the Russian data shows that imports of U.S. IT services actually grew. Finally, the U.S. data shows growth in U.S. imports of Russian IT services, while the Russian data show no growth in exports of Russian IT to the United States, which remained stable.

Table 13

Computer services

Exports	**2014**	**2015**	**2016**	**Source**
From Russia to the U.S.	704	678	796	Russia
From the U.S. to Russia	116	119	133	U.S.
Imports	**2014**	**2015**	**2016**	**Source**
From the U.S. to Russia	373	346	427	Russia
From Russia to U.S.	92	68	91	U.S.

IT services

Exports	**2014**	**2015**	**2016**	**Source**
From the U.S. to Russia	105	91	87	U.S.
From Russia to the U.S.	14	12	13	Russia
Imports	**2014**	**2015**	**2016**	**Source**
From the U.S. to Russia	97	93	131	Russia
From Russia to the U.S.	13	21	25	U.S.

4.5.5. According to Central Bank of Russia data, U.S. FDI in ITC has reached $92 million. This represents approximately 0.6 per cent of the total IT sector FDI of $14.3 billion. According to the U.S. Bureau of Economic Analysis, the dynamics of U.S. investments in the Russian electronic equipment manufacturing and IT industry are as follows (**Table 14**):

Table 14

	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Computers and electronics	103	65	0	443	610	581
IT	602	643	526	630	925	1106

Remarkably, far from shrinking in 2014–2018, U.S. investments rose considerably during that period, quickly recovering after a drop in 2014. This apparently has to do with strong growth in Russia's IT market, which requires substantial investment and is becoming increasingly attractive.

4.5.6. Some of the most exciting examples of cooperation include the following:

- Cisco Systems is an anchor resident of the IT park at Skolkovo (an R&D centre), and a major reason the park exists at all.[14] Cisco has invested around $1 billion in Russia since 2010.
- The Monocrystal plant in Stavropol manufactures synthetic sapphire glass for Apple products (the iPhone and the Apple Watch), orders that have turned it into a global leader in sapphire glass production.
- In 2017 Yandex.Taxi and Uber Russia merged to establish a joint venture that is 36.6 per cent owned by the Uber contingent on an investment commitment of $225 million.[15]
- 500 Startups, a major U.S. venture fund and start-up accelerator, operates in Russia in collaboration with Sberbank (funding applications have been accepted since late 2018).[16]
- In April 2016, the Russian company NGINX (a web server and a mail proxy) raised $8 billion from a number of venture companies, including the American Index Ventures and Telstra Ventures.
- Rusnano USA, a Rusnano subsidiary, owns close to $1 billion in assets in the United States, primarily in the production of semiconductors.[17]
- Guerman Aliev's private equity fund Altpoint Capital holds substantial U.S. financial technology assets.[18] The fund is also known for its alleged links to Vladimir Potanin, a fact that has created problems in terms of securing contracts for the provision of IT support for the U.S. Department of Defense and Department of Labor data centres as well the maintenance of a voter data base in Maryland.[19]
- Columbus Nova, a large investment fund supposedly linked to Viktor Vekselberg,[20] has customers in the IT sector.[21]
- LetterOne, an investment fund co-founded by Alexey Kuzmichev, Mikhail Fridman and German Khan, also holds substantial assets in the American telecom and IT sectors (such as an investment in Uber).[22]

4.5.7. Even though the ICT sphere as such has not been subjected to an intensive "sanctions assault," sanctions related to cyberattacks have affected the Russian ICT sector. Several of companies have scaled down cooperation with Russia as a result. In particular, two official Microsoft vendors in Russia refused to supply software to a large number (around 200) of Russian companies.[23]

4.5.8. In general, it is worth noting that U.S. IT companies are cutting back on cooperation with Russia to be on the safe side. Their resulting losses are comparatively small given the modest size of Russia's domestic market, while fines for suspected links to companies under sanctions may prove significant. Companies also have to calculate the risk of losses from any future sanctions and weigh it against potential revenues, which sometimes turn out to be insufficient to keep companies in the Russian market. Similar challenges confront Russian exporters to the American market: links to Russia are associated with substantial risks that do not outweigh the benefits of cooperation compared to safer assets (such as European, Japanese or even – despite the worsening relations between the United States and China – Chinese companies). As the United States gets tougher on enforcing the sanctions, companies find it increasingly difficult to maintain direct cooperation, acting instead via third countries or affiliates.

4.5.9. Given the above, it would be wise to:

- create mechanisms for lobbying and protecting the interests of the Russian IT industry in the United States (including legal support to ensure compliance and mitigate toxicity);
- facilitate the development of joint projects with the United States in areas where Russia can use its strong advantage in R&D and design;

14 http://sk.ru/foundation/itc/partners/p/cisco.aspx
15 https://www.usatoday.com/story/tech/talkingtech/2017/07/13/uber-merge-business-russia-yandex/474947001/
16 https://www.sberbank-500.ru/
17 http://en.rusnano.com/portfolio/companies
18 https://altpointcapital.com/portfolio/
19 https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=2ahUKEwj6-5K1jLDgAhUp4aYKHSnlCJwQFjACegQIARAB&url=https%3A%2F%2Fwww.cbsnews.com%2Fnews%2Fmaryland-voter-registration-platform-russian-oligarch%2F&usg=AOvVaw3ldrRDAVwf01QwCyfuNjxM
20 https://www.forbes.com/sites/nathanvardi/2018/05/09/columbus-nova-a-family-office-owned-by-americans/#23d2d16c4c20
21 https://www.crunchbase.com/search/funding_rounds/field/organization/num_investments/columbus-nova
22 https://www.crunchbase.com/organization/letterone-holdings-sa/investments/investments_list
23 https://www.reuters.com/article/us-usa-russia-sanctions-companies-factbo/factbox-u-s-companies-with-exposure-to-russia-idUSKBN1KU2L8

- step up support to private IT companies and their cooperation with American partners, and abandon reliance on state control and on large state-owned ICT companies whose international operations are fraught with political risks (and which are unable to ensure flexible innovation management);
- establish a full-fledged venture capital market (with ready access to foreign funding) and a stock market for IT companies to expand investment ties.

4.6. The Agro-Industrial Complex

4.6.1. Following a steady decline of Russia's agricultural imports from the United States during the 2000s and a halt to food supplies in 2014 after Moscow imposed an embargo on imports of agricultural products from countries that had introduced anti-Russia sanctions, including the United States, the agro-industrial complex has taken a backseat to other sectors in the structure of U.S.–Russia trade, with its share of total Russian exports to the United States not exceeding 0.7 per cent and of imports peaking at 7.3 per cent.

4.6.2. Mineral fertilizers were Russia's main agricultural commodity export to the United States in 2017 and 2018 (worth a total of $0.3 billion), while U.S. imports to Russia during that period included sowing seeds, soybeans, sunflower seeds, almonds, poultry, etc. (up to 16 per cent of Russia's total U.S. imports by various estimates). The United States accounts for a sizeable share of Russia's pesticide and herbicide market, and is also a major supplier of pedigree breeding materials, with almost half of pedigree cattle breeding materials brought into Russia in 2017 coming from the United States. Agricultural machinery is also noteworthy, including agricultural equipment and parts, tractors, combine harvesters, etc. Russia's counter-sanctions against Western agricultural products have cut meat and fish imports by 60 per cent and imports of dairy products, vegetables and fruit by around 50 per cent. **Tables 15 and 16** show the dynamics of Russia's trade with the United States in 2014–2018.

Table 15. Exports of Food and Agricultural Raw Materials from Russia to the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ millions)	69.5	49.6	61.4	60.5	48.8
Share of total exports, %	0.7	0.5	0.7	0.6	0.5

Table 16. Imports of Food and Agricultural Raw Materials to Russia from the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ millions)	1355.0	627.9	476.4	463.7	349.8
Share of total imports, %	7.3	5.5	4.5	3.7	3.3

4.6.3. The devaluation of the rouble in 2014–2016 created a favourable environment for the development of export-oriented industries. The embargo on certain agro-industrial product groups originating in the United States, the European Union and some other countries that has been in effect since 2014 has strengthened the case for import substitution. As a result, animal farming, for instance, has achieved a substantial progress in reducing dependence on imports: during 2013–2015, imports of poultry decreased from 0.5 million tonnes (12 per cent of Russia's domestic market size) to 0.2 million tonnes (4 per cent); imports of pork dropped from 1 million tonnes (26 per cent) to 0.3 million tonnes (9 per cent); and beef imports fell from 0.8 million tonnes (33 per cent) to 0.5 million tonnes (24 per cent). In 2016, Russia became the world's top wheat exporter, pushing the United States into second place.[24]

24 Russia Becomes Top Wheat Exporter. Expert. URL: http://expert.ru/2016/07/20/pshenitsa/

4.6.4. Many U.S. companies continue to operate successfully within Russia's agro-industrial complex, despite the restrictions and the deterioration of bilateral relations. For example, U.S. fast-food chain McDonalds (with 609 restaurants in Russia employing more than 47,000 people) has been setting up and expanding local networks of suppliers of food and agricultural and other products that meet its standards: "The company procures more than 85 per cent of its products from 160 Russian producers; more than 100,000 jobs have been created by McDonalds suppliers in Russia."[25] By localizing its procurement, the company promotes the development of Russian producers, instead of relying on imports.

4.6.5. Mars is another company that continues to grow in Russia. In July 2015, a new $50-million line was launched at its Stupino plant near Moscow, increasing total capacity by 18 per cent and creating 76 jobs.

4.6.6. U.S. companies are particularly interested in investment cooperation with Russian regions where food industry enterprises are concentrated. In April 2017, the U.S. company Kemin Industries opened a production and laboratory complex at the Lipetsk Special Economic Zone. Its new 1.3-billion rouble OOO Kemin Industries (Lipetsk) feed additive plant boasts modern hi-tech equipment.

4.6.7. Russia continues to purchase American sunflower seeds, vegetables and pedigree bull sperm. These products, in addition to other oil plant, fruit and vegetable sowing seeds, various ready-made foods, alcohol and tobacco, belong to the category of unprofitable goods or goods that are difficult to substitute at the present time. Russia also needs agro-industrial machine-building technology (equipment, spare parts, tractors, combine harvesters, etc.) of which the United States is a leading exporter. The following critically important products are thus exempt from Russia's countersanctions: pedigree breeding materials, assorted crop seeds, young trout and salmon (required for development of Russian aquaculture) and potato seeds.

4.6.8. Our main recommendation for the development of the agro-industrial complex would be to continue cooperation with the United States in terms of investments and technologies while keeping Russia's import substitution policies in place and gradually reducing dependence in this area, especially as it relates to seed material.

4.7. Pharmaceuticals

4.7.1. Unlike many other industries, the pharmaceuticals sector has been spared the effects of the restrictive sanctions. Trade has contracted negligibly since 2014, mainly as a result of Russia's state policy aimed at substituting imports with domestic equivalents. Cooperation between Russian and American pharmaceutical companies remains a constant of U.S.–Russia economic relations, which are otherwise prone to instability. This has to do with Russia's heavy dependence on imports of American medicines and medical equipment, a phenomenon that has only appeared within the last several decades.

4.7.2. Tables 17 and 18 show the dynamics of U.S.–Russia pharmaceuticals trade in 2014–2018. Imports of pharmaceutical products from the United States exceed Russian exports by approximately 500 times. Still, the United States is not a major trading partner for Russia in the pharmaceuticals sector.

Table 17. Exports of Pharmaceuticals from Russia to the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ millions)	1.7	1.6	1.7	2.1	1.3
Share of total exports, %	0.3	0.3	0.3	0.3	0.2

25 Towards New Areas of Development and the Continuation of Business Localization. McDonalds. URL: https://mcdonalds.ru/news/83

Table 18. Imports of Pharmaceuticals to Russia from the United States, 2014–2018

	2014	2015	2016	2017	2018 (January to October)
Value ($ million)	682	565	559	605	506
Share of total imports, %	5.3	6.5	6.3	5.6	5.8

4.7.3. Russia is a net importer of pharmaceuticals, with imports exceeding exports by 14 times in 2017. According to Russian Federal Customs Service 2017 data, the United States accounted for 6 per cent of Russia's domestic market.[26] DSM Group, a Russian research company, put the share of American medicines in the Russian market in 2017 at 9.9 per cent.[27]

4.7.4. The most important products in the export structure of the pharmaceuticals industry are: medicines ($336.5 million), medical, surgical, dental and veterinarian instruments and devices ($283.7 million), human and animal blood and immune serum ($221.3 million).

4.7.5. The decrease in pharmaceuticals imports from the United State (by $170 million over four years) associated with the implementation of a state industry development programme aimed at increasing the market share of domestic drugs. The Pharma 2020 and MedProm 2020 programmes call for expanding the share of Russian-made products on the list of vitally important and necessary medicines to 90 per cent, and to of 40 per cent of Russia's total healthcare consumption in value terms by the year 2020.[28]

4.7.6. The U.S. sanctions policy towards Russia does not extend to pharmaceuticals, which is why there was not the kind of sharp drop in imports that was seen in many other sectors following 2014. Still, a bill submitted to the State Duma in April 2018 proposed banning or restricting the import of a number of U.S.-made goods into Russia, including medicines and drugs.[29] However, the initiative was met with little support, as the negative effect that the measure would have had on the quality of life of the Russian people would have outweighed any possible gains.

4.7.7. Taking Russian pharmaceutical products to international markets is one of the industry's development priorities, along with import substitution. In July 2017, the Government of the Russian Federation approved the directive "On Approving a Schedule of Products, Works and Services Whose Exports Will Be Supported as a Matter of Priority."[30] Pharmaceuticals were included in that schedule. However, the key importers of Russian-made pharmaceuticals are CIS member countries, above all Kazakhstan, Ukraine and Uzbekistan.[31] This has a lot to do with strict government regulation of international pharmaceuticals markets, in addition to the heavy dependence of Russia's domestic market on the import of medicines and pharmaceutical raw materials.[32]

4.7.8. Practically no innovative Russian products are hitting the U.S. market. The first Russian medicine registered by the U.S. Food and Drug Administration (FDA) was Virexxa, a drug to treat uterus cancer from the St. Petersburg-based company Pharmasyntez, which took place in 2011. However, the drug never went on sale.[33] U.S. clinical trials of another Pharmasyntez drug, Seroguard, began in 2018.[34]

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26 Ibid.

27 Quoted from: Sick Countersanctions // URL: https://www.kommersant.ru/doc/3604375

28 State Programme "Development of the Pharmaceuticals and Medical Industries" for 2013–2020 // URL: http://minpromtorg.gov.ru/common/upload/files/docs/MinProm_02.06.14.pdf

29 Sick countersanctions // URL: https://www.kommersant.ru/doc/3604375

30 "On Approving a Schedule of Products, Works and Services Whose Exports Will Be Supported as a Matter of Priority"// URL: http://government.ru/docs/28428/

31 Share of Domestic Drugs on the List of Vitally Important Medicines Reaches 83% // URL: https://www.rbc.ru/rbcfreenews/5a1429629a7947371b5c41c3

32 Ibid.

33 First Russian Medicine Officially Registered in U.S. // URL: https://www.vedomosti.ru/business/articles/2011/02/25/lekarstvo_iz_rossii

34 Safety and Tolerability of Seroguard Use // URL: https://clinicaltrials.gov/ct2/show/NCT03640559

4.7.9. Russia's pharmaceuticals market is one of the most attractive for foreign investors globally. International pharmaceutical companies have invested more than $30 billion into the Russian economy over the past decade. A number of major contracts have been signed between U.S. and Russian pharmaceutical companies in recent years.

4.7.10. The key trend of the Russian pharmaceuticals market is the localization of production by major international corporations, including American companies. For example, in December 2014, Abbott bought 98 per cent of PAO Veropharm for RUB 16.7 billion.[35] In September 2016, Abbott and Veropharm jointly opened a $120-million pharmaceutical plant in Volginsky, a small town in the Vladimir Region.[36]

4.7.11. In July 2016, the American corporation Pfizer signed a production localization agreement with NovaMedika, starting construction on a pharmaceutical plant at the Vorsino Industrial Park in the Kaluga Region. Production is scheduled to start in 2020.[37] Positive progress on the project led to NovaMedika signing a special investment contract (SPIC) with the Ministry of Industry and Trade of the Russian Federation and the Kaluga Region administration on March 7, 2018.[38] The SPIC is the largest of its kind in the pharmaceuticals industry in terms of the value of investments. The plant will manufacture both NovaMedika's own drugs and Pfizer medicines for cancer treatment, general anaesthesia, inflammation and severe bacterial and fungus infections.

4.7.12. Although the United States is an important exporter of medicines to Russia, further steps are needed to improve the investment climate in this sector. First of all, a review of many pharmaceuticals industry regulations is in order. Regulatory system reforms should be carried out in three areas:

- First, create a more favourable environment for long-term investment. A reduction of bureaucratic burden on large long-term deals, such as scientific research and capital investments, could substantially improve the appeal of Russia's market to foreign investors.
- Second, simplify the pharmaceutical industry regulatory system, leading to lower costs for investors (consulting, legal, etc.) to enter the Russian market.
- Third, bring pharmaceutical industry regulations into line with international standards.

4.7.13. As for stimulating Russian pharmaceutical exports, including to the United States, it is crucial to support innovation and competitive technologies. What is more, the government could offer financial support for Russia's export potential by subsidizing export duties and product shipping costs. The case of Pharmasyntez's failed entry into the U.S. market has made it clear that substantial certification and homologation costs present serious obstacles as well.

4.8. Banking

4.8.1. Subsidiaries of major U.S. banks and credit institutions are still present on the Russian market. Some of them are wholly owned by their American parents: American Express Bank, Goldman Sachs Bank, J.P. Morgan Bank International and Western Union DP Vostok. Others are formally owned by shareholders incorporated in third countries, including offshore areas: Citibank, PayPal RU and Morgan Stanley Bank. While the parent banks are some of the world's largest, the place their Russian subsidiaries occupy in the Russian banking sector's pecking order is rather modest. For example, Citibank, the largest of them all, is ranked 22nd in terms of disposable assets in Russia, far behind such European banks as UniCreditBank or Raiffeisenbank (ranked 11th and 12th, respectively). Others have not even made it into the top 100. According to the Bank of Russia, the share of non-resident banks with a head office in the United States accounts for less than 0.7 per cent of Russia's total banking system.

35 Abbott Closes Deal to Acquire Russia's Veropharm // URL: https://1prime.ru/consumer_markets/20141212/797846639.html

36 Abbott and Veropharm Hold a Gala Opening of a New Modern Pharmaceutical Plant in the Vladimir Region. // URL: https://www.ru.abbott/media-center/news/2016-articles/abbott-veropharm-opened-a-new-modern-pharmaceutical-plant-in-vadimir-region.html

37 NovaMedika to Launch Serial Production of Pfizer Drugs // URL: https://novamedica.com/ru/media/smi/p/5137-novamedika-zapustit-seriynoe-proizvodstvo-preparatov-pfizer

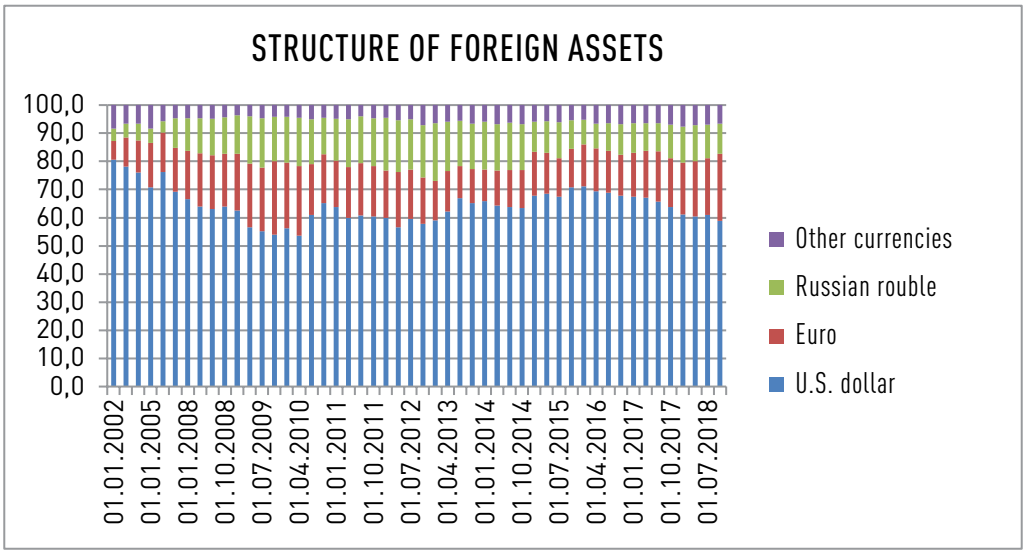
38 Rosnano Portfolio Company NovaMedika Signs Pharmaceuticals Industry's Biggest SPIC to Create Pharmaceutical Plant from Scratch // URL: https://novamedica.com/ru/media/our_news/p/7928-novamedika-portfelnaya-kompaniya-rosnano-zaklyuchila-krupneyshiy-v-farmotrasli-spik-na-sozdanie-s-nulya-farmatsevticheskogo-proizvodstva

4.8.2. Overall, the number of non-resident owned banks in Russia continues to decline. While in 2008 the share of wholly owned subsidiaries among the top 30 banks by assets was 6.1 per cent (six banks), by 2016 it had declined to 3.8 per cent.[39] Major deals over the past decade included the sale by Morgan Stanley of the City Mortgage Bank to Vostochny Express Bank in 2010.[40] Morgan Stanley Bank is expected to shut down the capital market and forex divisions of its Moscow office in 2019. In 2014, the Russian financial arm of the U.S. corporation General Electric, GE Money Bank, changed hands after it was acquired by Sovcombank.[41]

4.8.3. Other forms of interaction between Russia and the United States in the banking industry seem to be far more important: the placement and raising of U.S. dollar-denominated funds by Russian banks and the relatively high share of the United States both in external sources of funds raised by Russian banks and in their placements.

4.8.4. Despite the policy of de-dollarization announced by the Russian government, Russian banks remain around 60 per cent dependent on U.S. dollar-denominated placements and funding. **Figures 1 and 2** show the dynamics of currency structure of foreign assets and liabilities of Russian banks over the past two decades.

Figure 1. Currency Structure of Foreign Assets Held by Russian Banks, %



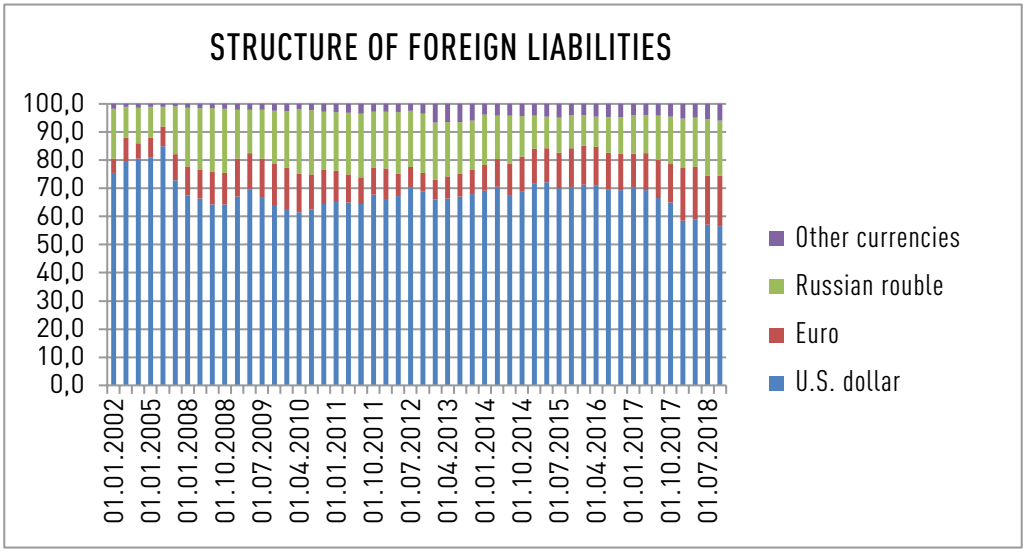
Source: Bank of Russia, calculations by the Center for Macroeconomic Analysis and Short-Term Forecasting

39 Why Foreign Banks are Suddenly Feeling Unwelcome in Russia // URL: https://www.vedomosti.ru/finance/blogs/2017/07/31/727202-inostrannim-bankam-neuyutno-rossii

40 Morgan Stanley Sells City Mortgage Bank without its Portfolio // URL: https://www.vedomosti.ru/finance/articles/2010/08/04/morgan-stanley-prodal-gorodskoj-ipotechnyj-bank-bez-portfelya

41 GE Money Bank becomes 100% Russian // URL: https://www.rbc.ru/newspaper/2014/02/07/56bf79379a7947299f72d5e1

Figure 2. Currency Structure of Foreign Liabilities of Russian banks, %



Source: Bank of Russia, calculations by the Center for Macroeconomic Analysis and Short-Term Forecasting

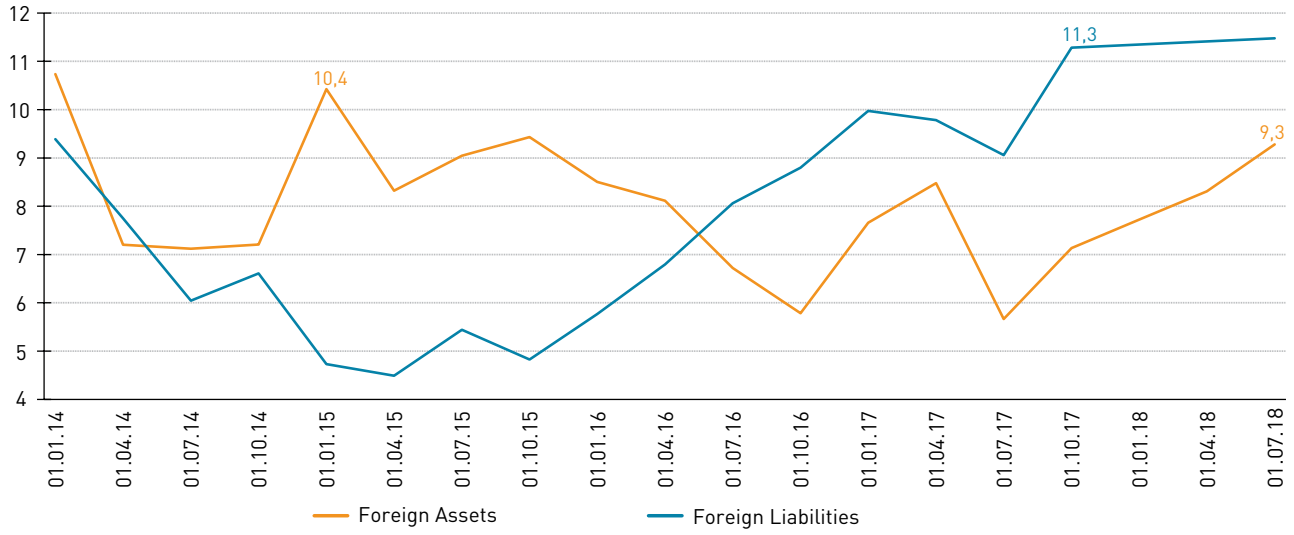
4.8.5. The charts above demonstrate that the changes in the structure of assets and liabilities are almost identical and are much more driven by economic, rather than political factors. The share of dollar-denominated assets and liabilities of Russian banks peaked (at more than 70 per cent) in 2014–2015, when U.S.–Russia relations had already started to escalate and the United States had imposed several sanction packages on Russia, including its banking sector. Although the share of dollar-denominated assets and liabilities of Russian banks declined somewhat after 2015–2016, it has actually reached the level last seen during the global financial crisis of 2008–2009. The decline in dollar-denominated assets and liabilities of Russian banks is more pronounced in value terms: from $180 billion (assets) and $200 billion (liabilities) in 2014 to $120 billion (assets) and $80 billion (liabilities) in 2018.

4.8.6. The reason for the heavy dependence of Russian banks on U.S. dollar operations is that the dollar still prevails in the foreign trade settlements of Russian companies, accounting for 68–71 per cent of their export settlements and for 36–38 per cent of their import settlements. Remarkably, the highest share of U.S. dollar settlements (around 90 per cent for exports and 73 per cent for imports as of July 2018) resulted from Russia's trade with fellow BRICS members China and India. What is more, this share rose over the past year from 75–78 per cent for exports and remained unchanged for imports, despite Moscow's attempts to ditch the U.S. dollar in foreign trade settlements and the fact that Russia's political relations with China and India are among the friendliest. This is due to strictly economic factors: commodity-skewed Russian exports and the reality that neither the yuan, nor the rupee, nor the rouble are a convenient currency for international settlements.

4.8.7. This dependence makes the Russian banking sector quite vulnerable to extraterritorial American sanctions (the freezing of U.S. dollar operations) aimed at weakening Russia's dealings with other countries.

4.8.8. At the same time, the vulnerability of Russia's banking sector to direct American sanctions appears less acute. This is because Russian banks are not heavily dependent on raising or placing funds in the United States. According to the Central Bank of Russia, the U.S. share in the foreign assets of Russian banks was 9.3 per cent as of July 2018, with its share of liabilities making up 11.4 per cent. At the same time, the share of the United States in external sources of borrowed funds for Russian banks has been growing over the past three years and remains more or less unchanged for placements (Figure 3). Since American sanctions restrict lending to Russian banks and companies, Russian banks have been transitioning from seeking cross-border loans to attracting deposits for raising funding from the United States. The share of deposits in the foreign liabilities of Russian banks was 51.6 per cent in December 2018.

Figure 3. U.S. Share of Russian Banks' Foreign Assets and Liabilities, %



Source: Bank of Russia, calculations by the Center for Macroeconomic Analysis and Short-Term Forecasting

4.8.9. The Russian banking sector was among the first to come under U.S. sanctions. As early as 2014, the United States imposed sanctions on entities that were more than 50 per cent owned by individuals who had been placed on the sanctions list because of the crisis in Ukraine. For example, Rossiya Bank was stripped of the ability to process U.S. dollar settlements and thus severed corresponding relations with American financial institutions. Sanctions were introduced against InvestCapitalBank and SMP Bank (majority owned by entities belonging to Arkady Rotenberg and Boris Rotenberg), Sobinbank, the Northern Sea Route bank and the investment company Abros (majority owned by OAO SOGAZ).[42] In September 2014, the United States tightened restrictions on the access of Sberbank, Vnesheconombank, VTB Bank, Gazprombank, Russian Agricultural Bank and Bank of Moscow to European and American capital markets. The maximum maturity of their debt was curtailed from 90 days to 30 days.[43] In December 2015, the United States imposed sanctions on foreign subsidiaries of Russian banks. The list also included the non-state pension funds of Sberbank and VTB along with Novikombank, GALS Development and the online payment service Yandex.Dengi.

4.8.10. In August 2018, six bills on economic sanctions against Russia, including the financial sector, were introduced in the United States Congress. For example, the Punishing Continued Occupation of Ukraine Act proposes imposing restrictions on major Russian banks if Russia refuses to abide by the Minsk accords. The list includes Vnesheconombank, Sberbank, VTB Bank, Gazprombank, Bank of Moscow, Russian Agricultural Bank and Promsvyazbank. The sponsors of the bill have proposed freezing transactions of at least three banks on the sanctions list.[44]

4.8.11. The DASKAA legislation presents an even bigger risk, as it proposes banning transactions with some or all of the major banks on the sanctions list, as well as operations with Russia's sovereign debt. None of the two bills has passed as of February 2019.

42 Chronicle of Sanctions Against Russia and Crimea // URL: https://www.vestifinance.ru/articles/46880

43 U.S. Tightens Restrictions on Access of Six Russian Banks to Capital Markets // URL: https://ria.ru/20140912/1023846921.html

44 Punishing Continued Occupation of Ukraine Act. [Electronic source] // URL: https://www.congress.gov/bill/115th-congress/house-bill/6423/text?q=%7B%22search%22%3A%5B%22Punishing+Continued+Occupation+of+Ukraine+Act%22%5D%7D&r=1

4.8.12. In this regard, it would be wise, first of all, to bolster demand from American lenders, investors and financial speculators for financial obligations issued by the Russian banking sector. This demand is currently acting as a deterrent to the U.S. sanctions policy and is, in particular, the main reason why the United States Department of the Treasury opposes the DASKAA bill. Secondly, it is necessary to significantly speed up efforts to reduce the share of U.S. dollar transactions in foreign trade settlements with Russia's key partners, above all China and India. One option might involve the establishment by BRICS members of a proprietary settlement currency (a sort of ECU "light"). Finally, it is necessary to continue work on setting up a network of financial instruments and institutions that would make it possible to circumvent the U.S. dollar and the sanctions. But this is beyond the scope of the current report.

5. ARE THERE STILL OPPORTUNITIES FOR COOPERATION?

5.1. Given the current confrontation and the essentially frozen political dialogue, including even such traditional items central to the U.S.–Russia agenda as strategic stability and arms control, commercial ties remain one of the few "living" components in bilateral relations. The interaction that continues in non-politicized sectors is objectively commercially advantageous for both parties, and in some areas, it cannot be replaced over a short period of time. We are talking here, for instance, about exports of Russian titanium goods, imports of American aeroplanes and spare parts, American cars and spare parts, engineering products in general, medical equipment, medications and software.

5.2. On the whole, U.S.–Russia economic ties withstood the sanctions blow. They dropped to a lesser degree than they could have, especially given the fact that official statistics significantly underestimate the real volume of cooperation in trade and particularly investment; over the last two years, this cooperation moved upwards particularly as the Russian economy emerged from recession and business adapted to the sanctions.

5.2.1. The Russian market remains attractive and promising for American manufacturers and investors: where the sanctions allow, U.S. companies are still present, and most of them do not intend to leave. American companies are widely represented in the Russian automobile industry, the aircraft industry, railway carriage manufacturing, mechanical engineering and the transportation sector as a whole, the pulp and paper industry, fast-moving consumer goods, the food industry and finance. Equally, the Russian financial market retains its appeal: even despite the sanctions and the "toxicity" they have caused, U.S. investors and stock exchange dealers continue to make money on Russian bonds, derivatives and the stock market. At the same time, Russia's role on the global financial market is so significant that the United States Department of the Treasury is against imposing sanctions on Russia's sovereign debt, as it is wary of global negative consequences.

5.2.2. The U.S. market remains no less attractive for Russian companies. According to official statistics, Russia's direct investment in the United States significantly exceeds U.S. direct investment in Russia and, after a threefold drop in 2014, have remained relatively stable, with no further reductions. Russian investment in the U.S. financial sector also remains, although Moscow has sold off nearly all its U.S. government bonds, the total amount of Russian money kept in U.S. banks has increased.

5.3. It is a mistake to neglect economic relations with the United States and treat them as something insignificant. On the one hand, Russia's deep integration in the global economy and finance, and the fact that it still belongs to the American technological platform increases its sensitivity to the actions of the United States, even in those areas where the volume of their direct interaction does not appear to be of critical importance. For instance, the U.S. sanctions against RUSAL, En+ and Basic Elements could mean difficulties in exporting non-ferrous metals and aluminium into western countries, primarily the European Union, especially since about 85 per cent of non-ferrous metallurgy products are exported, and re-orienting exports quickly to Asia does not appear feasible. It would be equally difficult to find substitutes for American software and technological platforms used by Russian industry and the general public. Difficulties in transitioning to alternative Chinese platforms stem not only from efficiency issues, but also from civilizational factors.

5.4. On the other hand, American technologies and financial resources could play a significant part in modernizing the Russian economy and implementing such strategic projects as the development of Siberia and the Russian Far East. It would be a mistake to rely here only on the state companies of non-western countries. The fact that in 1992–2014, the United States and Russia failed to build stable economic cooperation to develop Siberia and the Russian Far East and create the appropriate conditions and stimuli for their companies appears to be one of the greatest missed opportunities in the bilateral relations. Nevertheless, opportunities remain, both now and after the current U.S.–Russia confrontation has been overcome and relations have been normalized.

5.5. For the next few years, direct – and particularly secondary – U.S. sanctions will remain the principal challenge for U.S.–Russia economic ties. Given their extra-territorial nature, the sanctions will harm Russia's relations with third countries even more than they will harm bilateral relations between Russia and the United States. This is particularly true for cooperation with small private

companies and areas where payments are made in U.S. dollars. The sanctions are likely to gradually increase in scope and severity over the coming years. The wave-like tightening of sanctions is likely if new acute political crises break out in U.S.–Russia relations. However, it is unlikely that "total" sanctions (like the sanctions imposed on Iran), which would introduce a blanket prohibition on cooperation with Russia in energy and cut Russia off from the global financial market, will be introduced against Russia.

5.6. In this connection, the overall volume of U.S.–Russia economic ties will most likely remain stable over the next few years, and the United States will remain a significant trade and economic partner for Russia. In some of the areas that are particularly sensitive in terms of security, the parties will strive to weaken their mutual dependence and find alternative partners (space, partly aviation, the agro-industrial complex), and some aspects will be limited by new sanctions. In other areas, however (engineering and the automobile industry, pulp and paper industry, ICT, finance, energy, etc.), cooperation will develop to the extent permitted by sanctions and will even expand.

5.7. Even though economic relations with the United States are still significant for the Russian economy, and even though Russia is and will remain an important participant in the global economy and in finance, U.S.–Russia commercial interaction can hardly be viewed as an instrument for improving political relations in the foreseeable future. The fierce domestic political struggle in the United States and the difficulties the country has in adapting to a polycentric world make the U.S. establishment increasingly less sensitive to economic interdependence and lobbying, and this is especially true given the weakening global interdependence and increasing economic mercantilism and nationalism in general. Rather, economic cooperation should be considered the only remaining living and natural dimension of U.S.–Russia relations and a platform for generally restoring full-fledged political relations in the future, after the current confrontation has been overcome.

5.8. In this connection, it would be a good idea to separate as much as possible commercial cooperation between Russian and American companies from politics and stop viewing such cooperation in a political context, including as a means of improving political relations "from the top" here and now. Otherwise, political relations may suffer even more. The United States does not have the political will to intensify its relations with Russia, nor will it in the foreseeable future. On the contrary, the impulse is to cause Russia economic damage and weaken it to such an extent that it will be forced to change its domestic and foreign politics and policies. In this regard, the active public work of various high-level commissions and groups on matters of economic relations may prove not only ineffective, but downright destructive, creating the temptation to impose new sanctions on Russia. The lobbying of Russian and U.S. companies in the United States should naturally continue. But it should not be public. It should be carried out through personal interaction with each American senator and congressperson individually convincing him/her of how painful particular sanctions are for the American economy and the country's interests. Public statements and publications by Russian and American businesses and immediate market participants should be geared towards the ways of developing business in the current situation and assessing the commercial and economic significance of business, and not towards changing bilateral political relations.

5.9. It appears important for Russia not to attempt to restrict relations with the United States in areas where cooperation remains, is significant for the Russian economy and does not prompt security concerns. Such areas include Russian sales of metals and metal goods and nuclear fuel to the United States, and its imports of U.S. engineering products and goods manufactured by the automotive industry, as well as the localization of production of engineering, foods and other U.S. companies in Russia and many aspects of cooperation in IT.

5.10. Given that U.S. sanctions are here to stay (not only against Russia, but, in general, as an instrument of U.S. foreign policy), and given the persistent commercial appeal of U.S.–Russia economic relations in many areas, it is important to create not only individual expert centres, but also a full-fledged infrastructure for sanctions consulting. Services should be provided to both Russian and American companies, as well as to companies from third countries on what is allowed and what is prohibited, on ensuring compliance with current (and prospective) sanctions, and on developing interaction in such a way as to not to be affected by sanctions. It will significantly decrease the overall "toxicity" of Russian business and the Russian market and increase confidence in Russia on the part of private companies, particularly medium-sized ones, many of which today are wary of developing cooperation even in those areas that are entirely unaffected by sanctions. Legal and consulting companies and leading universities and research centres could become participants in such an industry. It would be wise to launch programmes to train sanctions specialists in related areas (law, economics, international relations): they will be in demand in the coming years, if not decades.

5.11. It is no less important to boost work on protecting Russia's economic relations with third countries from the U.S. secondary extra-territorial sanctions. This applies to the European Union and non-western partners (the BRICS countries, the EAEU, Greater Eurasia in general). It is primarily worth moving away from the U.S. dollar as a payment currency when trading with those countries, switching to the euro in payments with the EU countries and the Russian rouble in payments with EAEU countries, and establishing a separate payment unit (such as an ECU "light") for payments between BRICS countries. Individual mechanisms for the state and inter-country protection of Russia's economic relations with third countries should also be instituted: interaction chains should be built with state companies or companies that do not depend on access to the American market acting as their immediate participants, etc.

5.12. It would also be a good idea to hold a dialogue with the U.S. executive authorities and augment it with actively lobbying American lawmakers on lifting current and prospective U.S. sanctions from green energy and projects related to developing Siberia and the Russian Far East.

5.12.1. Russia's green energy sector has no ties at all to the political authorities and is in no way the bulwark of Russia's political regime. However, it is important for the joint efforts that the global community channels into fighting climate change and environmental deterioration. Washington is therefore unlikely to resist lifting the sanctions from this sector. At the same time, this step could stimulate greater cooperation between Russian and American companies in this area and also stimulate technology transfer.

5.12.2. As for the development of Siberia and the Russian Far East, the United States (and its businesses in particular) is interested in expanding cooperation. For U.S. companies, participation in development projects in these territories will mean significant benefits. Washington's interests are linked to China. The United States is not interested in China being the only or dominating actor in projects to develop Siberia and the Russian Far East, as it would gain major additional resources to further strengthen its own positions. On the contrary, as the U.S.–China rivalry deepens, the United States is objectively interested in diversifying Russia's economic relations in the Asia Pacific and its building ties with the United States' allies in the region, such as Japan, South Korea and the countries of Southeast Asia, as well as in them actively taking part in the development Siberia and the Russian Far East. Lifting sanctions from this region will give cooperation a serious impetus.

5.13. Finally, the development of economic relations with the United States in those non-politicized sectors that will be actively developing in the near future due to the development of such technologies as telerobotics and telepresence appears very promising is. With its high level of education and human capital, Russia could offer consumers in the United States, and around the world, highly qualified services remotely.