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Who Is Benefiting From West-Russia Sanctions War?

By Alexey Eremenko

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The global economy will not benefit from this new economic war in the long term.

The recent Western sanctions, the harshest in decades, are meant to stun Russia's economy. But one person's loss is another one's gain — and this is also true for companies and countries in a globalized world.

Following the U.S.'s example, the European Union last week imposed broad economic sanctions against Russia over its alleged troublemaking in the insurgency-hit post-revolutionary Ukraine.

Russia's mammoth state banks were barred from raising money in Europe, and curbs were made on exports of dual technologies and advanced oil equipment.

Not to be outdone, Moscow began firing back with import bans on EU food imports, hitting products like Polish apples, Spanish beef and Greek cabbage.

The global economy will not benefit from this new economic war in the long term, economic analysts polled by The Moscow Times said Tuesday. "The sanctions are not a zero-sum game. Everybody stands to lose in this scenario," said Vyacheslav Smolyaninov, chief strategist at UralSib Capital.

But in the shorter term, some economic players stand to gain, including Hong Kong lenders, Turkish borrowers, Chinese drill rig makers and, possibly, at a later point, even certain domestic enterprises in Russia, the analysts said.

The Moscow Times examined five sectors of the economy hit by the spat between Russia and the West, and spelled out who — if anyone — stands to benefit from the sanctions affecting these industries.

1. Banking

Sanctions: Five Russian state-owned banks — including the country's three biggest banks, Sberbank, VTB and Gazprombank, as well as Rosselkhozbank and Vneshekonombank, or VEB — were cut off from access to European capital markets. All four except Sberbank were earlier blacklisted in the U.S. as well, along with a dozen other lenders linked to the Kremlin. While all five said their clients would not be affected, the banking sanctions are widely expected to stifle investment and lending in Russia.

Who benefits: Hong Kong; Turkey.

Russian companies such as MegaFon and Norilsk Nickel are reported to be snapping up Hong Kong dollars. The currency is not subject to Western regulations and is pegged to the U.S. dollar, which makes it an attractive currency to keep assets in during political turmoil.

Admittedly, Russia's sudden affection may be too much of a good thing for the Asian financial hub: According to The Wall Street Journal, the city's monetary authority had to spend $8.4 billion since July to protect the peg for the currency, strengthened by the Russian buying rush.

"It looks like a win for Hong Kong, but Russia's interest may not really be a welcome development for them," said Smolyaninov of UralSib.

Countries competing with Russia for foreign capital also stand to benefit from the sanctions, which prompt investors who might have invested in Russia to put their money elsewhere, Smolyaninov said.

Turkey appears to be reaping the biggest gains from the investor exodus from Russia, with the small Central European economies also getting a cut of the rerouted funds, he said.

2. Oil & Gas

Sanctions: Europe and the U.S. banned sales without special authorization of energy-related equipment to Russia. Exports of equipment for Arctic and offshore drilling and shale gas projects are banned outright, which could affect Russia's Napoleonic — though mostly tentative — plans for offshore drilling, including in the Arctic, to compensate for the gradual depletion of Siberian oil fields.

Who benefits: China; domestic producers.

Chinese companies are capable of providing equipment for the Russian oil industry's current needs, but not innovative designs, said Andrei Polishchuk, an oil and gas analyst with RaiffeisenBank.

"A lot of it will be unlicensed copies of U.S. equipment ... like Chinese iPhone clones, which use the same components as the real iPhone," said Andrei Korneyev, head of the Center of Energy Security Problems at the state-run Institute for the U.S. and Canadian Studies in Moscow.

Russia's domestic oil equipment industry was nearing global competitiveness when the sanctions hit, Korneyev said. But reproducing the latest technological breakthroughs in the field, like plasma drilling, requires a research and development chain that would take several years and billions of dollars to build — which the government would struggle to afford, he added.

3. Food

Sanctions: Russia's main line of counterattack against Western sanctions so far — not counting exotic measures like a travel ban in Chechnya for EU officials — has been to ban many European, American and Ukrainian food imports, including dairy products, fruits, vegetables and beef.

Who benefits: Most of the world — but just a little.

Russian bans are actually well calculated, and only affect foodstuffs that are relatively easy to replace, said Maxim Klyagin, food market analyst at Finam Management, an investment firm.

Argentina and Brazil can step up to supply beef, Belarus can take up Ukraine's share of the Russian market of dairy products, and Georgia, Central Asia and Middle Eastern countries can provide fruits and vegetables, Klyagin said.

The Russian bans are mostly token measures because most banned foodstuffs account for a small fraction of Russian imports and affected countries' exports, the analyst said.

"Polish apples are not a strategic factor for the Russian [food] market," he quipped.

4. Military technology

Sanctions: The carefully worded EU ban prohibits exports to Russia of dual-use technologies that can be used for military purposes. This covers, among other things, lasers, avionics, advanced materials and electronics for satellites.

Who benefits: Domestic producers — eventually.

Russia has no way of supplanting Western dual-use imports through other trade partners, including trusted ally China, whose technologies are just not up to par, said Alexander Khramchikhin, an analyst with the Institute for Political and Military Analysis.

The only way out is domestic manufacturing, Khramchikhin said.

In theory, Russia is capable of keeping up with the West in the field of dual-use technologies, but it will take several years and large investment to crank out domestic replacements for the advanced European sensors, lasers and other items used by both civilians and the military, Khramchikhin said. He declined to predict a more exact timeframe or give funding estimates.

5. Space

Sanctions: While space technologies are exempt from the dual-use tech ban, NASA has spoken of curbing contacts with its Russian counterpart, Roscosmos, and called to end dependency on Russian spacecraft for flights to the International Space Station, or ISS. Roscosmos, meanwhile, has indicated that it is ready to pull out of the ISS project after 2020.

Who benefits: Things stay as they are.

Roscosmos' ties to NASA and the European Space Agency, or ESA, are too many and close to be destroyed by the sanctions, said Igor Marinin, editor-in-chief of aerospace magazine Novosti Kosmonavtiki ("Aeronautics News").

The chill in relations with the West could prompt Russia to cooperate more with China, the only major space program in the world that Moscow is not yet actively involved with, Marinin said.

But it would not happen at the expense of NASA and ESA, he said: "The partnership is so close that nobody Is going to end it just because of some sanctions."

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