Russia sanctions and their effect on the Mena region

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Seeing no immediate resolution to the Ukrainian crisis, the United States and the European Union toughen up their position on Russia.

In their effort to enforce sanctions on the Russian state and economy, the West's position is directly targeting Russia's banking, defence and energy sectors. This will undoubtedly rattle the entire global economy in the coming months, considering Russia's energy strength, its close economic ties with several EU powerhouses and, more recently, its central position in rallying several emerging markets to counter Western economic dominance.

Questions, therefore, surface as to the effect these new global economic tensions will have on the Mena region. The first thing to note regarding current trade levels is that activity widely varies between GCC states and other Mena countries in their economic relations with Moscow.

Namely, considering President Assad's backing from Moscow, Russia's trade ties in Syria have been overwhelmingly focused around arms; with just under $2 billion in weapons exported yearly. Similarly in Egypt, having been criticised for its anti-democratic coup, the new leadership under Abdel Fattah El-Sisi has damaged aid and military ties with the US and, instead, pledged a rapprochement, particularly in terms of arms, with Russia.

In this sense, having severed all defence ties with the West, Moscow is likely to continue expanding its weapons trade deals with its new Middle Eastern partners.

Worth mentioning also is that, in early 2014, Egypt's ministers were considering implementing a free-trade zone with Russia, Belarus and Kazakhstan in order to facilitate agriculture-focused trade volumes, which are likely to rise to $6 billion within two years.

In contrast, Russia's economic ties with the UAE are largely orientated around developing the banking and retail sector, such as Smolensk-Kristall, the manufacturers of the prestigious Dubai Cut Diamond.

Speaking in February 2014, the chairman of the Russian Business Council in the UAE Igor Egorov, argued: "Russia has huge potential to take the level of trade with the UAE at least five times higher than the current level of $2 billion".

In response, the UAE's Minister of Economy, Sultan bin Saeed Al Mansouri, explained "Non-oil trade between the two counties soared by 7.5 per cent in 2013 and registered $897 million. In addition to 30 agencies and 124 trademarks, we currently have eight Russian companies registered with the UAE Ministry of Economy. Russian and Emirati businessmen partnered in more than 350 joint ventures in the UAE, and more than 40 Russian companies opened representative offices in the country. We expect all these numbers to continue registering sustained growth in the immediate future."

The most prominent of these companies is the investment arm of one of Russia's top banks, VTB Capital, which, in 2009, established itself in Dubai's International Financial Centre. Moreover, when the firm decided, in 2013, to offer up to 40 per cent of its shares in order to raise capital, Qatar Holding immediately snapped up $500 million worth of stock.

What will certainly have investors worried is that VTB Bank is one of three state-owned financial institutions, which the US-backed sanctions will target. Speaking exclusively to *AMEInfo*, the VTB Group claimed that they “do not see particular threats for developing our businesses outside Russia. Building up international business is one of the strategic priorities for VTB, and we remain committed to developing it further.”

Moreover, “on the backdrop of the US sanctions limiting VTB’s access to capital markets, VTB Group will be prepared to develop borrowings in local currencies across various geographies,” says a statement from the bank’s Moscow press office to *AMEInfo.*

Nonetheless, what cannot be ignored is that, despite increasingly warm ties, economic relations between Russia and GCC states are still relatively low. There are two key explanations for that. First, throughout its history, the region has closely aligned itself with the West, both in terms of political orientation and private and public sector economic cooperation. As such, Russia has, for much of this period, been the ideological opponent, and while Moscow has adopted the rules of the game in recent years, its companies are still very much playing catch-up.

Secondly, as Rachel Ziemba, a senior research analyst at New York-based consultancy, Roubini Global Economics, explains, “the relationship between Eastern Europe and Russia and the GCC is limited because they are producing the same products.” Both regions are oil and gas producers, and in the absence of substantial market diversification, they are essentially competitors.

What effect will the Western-backed sanctions on Russia have on the Mena region then? On one hand, the pressure will increase on President Putin to expand Russia’s economic interests to emerging markets. Aside from the already initiated BRICS project, Moscow will hope to develop a deeper foreign and economic policy in the Middle East, particularly where Washington has left bitter resentments; Egypt, Syria and Iran to name a few.

Secondly, Russia’s response to the tensions is more than likely to prompt a new energy crisis across Europe. Whether this leaves European states scrambling to find an alternative supplier, or simply puts more pressure on global oil prices, changes are likely to be closely followed across the GCC.

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