

The Economic Development Process of Russia after the Dissolution of the Soviet Union

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Abstract. Since the dissolution of the Soviet Union in 1991, the overall economy of Russia has maintained a positive development trend. Among them, oil, natural gas, and mineral resources are some of the most important industrial pillars in Russia, accounting for over 50% of the total revenue of the Russian government. Russia's economy is inseparable from its energy. The single economic structure of excessive dependence on energy resources has also brought many problems to Russia. The economic crisis in 2008, the 14-year Crimean War, the 19-year COVID-19, and the 22-year Russian-Ukrainian War are all great tests of Russia's economic stability. This article mainly discusses the economic development process of Russia from 1991 to the present and elaborates and analyzes Russia's economic situation, structure, and characteristics by sorting out the difficulties encountered by Russia over the past 30 years and corresponding policies. By analyzing the economic development process of Russia, this study can discover many factors that affect the economy and the importance of publishing correct policies, which has great learning significance.

Keywords: Economic policy; Crimea War; COVID-19; Russia-Ukraine War.

1. Introduction

The dissolution of the Soviet Union has affected the establishment and development of modern Russia to a large extent, especially in Russia's economy. As early as during the Soviet era, Russia's economic strength was not strong, and Russia had this issue after the dissolution of the Soviet Union. The opposing relationship between the Soviet Union and other Western countries has brought many troubles and difficulties to newly independent Russia. Europe and America have adopted many sanctions against Russia to prevent it from becoming the second Soviet Union. Russia's economy has been constantly struggling until it began exporting large amounts of crude oil, a resource that the whole world needed, then, its economy started to recover. The price of crude oil will directly affect Russia's economy, largely relying on crude oil was not a reliable and long-lasting way to promote economic development, and Russia is still trying to develop other industries and vigorously engaging in diplomacy. Russia's transition from a planned economy to a market economy has continued for over 30 years, accompanied by the famous shock therapy and many other policy reforms.

After about a decade-long economic recession between 1991 and 2000 due to the dissolution of the Soviet Union and the shock therapy, Putin's accession to power allowed Russia's economy to rise again at a relatively stable rate and established its political status as a world power. From the initial foreign policy towards Europe to now towards Eurasian, as well as the transition from a planned economy to a market economy, Russia has been constantly trying to find its position and market in this rapidly changing international situation, to enhance its strength. In the 20 years since Putin took office, Russia's overall GDP has grown by nearly 600B US dollars, becoming the world's top 10 economy again. According to the World Bank, the GDP per capita has also increased from approximately 1.8K US dollars to 16K US dollars, gradually moving closer to developed countries. Russia's economic situation has a very close connection with the world, the impact of global changes or global events on Russia's economy is very obvious. For example, the 2008 Global Economic Crisis and the 2019 Coronavirus both led to a decline in Russia's total GDP. Russia as a superpower, has a high international status and influence, however, there were also a lot of troubles that affected Russia's development during the past 30 years. This paper will discuss how Russia got rid of the influence of the disintegration of the Soviet Union in the past 30 years and gradually established its status as a

superpower. It will focus on the economic situation, problems, and solutions of Russia since the COVID-19 epidemic.

2. Analysis and Discussion

2.1. The Early Economic and Social Structure of Russia

From 1991 to 2000 was a period of downturn in Russia, whether the economy the global status, or people's living quality are all in a very low situation. The consequences brought by the dissolution of the Soviet Union in Russia are huge. From 1991 to 1997, according to the data from the World Bank, Russia's real total GDP decreased from around 517.96B US dollars to only 404.93B US dollars (World Bank Data). The huge impact brought by the dissolution of the Soviet Union caused entire Russia's GDP in the early 1990s to be only half of that of the Soviet Union in 1989. The unemployment rate had also reached 10 million people when it was at its highest point. The planned economic system left by the Soviet Union has serious constraints on Russia's economic development. To solve these problems and the incomplete internal industrial structure in Russia, such as the backwardness of the light industry and tertiary sector, Russia adopted a very radical economic reform, which is known as the "Shock therapy" in the early 1990s. This radical reform approach that achieves privatization through measures such as price liberalization, monetary and fiscal tightening, and free trade, ultimately has a much greater negative impact on Russia than its positive impact [1]. This extreme transformation plan quickly abandoned the original economic structure in a short period, but did not effectively establish a new economic operating system, resulting in economic imbalance and social disorder in Russia. Russia's various indicators have experienced either significant or minor declines between 1991 and 2000 [2]. As Russia's economic situation was getting worse and worse, the 1997 Asian Financial Crisis led to another huge damage to Russia's economy. According to the World Bank data, the GDP growth had dropped from 1.4% to negative 5.3%. The period from 1991 to 2000 was a painful and hard period for Russia, but with the rise of world energy prices and Putin's accession to power, Russia's situation finally came to life.

2.2. The Economic Characteristics of Russia during the Putin Era

The next stage in Russia is from 2000 to 2019, starting from Putin becoming the President to the emergence of COVID-19. In these 20 years, Russia has become a world power again, with significant improvements in both economic strength and political status. After Putin was elected as president, Russia made adjustments and reforms to the economic policies of the Yeltsin period and issued a series of stable economic policies, such as adjusting privatization strategies, curbing oligopolies' monopoly, and issuing labor laws. The early 21st century was a great opportunity for Russia, as the price of crude oil increased from \$15.9 per barrel in 1999 to \$64.28 per barrel in 2007, The Russian economy has grown significantly during this period, climbing to \$1.3 trillion, and 30% of it is due to the rise in global energy prices. Russia's excessive reliance on oil and gas resources has brought many problems to it. First, the economic structure will be too simple, the large impact that oil resources have on Russia has led to a lack of innovation in Russia. This reliance will curb the development of other industries, while it also depends on the price of the oil. In the long term, a high oil price will not benefit Russia's economy, not only because of the negative impact on other industries, but the large amount of foreign exchange income brought by high oil prices makes the ruble appreciate, which weakens the international competitiveness of Russia's manufacturing industry. However, a low price of oil will help promote Russia's economic development. On the one hand, the depreciation of the ruble will enhance Russia's international competitiveness, on the other hand, it will force Russia to develop faster in other industries and improve the situation of having a too-simple economic structure [3]. The fragility of Russia's economic structure was well reflected in the upcoming 2008 global economic crisis. This economic crisis made Russia's GDP growth rate decline from 8.1% in 2007 to 5.6% in 2008. The Russian ruble has depreciated by approximately 30% since 2009 [4]. The incoming FDIs quickly declined, and the debt of Russian banks and companies has rapidly increased.

The loan deposit ratio also rose to 127% in the autumn of 2008, increasing the risk in the banking industry. The Russian government has taken many measures to address this, such as relaxing the currency market. Under the four rounds of quantitative easing policy implemented by the Federal Reserve of the United States, that is, by purchasing a large number of asset-backed securities and selling treasury bond bonds, liquidity was injected into the market. Finally, the economy of Russia and the world began to rebound in 2009, rapidly returning to positive growth. Another big event that happened in this period was the 2014 Crimea War. The seeds of the subsequent Russia-Ukraine war were also planted here. After the Crimea War, Russia and Ukraine were trapped in a long-term hostile relationship. The Black Sea and Caspian Sea, where Crimea is located, are of great significance for Russia's development and are important factors in connecting Europe and Asia and implementing the Greater Eurasian Foreign Policy. Russia's annexation of Crimea received strong condemnation and sanctions from Europe and the United States, however, the sanctions did not stop the pace of Russia's development toward Ukraine. After annexing Crimea, Russia's foreign policies had also changed. As early as the 1900s, Russia had tried to find its position in Europe, but it finally failed. The first requirement of entering the Europe system is to accept American leadership, and that is what both Russia's upper levels and society will not accept. After annexing Crimea in 2014, Russia gradually shifted its focus and interests from Europe to East Asia, especially China. Under Putin's leadership, Russia's Asian policy had formed, the cooperation between Russia and East Asian countries quickly increased, and a large growing market was seen in Asia, especially ASEAN countries. In the following years, Russia continued smoothly developed until the emergence of COVID-19. The outbreak of COVID-19 is the most eye-catching and influential event in the past 10 years, which also marks another new stage in Russia today.

2.3. Russia's Economic Situation after COVID-19

The pandemic changed the global situation, starting in 2019, as COVID-19 emerged, almost every country in the world had begun to have some form of lockdown, leading to varying degrees of impact at different levels. For Russia, it was even more unfriendly, the decline in crude oil prices, the reliance on import goods, and the acceleration of the global transition to new energy were both huge challenges for Russia. From 2019 to 2020, the proportion of imported nonfood products increased from 73.5% to 75.8%, meanwhile, for agriculture products, even though Russia published the import substitute policy in 2014, the percentage of imported goods in retail was still very high, and about 90% corn was imported [5]. Despite that, Russia still hardly relied on importing goods under this lockdown pressure, and Russia's economic behavior was relatively better than most countries [6]. According to the World Bank Russia Economic Report, in 2020, Russia's GDP had only fallen by 3% compared to a larger contraction of 3.8% in the world economy, 5.4% in advanced economies, and 4.8% in most commodity-exporting economies. After experiencing the most difficult year, Russia quickly escaped from the huge impact brought by the pandemic and recovered its economy. To deal with the pandemic, there are three main policies that Russia has published. Fiscal policy is one of the main policies that Russia has published to avoid the poverty rate. Russia had strongly supported the health sector to help unemployed people and businesses that had been largely affected by the pandemic. For medical workers who deal with COVID-19 patients, Russia has given them extra payments, at the same time, the number of medical facilities, supplies, and materials also increased. The unemployment benefits had also raised to the minimum wage level. A large number of international reserves and low public debt were the key factors that enabled Russia to effectively invest its money in defense against COVID-19 and social protection. Another Fiscal policy that Russia implemented was support for the business community. To prevent layoffs and a high unemployment rate, the Russian government cut the social tax rate and provided state guarantees and higher subsidies to businesses, especially for small and medium enterprises. Russia had maintained the stability of its financial system, and it was the crux that helped Russia to come through that period and quickly recover its economy in the following year. The publication of monetary policies was also the key that helped stabilize Russia's economy. By mobilizing a large amount of foreign exchange

reserves and treasury funds to grant subsidies and assistance, the pressures on Russia's society and business community had been largely reduced. Similarly, to help businesses survive and control the impact brought by the pandemic, the regulatory policy was published that necessities including medicines and medical equipment were exempted from import tariffs. There was also a temporary ban on the export of medical stuff until June 1, 2020. This policy was very important to ensure Russia was able to deal with the pandemic. The CBR (Central Bank of Russia) has also allowed regulatory forbearance for banks and microfinance organizations to increase their flexibility so that they won't easily experience bankruptcy [7]. Looking back at the entire 2020, Russia has shown its strong power and mobility. After the economic recession in 2020, 2021 and 2022 were predicted to be the recovery years of Russia's economy. As the COVID-19 vaccine had been put into the market on a large scale and the global crude oil price had rebounded, Russia's total GDP had increased from 1.49 trillion US dollars in 2020 to 2.24 trillion US dollars in 2022. Through COVID-19, Russia has shown its strength, but at the same time, its weaknesses have also been revealed. Russia's resource-dependent economy was a huge problem in the modern world. With the acceleration of global low-carbon transformation and continuous sanctions from Western countries, Russia needs to improve the singularity of its economic structure and maintain relations with Western countries as soon as possible. Proof by facts, the continuous deterioration of Russia's relations with Western countries since 2014 has had a huge impact on it, and this issue was once again exposed during the Russia-Ukrainian War in 2022, which has had a significant impact on Russia and the world.

2.4. The Economic State of Russia under the Russo Ukrainian War

Since the Russia-Ukraine had formally heated up in February 2022, Russia's economy started to shrink. According to the World Bank, the IMF (International Monetary Fund), and the OECD (Organization for Economic Cooperation and Development), 2022 was a bad year for Russia's economy. Russia's total GDP had dropped by 2.1% in this year, and the GDP growth rate was downed to -2.1%. Unlike the sanctions in the 2014 Crimea War, this invasion in Ukraine had led to comprehensive sanctions from most of the Western countries. The most direct sanctions were that around 300 billion euros of RCB reserves were blocked in the EU, and about 70% of the Russian banking system was under sanctions. Russia's available funds will be greatly reduced, at the same time, the export and import of goods from Russia were under huge sanctions. The restrictive measures were aimed at maximizing the negative impact on Russia and limiting the impact on European countries. According to the data from The World Bank, the sanction has gotten the desired result. For both imports and exports goods, the value dropped to even lower levels than in 2020 [8]. According to the International Energy Agency, Russia's oil revenues dropped by over a quarter in January 2023 compared to last year and the decline was even larger in February which had declined over 40%. Oil as one of the most important resources for Russia's economy, had brought many negative impacts to Russia in this circumstance. However, as the value of imports had dropped from 504.75 billion US dollars to 433.24 billion US dollars in 2022, the value of exports had increased from 631.84 billion US dollars to 674.64 US dollars in 2022, which indicates that Russia had a trade surplus (World Bank data). A trade surplus means that Russia has a high level of output from its factories and facilities and can experience economic growth. Indeed, Russia's GDP had grown, even with a relatively low growth rate, but it was still positive. European countries, by contrast, were also having a difficult time. More than 40% of natural gas and nearly 30% of crude oil in Europe need to be imported from Russia. A lower dependency on Russian energy will cause energy prices and costs to remain high for much longer. Since the start of the war, according to the data collected by Eurostat, the energy prices in the Eurozone increased by 44.7% year-on-year in March 2022, and the overall inflation rate in April reached 7.5%. High energy-consuming industries such as steel and chemicals are facing enormous pressure, increasing the risk of economic recession in Europe. If the sanction continues to escalate, the losses of European companies will further increase [9]. According to the Kiel Institute, the restriction on Russia will lead to about a 1% decrease in many of the large European economies like Germany and France. In general, the sanction not only caused trouble for Russia but also damaged

the whole European economy and the world. The sanction is still happening today, and undoubtedly, it is a huge challenge for Russia, many experts have pointed out the "collapse theory" of the Russian economy, nevertheless, Russia still has many potential factors to help its economy stabilize and develop, the IMF also raised Russia's GDP growth forecast for 2023 from 0.3% in January to 0.7% [6]. Firstly, Russia's vast land area ensures its abundant mineral resources and position as an energy powerhouse. In recent years, agriculture has also developed rapidly, becoming the fourth largest grain-producing country in the world. These are important capital for maintaining Russia's economic development and helping Russia cope with sanctions and other difficulties. Secondly, Russia's economic strategies toward the East and Asia are a breakthrough point for Russia in breaking the blockade imposed by those Western countries. The cooperative relationship between Russia and Asia Pacific countries has been continuously strengthening in recent years. At the same time, Russia has always maintained friendly relations with other BRICS countries such as China. The significant international influence they have ensured Russia will not be isolated in political and economic cooperation, which gives Russia great confidence and development potential [10].

3. Conclusion

Overall, the paper has discussed Russia's economic development since the dissolution of the Soviet Union and mainly discussed the topic through huge historical events and Russia's policy and focused on discussing the current economic state of Russia, which is a new period since 2019 COVID-19. From 1991 to 2023, Russia has been continuously searching for its position internationally and exploring its development. Over the past 30 years, Russia's GDP has grown from \$23 trillion to over \$10 billion. Putin's accession to power led Russia's economy to recover, at the same time, a series of policies were introduced to help Russia overcome difficult times and gradually become a world power. However, the simple economic structure, the global economic crisis in 2008, the Crimean War in 2014, COVID-19 in 2019, and the recent Russia-Ukraine war have all brought great blows to Russia's economy. The lockdown due to COVID-19 was a great challenge for Russia as a huge energy resource-exporting country. Yet, when looking back at Russia's development process since 2019, Russia was doing very well compared to most of the other countries. The policies published by Putin were beneficial for Russia. Russia has demonstrated its great power status and strength through practical actions. Nevertheless, the deteriorating relationship between Russia and the West also needs to be addressed. From the research result, it is obvious that since the 2014 Crimean War, Russia has continuously received sanctions from Western countries, and the 2022 Russia-Ukraine War has brought a lot of negative impacts to Russia. Only by alleviating these contradictions can Russia's economy develop more smoothly. Undoubtedly, Russia's foreign policy transition from Europe to the Asia Pacific region is correct and smooth, not only limited to the control of Western countries but also opening up a large number of new markets. Over the past 30 years, Russia has been moving towards a positive development overall. Despite encountering many difficulties and problems during this period, these undoubtedly awakened Russia and accelerated its development and reform pace. After experiencing the COVID-19 epidemic and the Russia-Ukraine crisis, Russia must be able to learn from it and continue to develop into an economic power.

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