

# RESTRUCTURING THE INTERNATIONAL ACTIVITIES OF RUSSIAN IMPORTERS IN THE CONTEXT OF SANCTIONS

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## Abstract

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International businesses operate in a complex, constantly changing environment, and turbulence has become a natural phenomenon for most companies. Russian importers operate in a stressful business environment since the onset of the first sanctions imposed in 2014 in connection with the special operation in Ukraine. In 2020, the situation worsened due to the pandemic, and the Special military operation announced in 2022 led to unprecedented sanctions pressure and serious structural changes in Russia's international trade turnover. At the same time, this situation shaped the preconditions for building new, more promising international relations and fast-paced development of domestic production. This article addresses the factors and conditions that influenced the necessity to optimize and restructure the business processes of market players by determining effective development strategies and assessing the prospects for further development of the strategies chosen.

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## Keywords

International business, importers, sanctions, restrictions, business process optimization, delivery terms, strategy.



Since the official announcement of the pandemic in January 2020 [1], Russian importers of raw materials, inventory materials, and finished products have faced significant changes in the structure of procurement and logistics.

The situation was primarily influenced by the closure of a number of industrial enterprises in connection with anti-epidemic measures, including the long-term suspension of production in various countries.

In such a situation, only highly adaptive enterprises able to respond flexibly to external factors that had accumulated sufficient financial resources were able to quickly restructure their processes. Thus, according to Tianyancha, a commercial database that aggregates publicly available reports, more than 460,000 Chinese companies exited the market due to license revocation or ceasing operations in the first quarter of 2020 [2].

The decline in production occurred not only due to downtime caused by lockdowns, but also due to the closure of a number of industrial enterprises.

At the same time, even though some states did not impose restrictions on industrial activities, they still faced product shortages and production downtime due to interruptions in the supply of components from countries with COVID-19 restrictions.

Under these conditions, Russian importers made an effort to find alternative suppliers meeting the required specifications in countries with no restrictions on industrial activities.

Another stress factor for Russian businesses was the deterioration in the psychological state of personnel. Increased anxiety associated with the extensive media coverage of the pandemic, the number of cases, and the death toll, as well as numerous cases of COVID-19, often with a fatal outcome, had a negative impact on labor productivity.

Competent managers started awareness-raising campaigns at their enterprises in order to reduce anxiety (in particular, through the involvement of professional psychologists) and make employees more confident in the future by declaring the company's further plans adjusted for the transformation of the business environment. In this way, they demonstrated that management was capable to understand the difficulties, take risk mitigation measures, and use the opportunities of a crisis situation to strengthen the company's market position, primarily by taking over the market share of competitors that were less adapted to a rapidly changing market situation.

On May 5, 2023, the World Health Organization (WHO) declared COVID-19 over as a global health emergency that had been declared in January 2020 due to the spread of COVID-19.

However, against the backdrop of the epidemic, the Western nations actively pursued a policy aimed at curbing the development of the Russian economy, which continues to the present day. The European Union and individual states started imposing sanctions against Russia in connection with the developments in Ukraine back in March 2014. At the same time, negotiations with the European Union on a visa-free regime and a new basic cooperation agreement were suspended. In February 2022, the European Union and a number of other countries started imposing sanctions in connection with the recognition of the DPR and LPR and Russia's special operation in Ukraine [3].

Today, Russia is the world leader in the number of sanctions imposed against it by EU countries, the UK, the USA, Canada, Switzerland, Japan, and Australia, which, of course, has an impact on the landscape of Russia's export and import markets.

One of the major difficulties for Russian importers was the SWIFT ban against the largest Russian banks and, as a result, the impossibility to make transfers to foreign partners, even under effective supply contracts. Enterprises had to find alternative ways to fulfill their contractual obligations; the cost of

transfers, even to friendly countries, increased in price due to the difficulties and additional stages in their implementation. Legally correct international contracts specifying force majeure circumstances helped a number of Russian companies avoid penalties associated with late payment. If incurred, these penalties could have negatively affected the cost of the goods supplied because establishing new financial connections would require some time, and penalties associated with late payments are normally incurred for each day of delay.

A direct ban on the import of a number of product categories led to supply disruptions and the need to search for alternative suppliers, and, subsequently, to an increase in the price of sanctioned products for several reasons.

Firstly, increased demand shapes a 'producer market' where it is buyers who compete in conditions of shortage, allowing suppliers to raise the price of in-demand products (raw materials, goods, equipment) or seriously change the terms of delivery, for example, by increasing the minimum order quantity (MOQ) manyfold, which favors manufacturers because the average order value increases while maintaining the overhead costs (documentation, entries to a CRM system, etc.).

Secondly, the logistics channels in the markets of friendly countries experienced a significant increase in load. Increasing the capacity of these channels required new resources: equipment and vehicles for cargo transportation, warehouse capacities and transport infrastructure, qualified personnel and organizational resources in the area, etc., which initially led to interruptions in supplies and later affected their cost. According to experts, the total exports with the EU fell by 80% in 2022. Following a ban on Russian freight road operators working in the EU as part of the fifth package of sanctions, Russian companies switched to new routes, making a pivot to China, the countries of Central Asia and the EAEU [4].

As of today, statistics have already been published confirming the increase in trade turnover between Russia and some friendly countries. Thus, according to a Forbes data analysis covering the supply of goods under categories 84–90 (this code includes: machinery, equipment, components, household appliances, and electronics) from China to Russia based on the latest data of the General Administration of Customs of the People's Republic of China as of June 2023, over the first six months of the year, China's exports of these products doubled compared to the same period of 2022, increasing from \$15.1 billion to \$31.5 billion. In physical terms, supplies increased by 50%. Compared to the second half of 2022, the turnover value increased by 30%, from \$24.2 billion [5].

There are a number of friendly countries the supply chains with which today are not as efficient as those with China. However, with proper interstate regulation measures in place, the turnover with such countries may be increased despite the introduction of a secondary sanctions regime, where sanctions pressure can be applied not only to Russia, but also to countries interacting with Russian exporters or importers.

Shortages and increasing product prices shape the prerequisites for opening local manufacturing lines, as under these conditions the payback period for investments in opening manufacturing sites is reduced. At the same time, Russia's domestic production of equipment does not cover the market demand in full, and the capacities to procure equipment from abroad to set up manufacturing facilities are also severely limited by sanctions. Today, Chinese-made industrial equipment, both new and used, is in great demand.

The difficulties are exacerbated by the refusal of equipment manufacturers from countries that have imposed sanctions against Russia to perform maintenance services and supply spare parts. A number of manufacturing sites reacted quickly and stocked up on spare parts for future

use, which is another factor contributing to the increase in an enterprise's costs that will affect the production cost.

Against the backdrop of the present-day geopolitical and economic situation, when purchasing equipment for manufacturing lines, enterprises focus on the following aspects of delivery terms and conditions:

- Availability of all required technical documentation and exploded-view drawings of technical components.
- Inclusion in the terms of delivery of training for Russian engineers in commissioning, maintenance, and repair works.
- Provision of MTBF data by the equipment manufacturer to build a sufficient stock of spare parts in advance.
- Availability of operating manuals, data sheets, instructions, all required certification documents and test data.
- The best option is if the equipment is compatible with various types (grades) of raw materials, and the cost of changeover when switching to different raw materials/components is low (as there may be interruptions in the supply of raw materials/components for which the equipment is configured).

The inclusion of the above delivery terms and conditions as mandatory is due to manufacturing risks, as the lack of any of the above elements (technical documentation, required spare parts, or technical competence of personnel) may hinder continuous operation of expensive equipment by the manufacturer.

Despite the fact that expanding manufacturing capacities always takes time, there is already a clearly visible increase in production output in industries that have been directly or indirectly affected by the sanctions policy. Thus, according to Rosstat (the Federal State Statistics Service of Russia), [6] production indices for several of the main types of mining and manufacturing industries for January–July 2023 compared to those of January–July 2022 in percentage terms show significant growth exceeding 10%, in particular:

- Manufacturing of computers, electronic, and optical products: 131.5%.
- Manufacturing of other vehicles and equipment: 128.9%.
- Manufacturing of finished metal products, except machinery and equipment: 125.4%.
- Manufacturing of electrical equipment: 122.7%.

## CONCLUSION

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The turbulent environment and the rapidly changing situation in international markets are active stress factors that force companies to continuously monitor external conditions and take urgent measures to change their strategies and operations because a number of established patterns of international trade and trade flows are blocked.

At the same time, the emerging situation requiring immediate action facilitates the introduction of a set of strategic measures and programs that are beneficial for Russia's national economy at all levels: state, industrial, and corporate.

Building new international supply chains and local manufacturing facilities requires time and investment. However, the unprecedented sanctions have created all the preconditions for an accelerated development of Russian manufacturing capacities and the search for more competitive suppliers. As a result, the restructuring of enterprises and the reorientation of businesses to new economic resources have created opportunities for optimizing the product range and developing the best solutions for reviving the national economy and establishing new supply chains for the development of Russian businesses.

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