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Economic Interdependence and War in Ukraine: The Role of Economic Interdependence in the War's Origin

By Farid Kahhat Kahatt

Introduction- Lenin is said to have explained his political tactics with the metaphor of a soldier stabbing a target with a bayonet: if the bayonet hits something solid, the soldier should retreat, but if it penetrates the target, he should keep stabbing. That anecdote is relevant now, because there is an explanation for Russia's decision to invade Ukraine that appeals to the same reasoning (incidentally, until 1991 Putin was an active member of the party founded by Lenin). Specifically, it is an explanation of why the Russian government may have underestimated the magnitude of the sanctions that would be imposed against that country if it invaded Ukraine. We know the Russian government underestimated those sanctions because of information such as the following: before the invasion, Russia had international reserves equivalent to some US$650 billion, of which some US$300 billion were deposited in financial entities of Western powers.[1] That is, Russia had deposited around half its international reserves in financial entities that confiscated them after the invasion of Ukraine, when sanctions were applied. If it had foreseen that possibility, the Russian government would have put its reserves in a safe place before launching the invasion.

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I. Introduction

Lenin is said to have explained his political tactics with the metaphor of a soldier stabbing a target with a bayonet: if the bayonet hits something solid, the soldier should retreat, but if it penetrates the target, he should keep stabbing. That anecdote is relevant now, because there is an explanation for Russia's decision to invade Ukraine that appeals to the same reasoning (incidentally, until 1991 Putin was an active member of the party founded by Lenin). Specifically, it is an explanation of why the Russian government may have underestimated the magnitude of the sanctions that would be imposed against that country if it invaded Ukraine. We know the Russian government underestimated those sanctions because of information such as the following: before the invasion, Russia had international reserves equivalent to some US$650 billion, of which some US$300 billion were deposited in financial entities of Western powers.[1] That is, Russia had deposited around half its international reserves in financial entities that confiscated them after the invasion of Ukraine, when sanctions were applied. If it had foreseen that possibility, the Russian government would have put its reserves in a safe place before launching the invasion.

The underestimation of the scope of the sanctions that would be imposed on Russia if it invaded, however, may have stemmed from two premises that rational actors might share. According to this line of thinking, Putin concluded that neither NATO nor the Group of 7 would apply severe sanctions against Russia, based on two experiences. First, they did not do so when Russia occupied and annexed the Crimean peninsula in 2014. According to one estimate, if they had been applied consistently and persistently, the sanctions approved against Russia in 2014 would have cost it 2.5 points of GDP annually.[2] But we know those sanctions were not applied consistently (if they had been, the United Kingdom would not have needed to adopt new sanctions against the so-called Russian "oligarchs" after the invasion in 2022), nor did they persist in time.

Besides the Crimea precedent, the signals that governments such as that of Germany sent to their Russian counterparts up to the very eve of the invasion of Ukraine also did not suggest that they were determined to apply large-scale sanctions. Before the invasion, Germany had refused to postpone the date for the Nord Stream 2 gas pipeline (which connects it directly to Russia) to go online; it has also refused to sell arms to Ukraine or allow German arms importers to deliver them to Ukraine. Nor did it make significant efforts to achieve the defense spending target to which NATO countries had agreed (2% of GDP). This all changed drastically just a week after the invasion began.

These assumptions about the Russian government's calculations also stem from an argument rooted in international relations theory. On the one hand, there is consensus in that discipline that economic interdependence increases the opportunity cost of using force (that is, it increases the value of the best possible alternative that is renounced when force is used): based on that, if economic interdependence makes the use of force more costly, then it makes it less likely. In other words, the only cost incurred, upon initiating a war, by states whose economies maintain no interdependence is the cost of fighting. Among interdependent states, on the other hand, added to the cost of combat are the benefits that would be lost if economic interdependence decreased or disappeared as a result of the war; this therefore makes it less likely. In other words, the only cost incurred by states whose economies maintain no interdependence, upon initiating a war, is the cost of combat. Among interdependent states, in contrast, to the cost of combat are added the benefits that would be

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[1] Todd Prince, As Ukraine War Costs Grow, So Does Debate In The West Over Whether And How To Use Frozen Russian Reserves, April 11, 2023. https://www.rferl.org/a/ukraine-war-costs-russia-reserves-frozen/32359417.html

[2] Anders Åslund and Maria Snegovaya, The impact of Western sanctions on Russia and how they can be made even more effective, May 2021. https://www.atlanticcouncil.org/wp-content/uploads/2021/05/The-impact-of-Western-sanctions-on-Russia-and-how-they-can-be-made-even-more-effective-5.2.pdf

lost if economic dependence decreased or disappeared as a result of the war. We must clarify up front that the argument is not that wars between economically interdependent countries are impossible, but that they would be more costly and, therefore, less probable.[3]

Although no one denies the validity of that argument for understanding the probability of war between two states, one critique maintains that the argument ignores the systemic context in which the interaction between two states occurs. The critique does not deny that the additional cost implied by the use of force between two economically interdependent states, let's call them A and B, would make a war between A and B less probable. But if, for example, State A were an ally of State C and State B threatened State C, economic interdependence between A and B would make it less likely that A would intervene to prevent B from attacking C (for example, through the application of economic sanctions against B). Some historians and authors of the realist school of international relations believe that may have been a mechanism by which economic interdependence contributed to the start of the First World War. According to that argument, the United Kingdom may have hesitated to honor the security commitments it maintained with France and Russia before the war, because that would have implied a confrontation with its second most important trade partner, Germany. Based on what we have said so far, it could be argued that if clear signals had been sent about the type of sanctions that would be applied if Ukraine were invaded, Germany and the United Kingdom would have been able to exercise dissuasive power over Russia. That is, by increasing the cost that Russia would have expected to pay in case of war, they would have reduced the likelihood that the Russian government would decide to invade Ukraine (we have limited ourselves to presenting explanations by which even a rational actor could miscalculate — in this case, errors by the Russian government regarding what the invasion of Ukraine could mean for it; we will not address here explanations for miscalculations that could be attributed to irrational behaviors).[4]

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[3] The realist perspective in international relations scorned the liberal perspective for decades after the First World War. For example, Kenneth Waltz maintained the following:

"Before the First World War, the close interdependence that characterized relations among states was seen as a herald of peace among nations, as well as of democracy and prosperity within them. In his famous work titled *The Great Illusion* (*La Gran Ilusión*), Norman Angell summed up the contributions of several generations of classical and neoclassical economists, and based on that arrived at the poignant conclusion that there would be no more wars, because armed conflicts were no longer profitable. The First World War, however, produced a great disillusionment, with the result that political optimism maintained a low profile until almost the end of the Cold War; (…)".

Kenneth N. Waltz, La Globalización y el Poder de los Estados Unidos, Farid Kahhat (Compiler), *El Poder y las Relaciones Internacionales, Ensayos escogidos de Kenneth N. Waltz,* CIDE, Mexico, 2010, p. 131.

But what Norman Angell actually said in *La Gran Ilusión* was:

"Must we assume that what is self-evident to the banker — namely, that the repudiation of engagements, or any attempt at financial plunder, is sheer stupidity and commercial suicide — is for ever to remain unperceived by the ruler?"

Norman Angell, *The Great Illusion*, p. 81. https://ia601305.us.archive.org/29/items/cu31924007365467/cu31924007365467.pdf

In other words, Angell did not say there would be no more wars, but that a war between economically interdependent powers would be idiotic and suicidal. Considering that at the time, the First World War was the most lethal in the history of humanity, without achieving the goal that the contenders sought (presumably, to establish hegemony over continental Europe), it does not appear that the qualifiers Norman Angell applied to such a war were out of place.

[4] To cite one example, some authors suggest that the regime led by Vladimir Putin can be defined as a personalized authoritarianism, which would have implications for the decision-making process. In general, under authoritarian regimes, there tends not to exist an opposition or an independent press that can expose or criticize the errors of the official perspective. Meanwhile, the fact that information does not flow without restrictions and the lack of public debate could imply problems in the decision-making process (such as adoption of decisions based on information that is fragmentary, biased or even erroneous). According to recent investigations, those problems tend to be greater under a personalized authoritarianism (as opposed to an institutionalized authoritarianism, in which, for example, there may exist an official party that is not a mere instrument of the current leader). A description of some of these studies can be found in: Ben Judah, The Terrible Truth So Many Experts Missed About Russia, February 28, 2022. https://slate.com/news-and-politics/2022/02/ukraine-invasion-putin-is-ruling-alone.html

For example, according to this line of investigation, in the Soviet Union, Nikita Jrushchov governed as part of a collective leadership of the Communist Party. Not only could his colleagues criticize him, but they could even dismiss him from his posts in the party and the state. Compare that with the image of the Russian foreign intelligence chief, Sergey Naryshkin, responding incoherently when confronted by Putin: in a personalized authoritarianism, the only access to government is through the favor of the one who governs. And telling him inconvenient truths tends to be the surest way to fall out of favor.

La Vanguardia, Putin humilla a su jefe de inteligencia en una reunión de alto nivel sobre Ucrania: "¡Habla claro!" February 23, 2022. https://www.youtube.com/watch?v=z0ZWgFFkVRQ

According to information gathered by authors such as Jessica Weeks, personalized authoritarianisms are more likely to start wars and tend to demonstrate worse military performance during them. And as can be expected, the one who governs tends not to take responsibility for the consequences of their decisions: according to a report in The New York Tines, a month after the war began, Putin placed under house arrest two high-ranking members of his intelligence service for providing erroneous information before the invasion of Ukraine. According to a source interviewed for the article, "they told Putin what he wanted to hear" about how the how the war would progress.

Helen Cooper, Julian E. Barnes and Eric Schmitt, As Russian Troop Deaths Climbs, Morale Becomes an Issue, Officials Say, The New York Times, March 16, 2022. https://www.nytimes.com/2022/03/16/us/politics/russia-troop-deaths.html#:~:text=the%20main%20story-,As%20Russian%20Troop%20Deaths%20Climb%2C%20Morale%20Becomes%20an%20Issue%2C%20Officials,according%20to%20conservative%20U.S.%20estimates.&text=As%20a%20subscriber%2C%20you%20have,articles%20to%20give%20each%20month.

Nevertheless, according to Weeks, only 12.5% of leaders under personalized authoritarianisms lost their posts in the two years following defeat in war.

Jessica L. Weeks, Strongmen and Straw Men: Authoritarian Regimes and the Initiation of International Conflict, American Political Science Review, Cambridge University Press, Vol. 106 (2), 2012, pages 326-347.

In short, on the one hand, miscalculations by the Russian government about the costs it would face if it invaded Ukraine are errors that any rational actor could have committed. On the other hand, those errors could have been induced by the NATO members themselves, by not sending Russia unanimous and unmistakable signals about the costs it would face if it invaded Ukraine. An initial criticism of that argument is that what was at stake in Ukraine in 2022 was not comparable to what was at stake in Ukraine in 2014: annexing a territory like Crimea (over which, because of its history and the ethnicity of the majority of its population, Russia could have a credible claim)[5] was not equivalent to attempting to capture Kiev (the capital of Ukraine), change the Ukrainian political regime and demilitarize the country, or (later) annexing four other Ukrainian provinces.[6] Nevertheless, the argument provides a counterfactual scenario that, although it seems plausible, is impossible to demonstrate: we cannot go back in time to establish what would have occurred if Germany or the United Kingdom had behaved differently toward Russia. There also are reasons to believe that Russia invaded Ukraine because of security concerns that, although perhaps disproportionate, nevertheless were real: these revolved around NATO's expansion toward Russia's own borders. This issue has figured prominently in Putin's discourses over the years,[7] and at least two things prove that the NATO powers understood that concern about Russia's security. One was the security guarantees offered to the Soviet Union during negotiations to allow a unified Germany to become part of NATO.[8] The other was the memorandum sent at the time from the U.S. embassy in Moscow by William Burns, who is now director of the U.S. Central Intelligence Agency.[9] In fact,

[5] We must clarify, however, that the annexation of Crimea violated the principle of international law by which the acquisition of territory by means of war is prohibited: regardless of the historical reasons to which Russia could appeal to claim Crimea, that principle considers illegal the means by which Russia achieved that goal (war), not the claim itself. It is generally understood that this principle stems, among other norms, from Article 2 of the United Nations Charter, specifically the third and fourth sections of that article, which state:

"3. All Members shall settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered.

"4. All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations."

United Nations Organization, United Nations Charter, 1945. https://www.un.org/en/about-us/un-charter/full-text

[6] I develop this further in: Farid Kahhat and Clemente Rodríguez, Tiempos Violentos, Rusia, Ucrania, China, los Estados Unidos y el Nuevo Desorden Mundial, Crítica, Lima, 2022.

[7] For example, "We remember, as I mentioned many times before and you know well, how you promised us in the 1990s that (NATO) would not advance an inch toward the East. You lied to us without the least scruple: there have been five waves of NATO expansion, (…). We do not threaten anyone. Have we approached the borders of the United States? Or the borders of Great Britain or any other country? You are the ones who have moved toward our borders, and now you say that Ukraine will also become a NATO member. (…). That is the point. You should have treated Russia as a potential ally, made it stronger, but everything went in the opposite direction; you wanted to divide it even more."

Vladimir Putin's annual news conference, December 23, 2021.
http://en.kremlin.ru/events/president/transcripts/press_conferences/67438

[8] The National Security Archive, an entity that posts declasssified U.S. government documents on the internet, states the following in its introduction to those documents:

"multiple memoranda of conversation between the Soviets and the highest-level Western interlocutors (Genscher, Kohl, Baker, Gates, Bush, Mitterrand, Thatcher, Major, Woerner, and others) [offered] assurances throughout 1990 and into 1991 about protecting Soviet security interests and including the USSR in new European security structures."

National Security Archive, NATO Expansion: What Gorbachev Heard.
https://nsarchive.gwu.edu/briefing-book/russia-programs/2017-12-12/nato-expansion-what-gorbachev-heard-western-leaders-early

In those declassified documents in 2017, then-Secretary of State James Baker told the Soviet leader Mijaíl Gorbachov: "If we maintain a presence in a Germany that is part of NATO, there would be no extension of NATO's jurisdiction for forces of NATO once inch to the east."

Memorandum of conversation between Mikhail Gorbachev and James Baker in Moscow, 9 February 1990, p. 6.
https://nsarchive.gwu.edu/document/16116-document-05-memorandum-conversation-between

Meanwhile, French President Francois Mitterand told Mijail Gorvachov that "he was 'personally in favor of gradually dismantling the military blocs'" (that is, both NATO and the Warsaw Pact).

National Security Archives, NATO Expansion: What Gorbachev Heard.
https://nsarchive.gwu.edu/briefing-book/russia-programs/2017-12-12/nato-expansion-what-gorbachev-heard-western-leaders-early

Those documents also reflect a proposal by Germany's foreign minister at the time, Hans-Dietrich Genscher, by which even if a unified Germany became part of NATO, the eastern part of the country would remain outside of the alliance's military structure.

Ibid.

Finally, in May 2022 the daily Der Spiegel published declassified German government documents that go beyond what was said. According to the media outlet's summary, "In 1991, German Chancellor Helmut Kohl wanted to prevent the eastward expansion of NATO and Ukrainian independence, according to newly released files from the archive of the German Foreign Ministry."

Der Spiegel, Newly Released Documents Shed Fresh Light on NATO's Eastward Expansion, May 3, 2022. https://www.spiegel.de/international/germany/bonn-moscow-ties-newly-released-documents-shed-fresh-light-on-nato-s-eastward-expansion-a-5a362292-dfe6-4355-b90f-10d635d7d664

[9] In a 1995 memorandum, when he was working at the U.S. Embassy in Russia, Burns said about the issue: "Hostility to early NATO expansion is almost universally felt across the domestic political spectrum here."

Congressional Record, Volume 168, Number 27.
https://www.govinfo.gov/content/pkg/CREC-2022-02-10/html/CREC-2022-02-10-pt1-PgS632-2.htm

In a 2008 memorandum, Burns himself maintained that "Ukrainian entry into NATO is the brightest of all the redlines for the Russian elite (not just Putin). In more than two and a half years of conversations with key Russian players, from knuckle-draggers in the dark recesses of the Kremlin to Putin's sharpest Putin's liberal critics, I have yet to find anyone who finds Ukraine in NATO as anything other than a direct challenge to Russian interests".

Ibid.

in his 2019 memoir, Burns maintained that "Sitting at the embassy in Moscow in the mid-nineties, it seemed to me that NATO expansion was premature at best and needlessly provocative at worst"[10].

Finally, to all of that we must add that both Russia and Western intelligence sources believed it possible that Kiev would fall to Russia in a matter of days (upon which Russia would seek to negotiate on the basis of a de facto situation, before the NATO powers had time to react). Proof that Russia believed that is found in a report by Britain's BBC news agency that the official Russian agency RIA-Novosti published an article on 26 February (the invasion began on the 24th) celebrating the fact that "Ukraine has returned to Russia," only to withdraw it two days later (when it became clear that Kiev was not on the verge of falling).[11] Proof that intelligence sources believed the same thing are leaks to the press, shortly after the invasion began, of their assessments of the war's likely progress.[12]

Otherwise, in this case the circumstances were different from those that prevailed when Germany implemented its policy of approach toward the Soviet bloc during the Cold War (the so-called "Ostpolitik").[13] It was assumed then that greater economic interdependence would be accompanied by greater political cooperation to reach a detente in security relations between NATO and the Soviet bloc. And at times, the NATO countries cooperated with the Soviet bloc on security issues (for example, signing arms control agreements). But at least in the past decade, the effect of greater economic interdependence between Russia and some NATO countries (such as Germany) was not enough to reverse the steady deterioration of security relations between NATO and Russia. One example is the withdrawal of the United States (among others) from the Intermediate Range Nuclear Forces Treaty in 2019.[14]

If what has been said so far were correct, perhaps sending clear signals about the sanctions that would be applied against the Russian economy if that country invaded Ukraine (thus raising the cost to Russia of using force) would not have been enough to prevent the invasion. For one thing, the Russian government could have concluded that the importance of the security interests involved (that is, keeping NATO forces from deploying in Ukraine, a country from whose territory Russia and the Soviet Union had been invaded in the past) merited paying the cost of the sanctions. For another, the Russian government believed it likely that the war would end before the NATO states could coordinate a collective response.

Apart from that, the eventual threat of severe sanctions against Russia, if it invaded Ukraine, might not have been completely credible to the Russian government for two reasons. The first is that, as we have seen, the NATO states did not consistently or persistently apply the relatively recent sanctions they had approved after Russia's 2014 occupation and annexation of Crimea (which, moreover, encouraged separatist movements in eastern Ukraine that same year). The second reason why the threat of severe sanctions on Russia might not have seemed credible is that after Russia's actions in 2014, neither the United States nor the United Kingdom honored the formal commitment that, under the Budapest Memorandum, obligated them to guarantee Ukraine's territorial integrity.[15]

It could be argued that what might have made a difference would be sending what international relations theory (following game theory) terms "costly signals." In other words, adopting an action that implies a significant cost for both the actor who carries it out and the actor against whom the action is directed (which would make it a credible signal that the sender is willing to adopt certain ulterior actions, such as applying severe sanctions on Russia or militarily backing Ukraine in case of invasion). That could have implied, for example, the adoption of sanctions against Russia or the sending of heavy arms to Ukraine even before an invasion, while

[10] William Burns, The Back Channel, American Diplomacy in a Disordered World, Hurst & Company, London, 2019, p. 110.

[11] BBC News, Ukraine crisis: Russian news agency deletes victory editorial, February 28, 2022. https://www.bbc.com/news/technology-60562240

[12] Jim Sciuto and Katie Bo Williams, US concerned Kyiv could fall to Russia within days, sources familiar with intel say. In: CNN, February 25, 2022. https://edition.cnn.com/2022/02/25/politics/kyiv-russia-ukraine-us-intelligence/index.html

[13] Carlota García, ¿Qué fue la Ostpolitik? July 29, 2022. https://elordenmundial.com/que-fue-ostpolitik/

[14] C. Todd Lopez, U.S. Withdraws From Intermediate-Range Nuclear Forces Treaty. In: U.S. Department of Defense, August 2, 2019. https://www.defense.gov/News/News-Stories/Article/Article/1924779/us-withdraws-from-intermediate-range-nuclear-forces-treaty/
During the Trump Administration, the United States also withdrew from the Joint Comprehensive Plan of Action (a treaty related to the Iranian nuclear program) in 2018 and the Treaty on Open Skies in 2020.

[15] The Budapest Memorandum states the following:
«1. The Russian Federation, the United Kingdom of Great Britain and Northern Ireland and the United States of America reaffirm their commitment to Ukraine, in accordance with the principles of the Final Act of the Conference on Security and Cooperation in Europe, to respect the independence and sovereignty and the existing borders of Ukraine;
2. The Russian Federation, the United Kingdom of Great Britain and Northern Ireland and the United States of America reaffirm their obligation to refrain from the threat or use of force against the territorial integrity or political independence of Ukraine, and that none of their weapons will ever be used against Ukraine except in self-defense or otherwise in accordance with the Charter of the United Nations.» *Budapest Memorandums on Security Assurances*, 1994. http://www.cfr.org/nonproliferation-arms-control-and-disarmament/budapest-memorandums-security-assurances-1994/p32484

demanding, for example, the withdrawal of the troops Russia had deployed in a third country, Belarus, on its border with Ukraine (the troops that, shortly afterward, would attempt to capture Kiev).

The problem with that argument is what, also in international relations theory, is called "the security dilemma." That is, actions that one potential contender adopts for defensive purposes (for example, sending heavy weapons to Ukraine to avoid a Russian invasion) could plausibly be interpreted by another potential contender as a threat to its security. If, as appears to have been the case, at least Germany and France in NATO believed it was still possible to avoid the invasion of Ukraine, the sending of costly signals (such as sending heavy weapons to Ukraine) assumed the risk of making even more probable the outcome they wanted to avoid (Russia's invasion of Ukraine). Security dilemmas are ubiquitous in scenarios like this, which tend to fall between risk (that is, when we don't know what the result of an interaction will be, but we can assign to each possible result a probability of occurrence) and uncertainty (that is, when we do not have enough information to estimate the probability of occurrence of each of the possible results or, worse yet, we are not even sure of knowing all the possible results of an interaction).

II. Interdependence and Economic Sanctions

As a general principle, it is necessary to evaluate the effectiveness of economic sanctions, controlling for the bias implied by choosing case studies based on the independent variable (in this case, the application of sanctions). We confront that bias when case studies are not selected randomly, but when we attempt to evaluate the effectiveness of sanctions, selecting only those cases in which they were applied and did or did not produce the expected result (that is, the change in the behavior of the sanctioned state that was preferred by the states applying the sanction was or was not obtained). To evaluate the effectiveness of sanctions, it is also necessary to include two additional types of cases. On the one hand are those cases in which there was a threat to apply sanctions and the sanctioned state changed its behavior in response to that threat (which therefore would count as a successful case, as the desired result was achieved without the need to apply sanctions). On the other, it is necessary to include those cases in which, after the application of sanctions, the sanctioned state changes its behavior, making partial concessions to the sanctioning states. In other words, the latter do not obtain the behavior change they preferred, but they do get a behavior change that offers a negotiated solution halfway between the parties' initial positions. For example, Iran did not end its nuclear program in response to sanctions against it (as the states that applied those sanctions would have preferred), but it did agree to limit the amount of uranium it would enrich and the degree to which it would enrich it, and it also agreed to allow the International Atomic Energy Agency to inspect its nuclear industry installations to verify compliance with the agreement (this ultimately failed, not because the sanctioned state reneged on its behavior change, but because the main sanctioning state, the United States, pulled out of the accord to resume, among other things, the initial demand that Iran unconditionally end its nuclear program).

There are also erroneous clichés about how to assess the effectiveness of sanctions in the case of the war under way in Ukraine. For example, stating that sanctions against Russia failed because, despite being in effect for over two years, they have not made the country give up the territory it captured and annexed during the war. In the first place, there is an empirical finding in the academic literature that helps explain this, which has to do with the difference between deterring and compelling a potential rival. Deterrence implies keeping the rival from engaging in a particular action, such as avoiding its conquest of territory it aspires to possess. Compelling implies obligating the rival to engage in an action it would rather avoid, such as giving up territory it already possesses. That would occur by what in psychology is called the *endowment effect*.[16] The endowment effect refers to the empirical finding by which people tend to place greater value on a given good once they possess it. According to these studies, the risk of not achieving our goal when we seek to compel an actor to take a particular action is approximately twice as great as the risk of not achieving our goal when we seek to deter an actor from taking a particular action.[17] Moreover, to the greater difficulty of obligating a state to abandon territory it already possesses we must add the fact that sanctions often are not fully applied from the outset, but tend to be applied gradually over time.

There are several reasons that explain why sanctions tend not to be fully applied from the start. One is that sanctions can only be effective if there is already some degree of economic interdependence between the states applying them and the state to which they are applied. For example, the United States had little trade with Russia, and U.S. businesses were not the main source of foreign investment in Russa. The European Union was the main customer for Russian fossil fuel exports (gas and oil, Russia's main exports), and European companies were the main source of foreign

[16] Goldgeier J. & P. Tetlock, Psychological Approaches. In: N. Reus and D. Snidal (eds.), The Oxford Handbook of International Relations (pp. 462-480), New York, Oxford University Press, 2008, p. 465.

[17] Ibid.

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investment in Russia. For that reason, among the NATO allies, only the main European states could apply sanctions that inflicted a significant cost on the Russian economy. Meanwhile, sanctions can inflict a significant cost on the sanctioned state precisely because a certain degree of economic interdependence with the sanctioning states existed beforehand. That implies that the costs of reducing that interdependence, upon applying sanctions, can affect both parties: that is, both the sanctioned state and the states applying the sanctions. For example, the European Union's decision to stop importing gas from Russia came only after its member states obtained other sources of energy. In the case of gas, that implied importing it at a higher price, but with less political risk, from other exporting states, including importing liquid gas transported by sea (which required states such as Germany to build new regasification plants). In other words, the application of sanctions on Russian fossil fuel exports was gradual because an effort was first made to ensure that the countries would have a replacement (and thus reduce the cost that application of sanctions against Russia would have for European Union economies).

The same could be said of the decision by the Western powers to impose a ceiling of US$60 on the price at which Russia exports its oil to other states. The price ceiling could work precisely because both Russia and the states that buy its oil maintain diverse ties of economic interdependence with the states that adopted that sanction. On the one hand, most oil tankers that transported Russian oil were from companies based in the states that approved the price ceiling (and, therefore, were legally bound to respect it). On the other, even if Russia and its customers could replace the fleet of tankers based in Western countries, it would have been necessary to insure the oil shipments. And it appears that at the international level, there are no insurance companies with the financial capacity necessary to insure the amounts involved, except those based in the states that approved the export price ceiling (and were therefore legally obligated to respect it). There are at least two reasons why a ceiling was placed on the price at which Russian oil is exported, rather than simply prohibiting its export. First, prohibiting the purchase of Russian oil would have inflicted such a high economic cost on importers that they, in turn, would have had incentives to appeal to very costly measures to deal with the effect of the prohibition (unlike respecting a price ceiling, which could benefit them). Second, a prohibition on purchasing Russian oil would raise the international price of the oil that most NATO powers import, not only because international supply would be reduced, but also because of the future uncertainty it would imply for both the fossil fuel market and the global economy.

Apart from that, the assumption that the purpose of economic sanctions against Russia was to force a relatively rapid withdrawal from the territories it occupied and annexed after its invasion of Ukraine appears to be mistaken. That is true because of something we mentioned earlier: if sanctions are applied gradually, their effect on the economic performance of the sanctioned state will also be gradual. The idea, therefore, would not be to inflict from the outset the maximum possible cost to obtain a maximalist goal (that is, complete and unconditional withdrawal of Russian forces from Ukrainian territory), but to inflict an escalating cost that could achieve limited goals: first, to reduce Russia's material capacity to continue the war in Ukraine indefinitely; and second, to reduce its material capacity to take similar action against other states (for example, Georgia, which has been an object of Russian attacks in the past, or Moldova, where there is a separatist movement backed by Russia). If that is the case, there are indications that the NATO countries could be achieving those more limited goals.

The first indication was a confidential report by the Russian government itself, to which the Bloomberg news agency had access. The report admits that "There simply are not alternative providers for some critical imports."[18] For example, global production of the most advanced microchips (of nine nanometers or less) is concentrated in companies in South Korea and, especially, Taiwan, states whose governments are allies of the United states and whose companies tend to use intellectual property and inputs from U.S. companies (which means they would be obligated to apply the sanctions approved by the U.S. government). And although Russia continues to acquire through third parties goods that it can no longer acquire from NATO member states (such as less technologically sophisticated microchips), it obtains them at lower quality and higher prices (partly because, for example, they are extracted from appliances to later be used in the military industry).[19].

It could be argued that, although real, the effect of sanctions on the Russian economy has been smaller than expected. Although the International Monetary Fund predicted in April 2022 that the Russian economy

[18] Bloomberg News, Russia Privately Warns of Deep and Prolonged Economic Damage, September 5, 2022. https://www.bloomberg.com/news/articles/2022-09-05/russia-risks-bigger-longer-sanctions-hit-internal-report-warns#xj4y7vzkg

[19] Although there is debate about how extensive that practice is, there is evidence that, like the significant increase in Russian imports of household appliances during the war, that suggest that this practice really does exist.:

Eric Tegler, Is Russia Really Buying Home Appliances To Harvest Computer Chips For Ukraine-Bound Weapons Systems? January 20, 2023. In: Forbes. https://www.forbes.com/sites/erictegler/2023/01/20/is-russia-really-buying-home-appliances-to-harvest-computer-chips-for-ukraine-bound-weapons-systems/?sh=632e3b17588e would contract by 8.5% that year,[20] the contraction ultimately was only 2.2%. But that difference could be explained by at least two factors. First, there are reasons to doubt the veracity of Russia's national accounts (as with China, the entities charged with drawing them up are not autonomous).[21] And second, foreseeing the economic effects of the war, the Russian government accumulated international reserves (to support the value of the ruble) and a fiscal fund (to support aggregate demand). These are being used in part to support the war effort, but especially to alleviate the economic consequences of the war for its population: it was assumed that both funds would eventually reach critical levels.

However, there were also two circumstances countervailing the effect of the eventual depletion of those funds. The first was the Russian government ability to borrow, given the fact that its public debt was very low as a proportion of GDP[22]. The second circumstance countervailing the effect of the eventual depletion of Russia's international reserves and fiscal fund, were policy decisions by the Russian government made possible by the sanctions themselves[23]. For instance, so called "Russian Oligarchs" would have not confronted a stark choice between saving and investing in Western economies as opposed to doing so in Russia, if it was not for the sanctions they faced from Western governments. On the other hand, the Russian government could not have forced subsidiaries of Western firms to sell their assets at a significant discount if they were not forced or pressured to leave the Russian economy due to Western sanctions[24].

Another contested effect of sanctions is the extent to which the Russian military industry might be unable to replace war materiel lost in combat. In 2023 two studies arrived at a similar conclusion: by 2024 Russia would no longer have the means to escalate the conflict, and would have to limit itself to indefinitely continuing a war of attrition.[25] More recent assessments, based on open intelligence sources, seem to bear out those conclusions.[26] If we add that both sides have or are building deep defenses backed by reserve contingents, significant territorial gains by either side seem unlikely in the foreseeable future (as the limited gains at a high cost produced by the Russian offensive that started in May of 2024 seems to confirm). In such a scenario, the goal of NATO powers would not be to inflict a decisive military defeat on Russia, but to persuade the Russian government that it might not achieve further territorial gains if the war continues indefinitely.

That conclusion, in turn, is based on the assumption that once the relevant actors in the conflict were identified, they would choose their actions based on rational calculations. A rational calculation implies that, given the goal an actor seeks, it will use the means at its disposal to try to achieve that goal at the least possible cost. From that perspective, wars are the outcome of information problems. This implies that the parties would only be willing to start a war when they have divergent expectations about what its result will be.

[20] Interfax International Information Group, IMF forecasts Russian economy will shrink 8.5% in 2022, April 19, 2022. https://interfax.com/newsroom/top-stories/78363/

[21] Sonnenfeld, Jeffrey and Tian, Steven and Sokolowski, Franek and Wyrebkowski, Michal and Kasprowicz, Mateusz, Business Retreats and Sanctions Are Crippling the Russian Economy (July 19, 2022). En: SSRN: https://ssrn.com/abstract=4167193

Although we should add that the calculation of the activity level of the Russian economy through other indicators (such as the "current activity indicator" compiled by the investment bank Goldman Sachs) suggests that the difference between the real figures and official ones may not be as great as estimated in the study cited above.

[22] "Public debt in Russia averaged 15.4% of GDP in the decade to 2022, below the average of 32.5% of GDP for Eastern Europe. Public debt in Russia was 18.9% of GDP in 2022".

Focus Economics, Public Debt in Russia, https://www.focus-economics.com/country-indicator/russia/public-debt/#:~:text=Public%20debt%20in%20Russia%20averaged,18.9%25%20of%20GDP%20in%202022.

[23] "when applied to a large, resource-rich, technically proficient economy, after a period of shock and adjustments, sanctions are isomorphic to a strict policy of trade protection, industrial policy, and capital controls. These are policies that the Russian government could not plausibly have implemented, even in 2022, on its own initiative".

James K. Galbraith, The Gift of Sanctions: An Analysis of Assessments of the Russian Economy, 42022-2023. Institute for New Economic Thinking, Working Paper No. 204, April 10th, 2023.

[24] Ibid.

[25] Max Bergmann, Maria Snegovaya, Tina Dolbaia, Nick Fenton and Samuel Bendett, Out of Stock? Assessing the Impact of Sanctions on Russia's Defense Industry. Center for Strategic and International Studies, April 14, 2023. https://www.csis.org/analysis/out-stock-assessing-impact-sanctions-russias-defense-industry

Russia's economy can withstand a long war, but not a more intense one. The Economist, April 23, 2023. https://www.economist.com/briefing/2023/04/23/russias-economy-can-withstand-a-long-war-but-not-a-more-intense-one

[26] For example, according to Oryx (a private entity that documents Ukraine's combat losses based on open intelligence sources, like photo or videographic evidence), up to July of 2024, Russia had lost at least 3,235 tanks. Even adding the new tanks produced by the Russian military industry and the Soviet-era tanks that are being repaired and upgraded, they would not be sufficient to replace the tanks that Russia loses every month in Ukraine.

The Economist, Russia's vast stocks of Soviet-era weaponry are running out, July 16th 2024.
https://www.economist.com/europe/2024/07/16/russias-vast-stocks-of-soviet-era-weaponry-are-running-out

Something similar could be said about Russia's artillery. In February of 2024 Russia had under 5,000 artillery pieces in the field, according to Royal United Services Institute. By March of 2024 Oryx suggested that Ukraine had destroyed around 5,500 artillery pieces.

The Economist, Might Russia run out of big guns? March 20th 2024. https://www.economist.com/the-economist-explains/2024/03/20/might-russia-run-out-of-big-guns

If, on the contrary, the parties had convergent expectations about the outcome of a war, they would have incentives to reach that result through negotiation, thus sparing themselves the cost of fighting the war.

If the parties have divergent expectations about the probable outcome of a war, it is obvious that both expectations cannot be true simultaneously: either one party's expectations are completely wrong, or the real outcome of the war would be at some intermediate point between those divergent expectations. Given that the parties have incentives to lie in order to obtain a better result in an eventual negotiation, they do not have incentives to believe the information that their rival provides about the reasons why they believe they could attain their goals in the case of a war. Fighting the war tends to be the only sure way to obtain that information: as the parties observe the course of the war, their expectations about its outcome may finally converge. And when that occurs, both parties will have incentives to spare themselves the cost of continuing to fight, and to attain that outcome by means of negotiation (not by chance do two out of three wars between states end by negotiation).[27].

[27] William Spaniel, Ukraine's Spring Offensive Could End the War: A Tale of Power, Information, and Russian Politics. https://www.youtube.com/watch?v=Wwqd6Wm9EPQ