Bearing Forward:

Sanctions on Russia Tell a Familiar Story

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ABSTRACT

The aggressive use of sanctions by the U.S. and Europe against Russia in response to its 2022 invasion of Ukraine was meant to quickly diminish the Kremlin's coffers and prompt an end to its invasion. The initial waves of sanctions prompted generous applause from trusted American and European foreign policy publishers and pundits claiming these sanctions as unprecedented in history. The U.S. and Europe designed their sanctions to isolate Russia's financial markets, pressure its oligarchs and political elite, and constrain its revenues. However, over a year later, Russia's invasion continues without signs of reprieve. Government authorities in Washington and Brussels continue to scheme new sanctions packages and various other economic penalties that promise to deprive the Kremlin of critical financial resources, while Western media maintains the position that sanctions in their current form can and will work. This thesis proposes that the current design of sanctions motivates business interests to evade, manipulate, or otherwise weaponize sanctions for profiteering purposes, taking advantage of inherent market polarizations that contemporary sanctions fail to address. The current design and implementation of sanctions follows an excessively state-centric approach that assumes far too much power in Western government authorities, blinding any analyses of the various networks of business interests engaged in the trade and distribution of Russia's natural resource wealth across the globe. These networks are understudied or often ignored, as they sideline government actors in organizing and enforcing effective sanctions' regimes. These arrangements of bankers, traders, insurers, and lobbyists use sanctions to belittle government intentions, prioritizing their profits and maximizing their leverage, all the while demonstrating that sanctions remain a poor economic weapon despite their centrality in 21st century geopolitical strategy.

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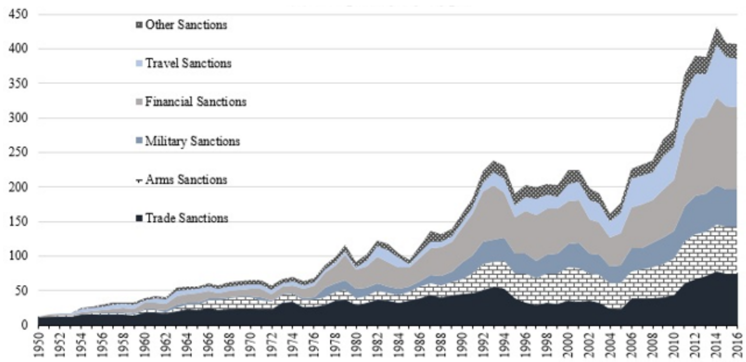

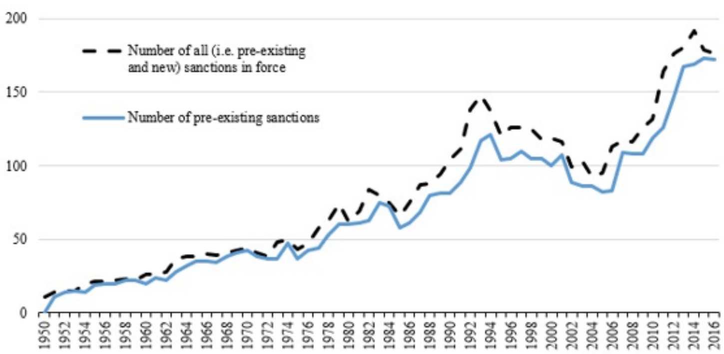

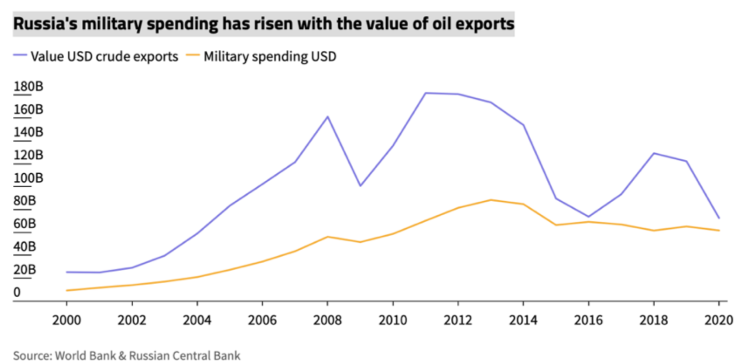

INTRODUCTION

As of the submission of this thesis, Russia's invasion of Ukraine is nearing one and half years. The Kremlin is waging a war of attrition on two fronts: (1) the physical war with Ukraine – waged with soldiers, munitions, and bombs; and (2) the economic war with the West – waged with sanctions, price caps, and capital isolation. Popular media narratives in the West have long argued that Putin is losing this battle on both fronts, with Ukraine's effective resistance and solidarity with NATO humbling Russia's position as a military superpower, while "unprecedent sanctions" designed and developed by the world's preeminent economies upend the Russian economy.[1] The sheer wealth and influence of the U.S. and E.U. on world trade, built on their dominance in international banking and leverage over commodities markets, offered little room for the Kremlin to outmaneuver authorities in Washington or Brussels – or so the logic followed. However, despite the claims of "unprecedented," sanctions have demonstrated little ability to dissuade Russia from pursuing its objectives in Ukraine.[2] Several sanctions packages are currently being implemented against Russia – everything from asset seizures to oil-price caps, to individual targeting and export embargoes – but war continues unabated. As of early 2023, new reports of a spring offensive are unnerving the Ukrainians and the wider European Union, while Russia continues to thwart Western attempts to diminish its sources of revenue or isolate its financial markets.[3] Western media, in the meantime, continues to center its perspectives on consensus understanding of foreign policy rooted in pre-21st century ideas on international

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[1] Natan Sachs, "Sanctions on Russia over Ukraine," *Brookings* (December 30, 2022), https://www.brookings.edu/research/sanctions-on-russia-over-ukraine/
[2] Natan Sachs, "Sanctions on Russia over Ukraine," *Brookings*
[3] Max Seddon, John Paul Rathbone, and Roman Olearchyk, "Military Briefing: Russia Prepares Ukraine Spring Offensive," *Financial Times* (February 15, 2023), https://www.ft.com/content/164360c3-1b37-46c9-b26a-4444d2045eef.

relations (IR). These analyses constrain geopolitical strategy to theoretical frameworks built on either liberal universalism or realist anarchy, stagnating on assumptions that are blind to the very different dynamics at play in how sanctions are applied – a dynamic that centers on underlying power plays between states and private institutions in creating and enforcing sanctions.

In answering the several critical *why* questions associated with these flawed sanctions – *why* aren't they tough enough? *Why* are the Russians continuing their war? *Why* are the Russian people not revolting against Putin? *Why* is the Kremlin able to generate money? – American and European foreign policy media avoid meaningful analyses on the profiteering interests of business groups operating in industries like commodities and finance that maintain a heavy exposure to the Russian economy and may stand to gain from their positions of power and leverage over sanctions regimes. Instead, emphasizing a state-centric logic centered on the American and European geopolitical unity, media narratives continue to frame sanctions as an effective tool, only slightly shifting their language to account for the one and a half years of their ineffectiveness – "sanctions will work, but *slowly*."[4] As the Russians plan new spring offenses in eastern Ukraine, it's increasingly clear that sanctions packages from the U.S. and E.U. are designed and implemented with 20th century theories of IR that are disconnected from the contemporary global economic system.

This thesis explores sanctions as a geopolitical tool in the context of Russia's invasion of Ukraine, before analyzing the various ways business interests manipulate, leverage, or elude sanctions to turn profits. By investigating sanctions through a lens rooted outside of state-centric frameworks, some assumptions about sanctions are challenged – including the central assumption that sanctions at the very least dissuade business interests, traders, and investors from

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[4] Masahiko Takeda, "Sanctions on Russia Will Work, but Slowly," *East Asia Forum* (January 10, 2023), https://www.eastasiaforum.org/2023/01/10/sanctions-on-russia-will-work-but-slowly/.

engaging with the targeted country. Like a game of poker, these interests rarely reveal their hand – yet if authorities in the U.S. or E.U. want to design and implement effective sanctions, it's time they understand the game.

1.0 – LITERATURE REVIEW

1.1 – Liberalism, a brief overview

"A nation that is boycotted is a nation that is in sight of surrender. Apply this economic, silent, deadly remedy and there will be no need for force."[5] *– Woodrow Wilson*

In their explanations and justifications for the current sanctions' regime on Russia, liberals identify commercial prosperity alongside universal aspirations for certain individual rights, civil liberties, and elected representation as the foundational social contract between citizens and government.[6] Based on these assumptions, liberalism frames sanctions through an explicitly economic lens, measuring the success or failure of sanctions on their ability to inflict economic costs on the targeted state and motivate domestic political and social liberalization. In framing the West's response to Russian aggression, liberalism contends that (because individuals are represented at the heart of government and are, therefore, responsible for the decisions of that government), liberal societies are less likely to "bear the burdens of war" and more likely to achieve high levels of cooperation and interdependence both within the state (between rivaling political factions and between the state and private institutions) and amongst other states that share their foundational principles.[7] Seeking to mitigate the necessity of military power for securing the prosperity of the nation through societal wealth accumulation, liberal

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[5] "Economic Sanctions Reconsidered," *Peterson Institute of International Economics,* Chapter 1 (n.d.), p. 1, https://www.piie.com/publications/chapters_preview/4075/01iie4075.pdf

[6] Michael W Doyle, "Kant, Liberal Legacies, and Foreign Affairs," *Philosophy & Public Affairs* 12, no. 3 (1983), p. 231. http://www.jstor.org/stable/2265298

[7] Michael W Doyle, "Kant, Liberal Legacies, and Foreign Affairs," p. 228

internationalism is predicated on two concepts: (1) global "perpetual peace" is only achievable through the expansion of liberalism and (2) liberal collective security requires the isolation of illiberal states from the liberal world.[8]

Former U.S. president Woodrow Wilson, a pioneer of liberal internationalism in the early 20th century, spoke in 1919 in support of the League of Nations that "A nation that is boycotted is a nation that is in sight of surrender. Apply this economic, silent, deadly remedy and there will be no need for force."[9] Immanuel Kant, another liberal internationalist, in his own words, mimicked this principle by stating "Each economy is said to be better off than it would have been under autarky; each thus acquires an incentive to avoid policies that would lead the other to break economic ties."[10] These two foundational aspects of liberalism creates a precedent of justification for the use of sanctions by (1) establishing that the expansion of liberal values as a prerequisite for world peace and then (2) stressing that the isolation of an illiberal state can lead to its liberalization – and serve as the basis for sanctions' regimes as a geopolitical strategy for the U.S. and E.U. in response to Russia's invasion of Ukraine.

1.2 – Realism, a brief overview

"Self-preservation is the first duty of a nation"[11] *– Hans Morgenthau*

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[8] "Perpetual Peace" is a concept coined by Immanuel Kant, a pioneer of liberal internationalism. Kant argues that worldwide "perpetual peace" – the absence of inter-state conflict – is only possible if all societies liberalize with republican, representative government. More can be read in Michael Doyle's *Liberalism and World Politics*; Michael W Doyle, "Kant, Liberal Legacies, and Foreign Affairs," p. 231

[9] The League of Nations is widely considered one of the first iterations of international liberalism institutionalized, read more here: Sophie Crockett, "The Role of International Organisations in World Politics," *E-International Relations Students* (2012); (n.a), "Economic Sanctions Reconsidered," p. 1

[10] Michael W Doyle, "Kant, Liberal Legacies, and Foreign Affairs," *Philosophy & Public Affairs* 12, no. 3 (1983), p. 231. http://www.jstor.org/stable/2265298

[11] Hans J. Morgenthau, "The Primacy of the National Interest," *The American Scholar* 18, no. 2 (1949), p. 207-212. http://www.jstor.org/stable/41205156.

Realists explain the current sanctions' regime on Russia as part of a return to an international system of anarchy that is a foundational assumption of political realism – arguing that interdependence and cooperation amongst great powers is futile and that the Kremlin was always going to view sanctions as an attack on the Russian state rather than a coercive tactic to end its aggression towards Ukraine. Realism is a theory of international relations predicated on three central doctrines: (1) the state is foundational, and it (2) pursues its national interest in (3) an environment defined by anarchy.[12] In realism, the state views "security as its sole responsibility, casts caution on alliances that outsource its national security, and remains suspicious on economic relations and the national interest."[13] Whereas liberalism envisions cooperation and interdependence between states within the international system as a positive-sum game, realists assume all states act only in the self-interest – the global system is zero-sum. This foundational distrust of others heightens the importance of military pre-eminence and often wedges the objectives of the state with those of business interests.

Thucydides famous quote – "The strong do as they will, the weak suffer what they must" – is considered a foundational quote in political realism and continues to define realist foreign policy millennia later.[14] *Foreign Affairs Magazine* hinted at Thucydides in its discussions on Russia's invasion of Ukraine, arguing that "Detractors contend...spheres of influence are morally indefensible, as the great powers condemn smaller countries to suffer at the hands of their larger

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[12] (n.a), "Economic Sanctions Reconsidered," p. 1

[13] Jonathan Kirshner, "Realist political economy: Traditional themes and contemporary challenges," In *Routledge handbook of international political economy (IPE)*, Routledge (2009), p. 36

[14] Thucydides quote originates from the Peloponnesian War, a battle in which the stronger city-state of Athens bombarded the weaker city of Melos until it met the demands of the Athenians, demonstrating the value of military primacy in realist international relations theory; Richard Crawley (trans.) "Thucydides, the Peloponnesian War, the Melian Dialogue (Book 5, Chapter 17)," Thucydides, The Melian Dialogue. *MIT*. Accessed February 11, 2023. http://academics.wellesley.edu/ClassicalStudies/CLCV102/Thucydides--MelianDialogue.html.

neighbors. Yet this is… more often a mere fact, an assertion of geography and power."[15] Through a realist lens, the Kremlin does not view the economic sanctions waged against it by the West as any different from physical aggression on its territory – both constitute an attack on the state and grant the Kremlin a prerogative to pursue its national interest, which sees benefits in acquiring Ukrainian territory and creating a buffer between the Russian heartland and its NATO rivals positioned to the west. Additional arable land may also offer Russia additional leverage over critical global food staples like wheat and maize, a transaction the Kremlin deems more valuable than the interdependent commercial prosperity foundational to liberal IR theory.

1.3 – Corporatism, a brief overview

"Corporatism is…an institutionalized pattern of policy formation in which large interest organizations cooperate with each other and with public authorities…in the 'authoritative allocation of values' and in the implementation of such policies."[16] *– Gerhard Lehmbruch*

In their explanations of the ramifications of sanctions on Russia, both liberals and realists assume a trade-off between economic prosperity and political security. Liberals assume that sanctions stress a state's domestic social contract, exposing illiberal leaders to calls for regime change as citizens seek reconciliation with the liberal world; realists, conversely, consider the isolation of a state's political economy as an ultimate guarantor of security. Neither of these dominant theories of IR (particularly in foreign policy media) explores the potential of sanctions

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[15] Emma Ashford, "The Persistence of Great-Power Politics," *Foreign Affairs* (February 21, 2023), https://www.foreignaffairs.com/ukraine/persistence-great-power-politics.

[16] Lucio Baccaro, "What is Alive and What is Dead in the Theory of Corporatism," *British journal of industrial relations* 41, no. 4 (2003), p. 685

to generate wealth for key interest groups within the state, nor do these theories investigate the relationship between private and public institutions in implementing sanctions in an interconnected world.

Sanctions are a disruption to trade – by definition, they create a polarization. Some industries and interest groups will gain from the artificial manipulation of supply and demand curves brought forward by sanctions, while others will lose – this is a central tenet in the corporatist lens of IR. Yet these developments are largely omitted in realist and liberal theory – both theories assume the dominance of the state in matters of foreign policy. Corporatists stress the polarization of political economy primarily from the perspective of private businesses rather than the realist and liberal lenses centered on states. While corporatism shares some statues with realism – including that "most actors most of the time are motivated by self-interest" – according to this perspective it is private power, not state power, that dominates the international system.[17] In the context of sanctions, corporatists view their development as a face-off between rivaling interest groups, which "cooperate with each other and with public authorities…in the implementation of such policies."[18] In corporatism, the state often serves as a tool of the dominant interest groups that – through coercion, collusion, or corruption – use state power to alter the effect of market externalities (sanctions are classified here).

Critically, corporatists do not assume sanctions are a negative externality like they're assumed in liberalism, nor an opportunity for heightened security as hinted in realism. Instead, corporatism classifies negatives and positives on a case-by-case basis, determining the winners and losers of these disruptions and how these players influence the state. In the context of sanctions on Russia, corporatists consider their failure to alter the Kremlin's strategic calculus as

[17] James H. Nolt, *International political economy: The business of war and peace*, Routledge, (2014) p. 6
[18] Lucio Baccaro, "What is Alive and What is Dead in the Theory of Corporatism," p. 685

an inevitable development resulting from a (1) positive risk-reward calculus amongst dominant factions of the business community assisted by their (2) collusion or cooperation with the state. Examples and analyses of these interest blocs are discussed in sections below.

2.0 – RESEARCH DESIGN

Sanctions are a complex tool – they consist of a variety of different styles, ranging from individual sanctions on political, military, and business entities to embargoes on the import and export of certain products, to the isolation of a nation's financial sector. For the purposes of this thesis, sanctions are defined with the Merriam-Webster definition: "an economic or military coercive measure adopted usually by several nations in concert for forcing a nation violating international law to desist or yield to adjudication."[19] Sanctions are not a new phenomenon – through various forms they have existed since the dawn of the first rivaling city-states. In its current form – used as a means of coercing a nation to align with international consensus – sanctions' popularity has grown considerably since the creation of the UN in 1945 (see graphs).[20]

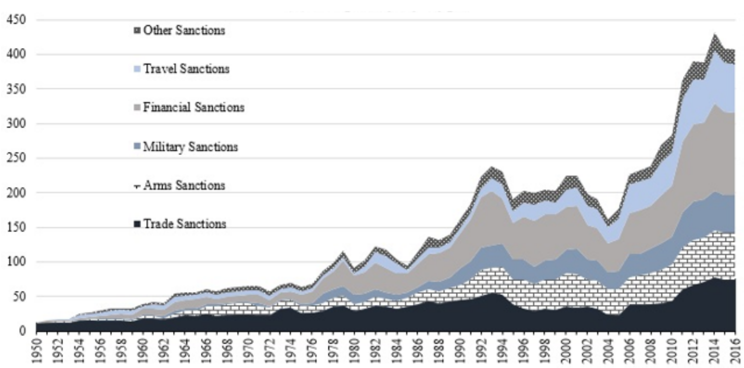

Figure 1.1: CEPR – Types of Sanctions since 1950

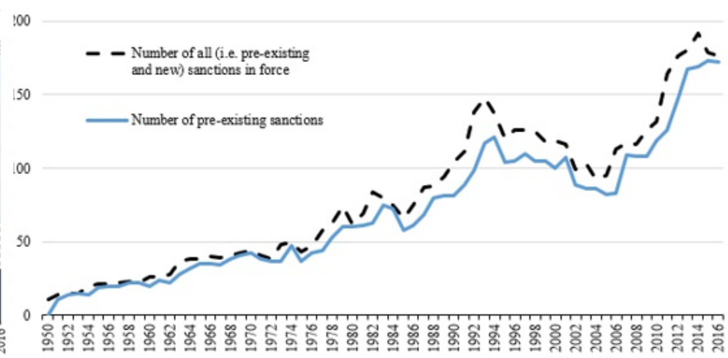

Figure 1.2: CEPR – Frequency of Sanctions since 1950

Bipolarity in the global order between the U.S.A and the U.S.S.R, alongside the integration of economies and the emergence of globalization, all contributed to the escalating use

[19] Merriam-Webster, "Sanction," (n.d.), https://www.merriam-webster.com/dictionary/sanction
[20] Yoto Yotov, Erdal Yalcin, Aleksandra Kirilakha, Constantinos Syropoulos, and Gabriel Felbermayr. "The Global Sanctions Data Base," CEPR, (August 4, 2020). https://cepr.org/voxeu/columns/global-sanctions-data-base

of sanctions in international relations since the end of WWII. The development of economic blocs like the European Union and political blocs like NATO, coupled with integration of the world's financial systems and the growth of multinational corporations, led to an interdependence and a greater capacity for coordination amongst nations that heightened the popularity of sanctions.

Globalization in the late twentieth century, therefore, proved critical in the rising popularity of sanctions and the capacity for sanctions to elicit real behavioral change from targeted nation states. The sanctions against South Africa in the 1960s, Yugoslavia in late 1980s, and Iraq in the early 1990s are considered some of the more successful in sanctions' history. These sanctions packages were UN-approved and U.S.-backed (critical for financial pressure), and each of these resulted in the aggressor or "rogue" nation curtailing its initial violation and aligning with the international consensus. Notable sanctions' regimes that have failed, however, include those against North Korea and Iran – in each of these cases, the targeted nation maintained its autonomy in foreign and domestic policy, and its leaders often consolidated their political power over their state. To solve the puzzle of Russian sanctions, then, two aspects of the topic are analyzed in conjunction: (1) what are the intended effects of sanctions by the nation states designing and implementing them? And (2) what are the actual effects of sanctions on the targeted nation?

The intent question regarding sanctions focuses on its coercive effects against the targeted state. The use of the term "coercion" is critical here – sanctions are dependent on internal pressures as much as external. Unlike an embargo – classified as an "act of war" by the UN – sanctions intend to direct public pressure against the ruling political authority by lowering the domestic population's standard of living through varying degrees of aggression and speed.

As a construct in international relations, sanctions aim to elicit a behavioral change by motivating a nation's domestic politics to pressure its political leaders. Following this definition, this thesis operates under the UN interpretation of sanctions as *not* entailing an act of war.

Russia is a particularly dynamic case to study in the context of the "intent" versus "effect" question of sanctions. Its substantial natural resources, particularly its vast hydrocarbon wealth, means Russia is a critical trading partner for nations across the world, separating it from sanctioned states like North Korea that lack economic relevance.[21] As a result, sanctions on Russia are high stakes for all parties involved since all sides are financially exposed to each other. In addition, unlike other sanctioned countries like Iran, Russia's economy is large – it is the 11th largest in the world by GDP.[22] Consequently, Western companies, including powerful oil and gas firms and multinational banks, are tied up in Russia's economic future, complicating the design and implementation of sanctions by host governments. The benefit of these ties, however, is relative transparency – many Western firms are required to provide information about their operations within Russia, offering a glimpse into its financial situation that is not possible in other sanctioned states. Furthermore, within Russia the Kremlin's power is uncontested – therefore, media reporting on the influence of sanctions on Russian leadership is more common and more accessible, differentiating Russia from other sanctioned states like South Sudan and Venezuela, where power is more contested. Finally, in the backdrop of these Western-led sanctions is the geopolitical rivalry between the United States and Russia. The success or failure of these U.S.-coordinated sanctions on Russia has a wide audience of nation-states anxiously watching – especially China, which has its own paralleling ambitions to annex Taiwan.

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[21] "Russia - trade," World Bank – World Integrated Trade Solutions, last accessed March 9, 2023, https://wits.worldbank.org/countrysnapshot/en/RUSSIA

[22] "Economy of Russia," Wikipedia, last modified March 8, 2023, https://en.wikipedia.org/wiki/Economy_of_Russia

To contrast the intended versus actual effects of sanctions on Russia, this thesis relies on quantitative and qualitative data to establish links between the design of Western sanctions and their effects (or lack of) within Russia. This thesis examines quantitative economic data from financial data bases like Moody's Analytics, Bloomberg Economics, and Statista that offer hard evidence on the state of Russia's economy pre-sanctions and post-sanctions. Russia's fiscal situation is regularly reported by international financial institutions like the IMF alongside multiple Western financial resources, like the Bloomberg Terminal. These data points range from quarterly GDP figures indicating Russia's general economic outlook, to more pointed data points that track individual industries – including Russian oil and gas or its sovereign debt.

Contextualizing the quantitative economic data, this thesis utilizes a variety of qualitative reports, including official government statements, corporate reports and plans of action, investigative journalism, and media commentaries – noting biases where applicable. Through discourse analysis from Western media outlets, political interviews, propaganda statements, and official decrees, coupled with explanations of sanctions' design and implementation, this thesis attempts to identify key narratives of the effect of sanctions on relevant players and – especially – its effects within Russia.

However, given that the Russia-Ukraine war is ongoing, and that the sanctions' regime is only a year or so into its implementation, analysis of Russian data points alone will not demonstrate the effectiveness or ineffectiveness of sanctions. To contextualize these data points, this thesis cross-references with historical analyses of previous sanctions' regimes. By paralleling the short-term and long-term effects of previous sanctions packages (in terms of their design and their intended effect) with contemporary data, drawing correlations and conclusions that answer whether the effects of sanctions on Russia are yielding the intended results are possible. The list of previous sanctions' regimes is long and full of complexities, so for the purposes of this thesis, sanctions' regimes that qualify for cross-reference analysis must (1) exhibit coordination between multiple states, (2) be comprehensive in their sanctions packages, involving trade restrictions alongside individual targeting and financial isolation, and (3) must be inflicted against states integrated into the global financial system.

To conclude, the contemporary nature of the ongoing sanctions' regime on Russia complicates the ability to study it, but by utilizing both quantitative and qualitative data points from a variety of sources, this thesis can draw connections, parallels, and conclusions. Coupling these data points with cross-references from previous sanctions' regimes, this thesis contextualizes the design, implementation, and effectiveness of sanctions packages inflicted against the Kremlin to answer questions regarding their efficacy. Despite the long history of sanctions as a construct of international relations, the sanctions on Russia in 2022-23 are unprecedented – both in their design and in their objective, leading to certain nuances that requires perspective and context through historical references.

3.0 – WEAPONIZING SANCTIONS

3.1 – More Sanctions, More Profit

"If you're looking for opportunities to sanction Russia farther, there's an opportunity to do so on aluminum."[23] *– CFO of Alcoa, an American aluminum producer*

Sanctioning the world's 11th largest economy, its third largest oil producer, and its largest wheat producer is certain to create fallout developments amongst various industries in both Russia and the West. The U.S. agriculture industry offers an example. For context, according to the United States Department of Agriculture, agriculture generated $1.26 trillion in GDP in the year 2021, amounting to a 5.4 percent share of U.S. GDP.[24] That same year – prior to the implementation of sanctions – Russia was the world's largest exporter of wheat, the fourth largest exporter of barley, and the tenth largest exporter of corn (maize).[25] In 2022, U.S. farm exports hit record highs of $196 billion, an 11 percent increase over the previous year.[26] Notable in this trend are commodity prices for corn and wheat: corn's exported cost per ton increased by 19 percent on the year, while wheat's exported cost per ton increased 35 percent on the year.[27]

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[23] Scheyder, Ernest. "Alcoa Asks White House to Block U.S. Imports of Russian Aluminum." Reuters. Thomson Reuters (October 13, 2022). https://www.reuters.com/article/ukraine-crisis-usa-alcoa-corp-idUSKBN2R822F.
[24] (n.a), "AG and Food Sectors and the Economy." *USDA ERS - Ag and Food Sectors and the Economy* (January 26, 2023). https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/ag-and-food-sectors-and-the-economy/.
[25] Wheat: Kashish Rastogi, Carmen Ang, "These are the top 10 countries that produce the most wheat," *World Economic Forum* (August 4, 2022) https://www.weforum.org/agenda/2022/08/top-10-countries-produce-most-wheat/; Barley: (n.a.) "Barley - 2021," Observatory of Economic Complexity (Last accessed March 28, 2023), https://oec.world/en/profile/hs/barley; Corn: "Corn - 2021," Observatory of Economic Complexity (Last accessed March 28, 2023), https://oec.world/en/profile/hs/corn
[26] (n.a), "2022 Was Another Record Year for U.S. Farm Exports." *USDA* (February 10, 2023), https://www.usda.gov/media/press-releases/2023/02/10/2022-was-another-record-year-us-farm-exports.
[27] (n.a.), "2022 Was Another Record Year for U.S. Farm Exports." *USDA*.

Though the U.S. and E.U. maintain that food exports from Russia and Ukraine are exempted from sanctions – with the U.S. Treasury's Office of Foreign Assets Control (OFAC) formally stating "the United States has not imposed sanctions on the production, manufacturing, sale, or transport of agricultural commodities…relating to the Russian Federation" – Western banks and insurers' weariness of the sanctions' complexities limited Russia's ability to export.[28] Despite the "record" Russian wheat harvest of summer 2022, *Reuters* reported an "unexpected build-up in [wheat] stocks in the country," leading to accusations by the Russian Union of Grain Exporters alongside Kremlin officials that the West had placed "invisible barriers" to the export of Russian grain.[29] Unfortunately for Russian grain traders, these "invisible barriers" are real – their blame, however, is misguided. These barriers exist owing to risk adversity and return-on-investment calculations practiced by the dozens of grain exporters, international shipping insurers, and global distributers operating in the worldwide grain supply chain that deem Russian wheat too risky to trade – a situation which U.S. and E.U. regulators are powerless to reverse. Even the complete removal of sanctions by government authorities is unlikely to influence the private sector's appetite for Russian grain – the risks of negative publicity in the West or asset seizure in Russia outweigh the potential spoils, at least for the next few years. Though formal analyses of the economic benefits of sanctions for the West are limited, it is obvious that a shift in global supply chains away from Russian food exports to Western ones is beneficial for U.S. and E.U. economic activity – though media reports shy away from discussing this owing to pre-existing assumptions about sanctions, explored in later sections. While the large U.S.

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[28] The Department of the Treasury, "OFAC Food Security Fact Sheet: Russia Sanctions and Agricultural Trade" (July 14th, 2022), https://home.treasury.gov/system/files/126/russia_fact_sheet_20220714.pdf; "Russia's New Crop Wheat Exports Stifled as Western Bank Wariness Bites." Reuters (August 12, 2022), https://www.reuters.com/article/ukraine-crisis-russian-wheat/russias-new-crop-wheat-exports-stifled-as-western-bank-wariness-bites-idINL8N2ZN6CG.

[29] Reuters Staff, "Russia's New Crop Wheat Exports Stifled as Western Bank Wariness Bites," *Reuters*

agribusiness lobbies carry no official position on sanctions, instead toeing the line of the Treasury, their expenditures on lobbying reached record highs last year – topping $125 million (more than the defense lobby), indicating agribusiness' desire to direct U.S. policy towards Russia in a specific orientation.[30]

Big agribusiness is not alone. Several reports from a variety of industries detail that American and European firms are attempting to keep sanctions in place or push for more strict ones to drive profits. U.S. fertilizer is another example. Russia holds a dominant (20 percent) position in the export of ammonia, phosphate, and potash exports, key constituents in the development of fertilizer.[31] Despite sanction exemptions in the trade of Russian fertilizer ingredients, all three have seen dramatic declines in their exports (potash -16 percent, ammonia -63 percent), according to the International Food Policy Research Institute.[32] Fertilizer prices spiked roughly 30 percent in 2022 due to the Russo-Ukraine war, leading the American fertilizer company Mosaic to report massive increases in earnings: Mosaic earned $3.19 per share in 2023, up substantially from $0.41 per share a year earlier.[33] Investigative reporting by *The Intercept* in 2017 revealed Mosaic lobbied the Trump administration to invoke more strict tariffs on Russian phosphate exports at the time in order to channel fertilizer prices upward.[34] Despite Mosaic's officially neutral position on Russian sanctions in 2022-23, it is safe to assume it, like

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[30] (n.a.), "Total Lobbying Expenses, by Sector U.S. 2022." Statista (January 25, 2023), https://www.statista.com/statistics/257368/total-lobbying-expenses-in-the-us-by-sector/.
[31] Claudia Assis, "Fertilizer Company Mosaic Sees High AG-Commodity Prices Continuing Due to Russia-Ukraine Conflict," *MarketWatch* (May 3, 2022), https://www.marketwatch.com/story/fertilizer-company-mosaic-sees-high-ag-commodities-prices-continuing-11651528361.
[32] Joseph Glauber and David Laborde, "How Sanctions on Russia and Belarus Are Impacting Exports of Agricultural Products and Fertilizer." *International Food Policy Research Institute* (November 9, 2022), https://www.ifpri.org/blog/how-sanctions-russia-and-belarus-are-impacting-exports-agricultural-products-and-fertilizer.
[33] Assis, Claudia. "Fertilizer Company Mosaic Sees High AG-Commodity Prices Continuing Due to Russia-Ukraine Conflict." *MarketWatch* (May 3, 2022), https://www.marketwatch.com/story/fertilizer-company-mosaic-sees-high-ag-commodities-prices-continuing-11651528361.
[34] Lee Fang, "Lobbying Blitz Pushed Fertilizer Prices Higher, Fueling Food Inflation." The Intercept (August 3, 2022), https://theintercept.com/2022/08/03/fertilizer-prices-food-inflation-mosaic/.

agribusiness, prefers the current sanctions' package as opposed to the normalization of U.S.-Russia trade relations.

More recently, statements from Pittsburgh-based Alcoa Corporation, the world's eighth-largest producer of aluminum, revealed its desire for the U.S. government to sanction Russian aluminum, with Alcoa's chief financial officer William Oplinger stating at the Goldman Sachs Global Metals and Mining Conference in November 2022, "if you're looking for opportunities to sanction Russia farther, there's an opportunity to do so on aluminum."[35] Oplinger added, "Western world suppliers have had to deal with [an] energy crisis in aluminum and yet the aluminum industry in Russia hasn't had to deal with that."[36] These statements by Alcoa's CFO reveal the hidden dynamics at play in the sanctions regime against Russia. Pitching sanctions as beneficial for American aluminum within the larger global aluminum trade, Oplinger's sidelines the nation-state's centrality in sanctions theory as he reveals his intention to use the U.S.'s sanction policies for the benefit of his company and its shareholders. For context, Alcoa is a roughly $8 billion dollar company on the Dow Jones Industrial, a stock index.

Far from the liberal narrative that hopes to reverse Russia's behavior towards Ukraine by jeopardizing Putin's social contract with the Russian people, aluminum exporters like Alcoa, alongside the U.S. farm lobby and fertilizer manufacturers, want sanctions to be bolstered for the purposes of profitability. Oplinger's statements, coupled with U.S. agriculture's record profit year, beg the question: how would American – or more broadly, Western – policy change if Russia were to liberalize as a result of these sanctions? Would the West and Russia normalize their trading relationship? While foreign policy analysts from popular news media would hail it as a success story for the liberal world order and the start of a new relationship between Russia

[35] Ernest Scheyder, "Alcoa Asks White House to Block U.S. Imports of Russian Aluminum," *Reuters*.
[36] Ernest Scheyder, "Alcoa Asks White House to Block U.S. Imports of Russian Aluminum," *Reuters*.

and the West, it is clear that strong lobbying efforts within the U.S. would continue to push for Russia's isolation. The tangible benefits of profits and jobs simply outweigh the intangible benefits associated with any expansion of liberalism abroad.

3.2 – Hydrocarbons: Oil Bites Back

"We are acutely aware that our decision last week to purchase a cargo of Russian crude oil to be refined into products like petrol and diesel…was not the right one and we are sorry."[37] *–*

Ben van Beurden, CEO of Shell

Market polarizations have a flip side – not all interest blocs win. As stated before, political economy is inherently polarized – therefore, certain industries may benefit from Western imposed sanctions on Russia, while others may not. In the context of Russian sanctions in 2022-23, massive players within the oil and gas industry and the banking sector are opposed to sanctions owing to concerns regarding their global competitiveness or existing strategic investments. These lobbying groups, though losing the initial battle to continue their highly profitable trade with Russia unrestricted, are managing to acquire certain exemptions and carve-outs in the current sanctions' regime. However, the eluding of sanctions remains a popular approach for these two interest blocs in particular.

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[37] (n.a.), "Shell announces intent to withdraw from Russian oil and gas," *Shell Media* (March 8, 2022), https://www.shell.com/media/news-and-media-releases/2022/shell-announces-intent-to-withdraw-from-russian-oil-and-gas.html

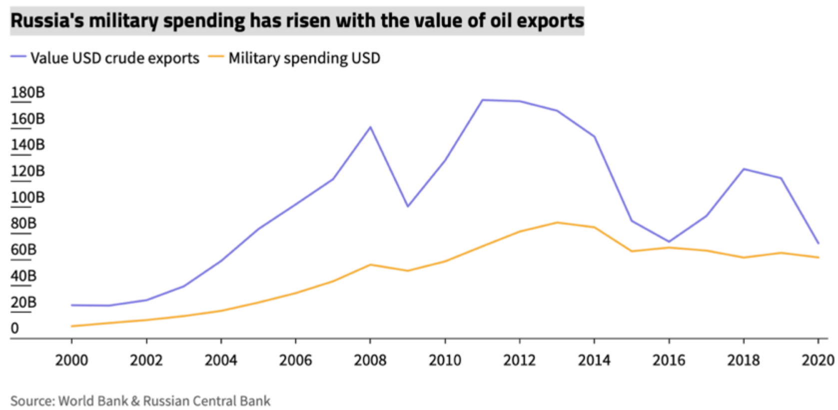

Figure 2.1: Global Witness – Russian military spending and value of oil exports – 2022

American and European oil and gas companies have long opposed any type of limit to their access to Russia's vast hydrocarbon wealth. According to the latest (2020) estimates from Statista, Russia possesses 37.4 trillion cubic meters of a natural gas – the most proven reserves in the world, and far ahead of second place Qatar (24.7 trillion cubic meters) or the United States (12.6 trillion cubic meters).[38] Successive U.S. presidential administrations attempted and failed to pass legislation limiting the ability of American energy firms to work with Russian firms within or outside of Russia, despite the demonstrable relationship between Russian hydrocarbon revenues and its military budget (see graph above). The Kremlin's income is heavily dependent on oil revenues, with roughly 40 percent of Russia's federal budget dependent on the sale of oil and gas.[39] More concerning, Rosneft and Gazprom – Russia's largest oil and gas producers – maintain a strong relationship with the Kremlin and with Putin himself .[40] However, the American Petroleum Institute (API), a lobbying group, repeatedly thwarts attempts to limit, restrict, or sever ties between these Kremlin-owned entities and U.S. oil and gas.[41] American lobbying attempts are matched by European resistance to sanctions against

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[38] Jessica Azarani, "Leading countries by proved natural gas reserves worldwide in 2010 and 2020*." Statista. *Statista Research Department* (January 31, 2023), https://www.statista.com/statistics/265329/countries-with-the-largest-natural-gas-reserves/
[39] Angelina Davydova, "Will Russia Ever Leave Fossil Fuels Behind," *BBC*
[40] Angelina Davydova, "Will Russia Ever Leave Fossil Fuels Behind," *BBC* (November 23, 2021), https://www.bbc.com/future/article/20211115-climate-change-can-russia-leave-fossil-fuels-behind
[41] Gustafson, Thane. "Russia's Accidental Oil Champion: The Rise of Rosneft." In *Wheel of Fortune*, pp. 319-358. Harvard University Press, 2012.

Russia. The E.U.'s largest oil and gas lobbying group, Eurogas Infrastructure Europe – which represents over 60 oil and gas firms operating in the E.U. – rejected a European call to end the import of Russian oil and gas by 2027, despite this position formally agreed upon by European heads of state following the Versailles Declaration condemning the Russian invasion of Ukraine on March 11, 2022.[42] These lobbying groups in the U.S. and Europe only reaffirm the primacy of non-state entities in matters of foreign policy.

As the West attempts to isolate Russia with sanctions, U.S. and European oil and gas firms are lobbying for normalization or demanding domestic concessions. Contradicting expectations, Russia did its most drilling "in a decade" in 2022 despite mounting pressures from sanctions.[43] Some of this oil and gas is being extracted from fields previously owned, operated, or developed by U.S. and European fossil fuel firms. Royal Dutch Shell, for example, held a 27.5 percent stake in the Sakhalin oil and gas field, which was immediately nationalized by the Kremlin after the initial wave of sanctions.[44] British Petroleum fared worse, writing off over $25 billion in investments in Russia as U.S. and European sanctions stranded its assets.[45] Though certain exemptions in the trade of energy were placed in the language of sanctions' packages, fossil fuel companies still struggled to sell oil originating from Russia, as "shipping firms, wary of sanctions, were refusing to carry its cargoes."[46] With the Kremlin consolidating its grasp on hydrocarbon revenues, fossil fuel lobbying efforts are now seeking regulatory relief and

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[42] European industry groups hold more direct power in the European Parliament than American groups do in the U.S. Congress, though there are limits to their spending capacity; "European Gas Lobbyists Linked to Russia." Global Witness, April 1, 2022. https://www.globalwitness.org/en/campaigns/fossil-gas/european-gas-lobby-russian-energy-interests/.
[43] Bloomberg Staff, "Russia Did Most Oil Drilling in Decade Even as Sanctions Hit," *Bloomberg News (*February 14th, 2023), https://www.bloomberg.com/news/articles/2023-02-14/russia-did-most-oil-drilling-in-a-decade-even-as-sanctions-hit
[44] (n.a.), "How Big Oil Helped Russia," *Global Witness* (December 15, 2022), https://www.globalwitness.org/en/campaigns/stop-russian-oil/how-big-oil-helped-russia/#2022-supporting-conflict.
[45] (n.a.), "How Big Oil Helped Russia," *Global Witness*
[46] (n.a.), "How Big Oil Helped Russia," *Global Witness*

concessions within Europe and the U.S. The API took to Twitter in the immediate wake of Russia's invasion of Ukraine, seeking support for domestic pipeline projects and arguing the war jeopardized "U.S. energy leadership."[47]

While fossil fuel firms seek domestic concessions for land drilling or tax liabilities, investigative research from *Global Witness* and *The Intercept* shows the very same companies assisting in the export of Russian oil around the world – TotalEnergy of France is estimated to have facilitated the export of about 30 million barrels of Russian oil, while Shell and BP sit at just over 15 million barrels each.[48] All of these firms declined to comment when pressed by *Global Witness*. Sanctions against Russia are demonstrably unpopular with the oil and gas lobby, contrasting the experience of U.S. agriculture, aluminum, and fertilizer and revealing an inherent polarization of political economy – aligned with the corporatist view of IR.

The development of the current sanctions' regime on Russia involves a heavy-handed approach by industry groups and special interests that carve, alter, or outright manipulate regulatory approaches to sanctions on Russia. Between industrial and agricultural groups on one end and hydrocarbon interests on the other, Western governments are subject to relentless lobbying efforts that satisfy the agendas of one group or the other. Sanctions affecting the banking sector, however, offer a more puzzling power dynamic between public and private institutions – one that blurs the line between realist and corporatist IR theory and underscores a fresh dynamic in 21st century geopolitics.

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[47] (n.a.), "How Big Oil Helped Russia," *Global Witness*
[48] (n.a.), "How Big Oil Helped Russia," *Global Witness*

3.3 – The SWIFT Ban: Finance Meets Security

"***Why would we not turn the most powerful telecommunications and computing management structure on the planet to our use?"***[49] *– Former NSA Director Michael Hayden when referring to using SWIFT data*

The most interesting dynamic at play between private and state power with regards to sanctions is the relationship between SWIFT and the United States Treasury. The decisions to ban or otherwise restrict Russia's access to SWIFT involve several underlying power plays between the large, internationalist banks that developed the SWIFT network and the U.S. and European governments that regulate the money supply of the two most traded currencies in the world (the dollar and the euro). This analysis primarily focuses on the U.S. Treasury's encroachment on SWIFT, since the U.S. dollar functions as the "quasi" world currency and therefore offers the Treasury significantly more reach in matters of foreign exchange.[50]

For context, SWIFT is an interbank payment system that facilitates about 80 percent of all global transactions.[51] SWIFT was founded in 1973 by banks from 15 different countries and is currently headquartered in Belgium and subject to Belgian and E.U. law.[52] It describes itself as a "global member-owned cooperative" – SWIFT does not manage the actual exchange of capital, but it "provides the secure bank-to-bank messaging that is required for international funds

[49] Farrell, Henry, and Abraham L. Newman, "Weaponized interdependence: How global economic networks shape state coercion," *International Security* 44, no. 1 (2019): 42-79, p. 72
[50] Juan J Duque, "State involvement in cryptocurrencies. A potential world money?" *The Japanese Political Economy* 46, no. 1 (2020): 65-82, p.73
[51] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy* 28, no. 2 (2020): 351-368, p. 359
[52] Barry, Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," *CSIS Briefs,* (May 20, 2022) 2-11, p. 2

transfers."[53] SWIFT routes roughly $6 trillion daily between banks, brokerages, stock exchanges, and other institutions and is an integral component of cross-border commerce.[54] As of April 2022, the dollar accounted for 41.8 percent of all SWIFT transactions, the euro 34.6 percent, the British pound 6.3 percent, and the Japanese yen 3.1 percent – in total, currencies under the West's jurisdiction accounted for 85.8 percent of all SWIFT transactions.[55]

SWIFT's absolute dominance of financial messaging by the late 1990s prompted calls for oversight by the G-10 central banks, which was formalized in 1998. SWIFT maintains that since it is "neither a payment nor a settlement system, [it is] therefore not regulated as such by central banks or bank supervisors," but is "subject to oversight as a critical service provider."[56] Reportedly, SWIFT "resisted government pressure for much of the 1990s," but succumbed after the September 11th, 2001 terror attacks in New York.[57] That year the United States granted emergency powers to the Treasury Department's OFAC to "issue administrative subpoenas to obtain financial records related to terrorism investigations" – an emergency power that was codified as the Terrorist Finance Tracking Program (TFTP).[58] SWIFT was under no legal jurisdiction of the U.S. Treasury and, since it is incorporated within the E.U., was instead subject to E.U. law on data security. However, despite its legal status as a private institution subject only to E.U. and Belgian laws, SWIFT complied with U.S. OFAC subpoenas empowered to it by the TFTP, a relationship that was only revealed following a *New York Times* investigation in 2006. Investigations by the European Union revealed that SWIFT had violated "its legal duty as a data

[53] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy*, p. 360
[54] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy*, p. 360
[55] Barry Eichengreen, "Sanctions, SWIFT, and China's Cross-Border Interbank Payments System," *CSIS Briefs*, p. 2
[56] (n.a.) "Oversight - Organization & Governance," *SWIFT* (n.d.), https://www.swift.com/about-us/organisation-governance/swift-oversight
[57] Henry Farrel et al, "Weaponized interdependence: How global economic networks shape state coercion," *International Security*, p. 66
[58] Patrick M. Connorton, "Tracking terrorist financing through SWIFT: when US subpoenas and foreign privacy law collide," Fordham L. Rev. 76 (2007): 283-322, p. 289

controller to inform affected parties that it was providing their financial data to the United States."[59] This conclusion was echoed by the U.S. Secondary Circuit Court of Appeals, which stated in principle that "U.S. courts have an obligation to respect the laws of other sovereign states even though they may differ in economic and legal philosophy from our own." The chief executive of SWIFT in 2010, Leonard Schrank, phrased the situation aptly: "We are caught between complying with the U.S. and European rules, and it's a train wreck."[60] The aftermath of these investigations saw reactions from countries worldwide, as the assumed independence of SWIFT came under challenge. Some E.U. lawmakers advised SWIFT to move its North America operations to Canada to insulate itself from U.S. subpoena power, while Russian President Vladimir Putin offered his thoughts by stating that "politically motivated sanctions have only strengthened the trend towards seeking to bolster economic and financial sovereignty" before adding, "I think our American friends are quite simply cutting the branch they are sitting on."[61]

The aftermath of *The New York Times'* SWIFT investigation resulted in a new relationship between SWIFT and the U.S. Treasury, with the U.S. government doubling down on its right to SWIFT's records. Resistance from the European Commission was met by American confrontation, leading to an official E.U. view that "TFTP remains an important and efficient instrument to the fight against terrorism."[62] In 2012, following formal sanctions on Iran, the U.S. Senate Banking Committee adopted language that would allow it to sanction SWIFT itself if it

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[59] Patrick M. Connorton, "Tracking terrorist financing through SWIFT: when US subpoenas and foreign privacy law collide," p. 292
[60] Patrick M. Connorton, "Tracking terrorist financing through SWIFT: when US subpoenas and foreign privacy law collide," p. 283
[61] Henry Farrel et al, "Weaponized interdependence: How global economic networks shape state coercion," *International Security*, p. 78
[62] Henry Farrel et al, "Weaponized interdependence: How global economic networks shape state coercion," *International Security*, p. 67

allowed Iranian financial institutions to participate in its network, ending any perception of SWIFT as a neutral player in a global system.

The politicization of SWIFT unveils a fresh dynamic in 21st century U.S. foreign policy – one that attempts to reestablish the primacy of the state in international relations, but through institutions and entities that are not state-owned, operated, or even regulated. SWIFT's development served as a microcosm of liberal-oriented globalization in the late 20th century, with financial institutions dissolving domestic barriers and increasing the volume of cross border transactions. Assembled in the ashes of a Bretton-Woods system architected by the governments of the world's largest economies, SWIFT's popularity represented a shift in the power dynamics of international finance – central banks were tempted to the platform, not built into it. While SWIFT headquartered itself in the industrialized economies of the West, it did so not only because banks with the largest available capital are housed there, but also due to a belief in the liberal orientation of advanced Western economies in leaving commerce out of the reaches of government authority – SWIFT has always positioned itself as "a neutral and agnostic infrastructure."[63] The encroachment of the U.S. Treasury into the operations of SWIFT certainly falls out of the doctrines of liberalism. But utilizing privately developed tools of globalization for the advancement of state interests falls between the IR theories of realism and corporatism and represents a hybrid form of international governance reflective of an interconnected global economy.

In the context of Russian sanctions in 2022-23, the use of SWIFT as a tool to isolate Russia's financial institutions was labelled – by the French finance minister no less – a "financial

[63] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy*, p. 360

nuclear option" for the United States and European Union.[64] Russia's highly connected financial sector and its close relations with American and European banks, particularly in the trade of commodity staples like hydrocarbons and grains, meant Russia's excision from SWIFT represented a radical maneuver. Russian banks maintain over $1.4 trillion in assets, with its two largest banks, VTB and Sberbank, accounting for roughly 50 percent of the entire Russian financial sector's assets.[65] Adding to the stakes, the U.S. banking sector kept close relations with VTB and Sberbank: J.P. Morgan cleared trades for VTB, Goldman Sachs held a derivatives-trading agreement with Sberbank, and Citigroup provided global custodial services for both. Russian banks conducted about $46 billion worth of foreign exchange transactions before the sanctions, 80 percent of which were in U.S. dollars that channeled through America's financial firms.[66] In the buildup to the SWIFT ban, Wall Street began to resist. Jamie Dimon, CEO of J.P. Morgan Chase – the largest bank in the world in terms of assets – warned that SWIFT sanctions may bring "unintended consequences," including the decline of the U.S. dollar's global dominance.[67] J.P. Morgan was joined by Citigroup in its efforts to prevent a SWIFT ban, while "other banks with less international exposure were more receptive to the idea," according to *Bloomberg*.[68] About $8.88 billion of U.S. bank investments are still tied up in Russia, mostly

[64] Nicholas Comfort and Natalia Drozdiak, "Why SWIFT Ban Is Such a Potent Sanction on Russia," *Washington Post* (June 3, 2022), https://www.washingtonpost.com/business/why-swift-ban-is-such-a-potent-sanction-on-russia/2022/06/03/a6809b30-e340-11ec-ae64-6b23e5155b62_story.html
[65] Black Sea Trade and Development Bank, "Overview of the financial Sector in Russia," (March 2021), https://www.bstdb.org/Overview_of_the_fin_sector_RUSSIA.pdf
[66] Margot Patrick and Patricia Kowsmann, "U.S. Sanctions Against VTB and Sberbank Aim to Disrupt Russia's Economy," *The Wall Street Journal* (February 25, 2022), https://www.wsj.com/articles/u-s-sanctions-against-vtb-and-sberbank-aim-to-disrupt-russias-economy-11645800587
[67] Hannah Levitt, "Dimon says SWIFT Sanctions May Bring 'Unintended Consequences'" *Bloomberg* (February 28, 2022), https://www.bloomberg.com/news/articles/2022-02-28/dimon-says-swift-sanctions-may-bring-unintended-consequences
[68] Daniel Flatley, Katherine Doherty, Hannah Levitt, "Wall Street Counsels Washington Against Kicking Russia Off SWIFT," *Bloomberg* (February 25, 2022), https://www.bloomberg.com/news/articles/2022-02-25/wall-street-counsels-washington-against-kicking-russia-off-swift

held by the U.S.'s largest and most influential banks, but the U.S. Treasury deemed SWIFT too valuable a tool to resist and disregarded decades of liberal precedent.[69]

The U.S. financial sector, buoyed by the importance of the U.S. dollar in matters of international finance, developed vast business relationships with Russia predicated on a United States government "steeped in the liberal tradition" and supporting institutions "designed to generate market efficiencies and reduce transaction costs."[70] The U.S. Treasury's decision in 2022 to "target the core infrastructure of the Russian financial system" by requiring all private financial firms to close correspondent or payable-through accounts and rejecting all payment transactions attempted with VTB and Sberbank represented a shift in U.S. consensus on the relative autonomy of the finance sector.[71] More broadly, however, it points to a "new geopolitics…which seek[s] to weaponize the unseen technical financial payment infrastructures of global finance in pursuit of particular security agendas."[72] Far from a vanguard for the decentralization of international commerce, SWIFT is instead at the forefront of a shifting foreign policy consensus within the United States that seeks to use private technologies and financial instruments as chokepoints within the complex web of global finance. The influence of the state in matters of private commerce is nominally a realist perspective within IR, yet the dependence of the state on the tools and technologies of private interests, alongside the expectation of their coordination and cooperation, falls somewhere between realism and corporatism. The United States Treasury stranded the assets of some of America's largest and

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[69] Harry Terris and Xylex Mangulabnan, "A Year Later, US Banks Exiting Russia Face Painful Losses," *S&P Market Intelligence* (March 15, 2023), https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/a-year-later-us-banks-exiting-russia-face-painful-losses-74709763
[70] Henry Farrel et al, "Weaponized interdependence: How global economic networks shape state coercion," *International Security*, p. 46
[71] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy*, p. 359
[72] Marieke de Goede, "Finance/security infrastructures," *Review of International Political Economy*, p. 359

most influential banks, with little promise or plan to retrieve them. However, its jurisdiction over SWIFT is murky and legally complex, rendering the power dynamics between the U.S. government and the large banking consortium in charge of SWIFT as a contentious case-by-case issue rather than a consensus approach. Despite its initial purpose as part of the underpinnings of global commerce, SWIFT now finds itself at the heart of U.S. geopolitical strategy – a role it is unlikely to rid itself of so long as its dominance in international banking remains uncontested.

4.0 – POLARIZED POLITICAL ECONOMY

"There is interest in the market. Given the distressed pricing levels [for Russian debt], it wouldn't be a surprise to see opportunistic buying from distressed debt funds down at these levels - hence some of the move higher in prices."[73] *– George Harvey, director at Icap, a global EM brokerage*

The United States and its allies ultimately utilized the "nuclear" option by weaponizing the SWIFT network and isolating major Russian banks from the core infrastructure of international finance.[74] However, missing from their tactics was the coordination of the vast and diverse array of private institutions that are necessary to implement and enforce sanctions. While sanctions succeeded in their original intent to complicate the exchange of capital between Russia and the rest of the world, they also created a market for traders to profit from buying Russian products, services, and debt at value prices and selling them forward. A large economy with "capable technocrats, powerful friends, and lots of products that the world wants," was going to be a challenge to isolate, but misunderstanding polarized political economy and the markets that sanctions create remains a fundamental issue in sanctions' design and implementation.[75]

[73] Bloomberg Staff, "Russian Bonds Return 76 percent as Oil Cash Seeks a Home in Thin Market," *Bloomberg News* (no date) Article accessed through Bloomberg Terminal
[74] Nicholas Comfort and Natalia Drozdiak, "Why SWIFT Ban Is Such a Potent Sanction on Russia," *Washington Post* (June 3, 2022)
[75] Bloomberg Staff, "Biden's $300 Billion Sanctions Shock is Failing to Stop Russia," *Bloomberg News* (no date), Article access through Bloomberg Terminal – URL unavailable

4.1 – Buy the Dip

As we learned earlier, the market for Russian oil and gas is so vast and expansive that a total ban on its exports was politically and economically unfeasible within the West, let alone worldwide. As sanctions complicated the exchange of Russian hydrocarbons globally, they pushed the global price of crude oil upwards, tempering the profitability concerns for traders motivated to ship Russian hydrocarbons (see graph below). In the immediate months following the first wave of sanctions against Russian hydrocarbons, crude oil prices passed $100 per barrel and significantly improved the risk-reward calculus for traders weary of sanctions.[76] The Western response to this market for Russian oil and gas involved the creation of a "price cap" at $60 per barrel for Russian oil – a price the European Union and United States believed would curtail the Kremlin's revenues while also ensuring that their own domestic economies would not reel from significant increases in energy prices.[77] The limited success of this price cap, however, again demonstrates the minimal power of governments in managing and enforcing cross-border trade, particularly of high demand products like fossil fuels.

Figure 3.1: Wall Street Journal – World Crude Oil Prices (WTI) December 2021 – March 2023

[76] "Crude Oil WTI (NYM $/bbl) Front Month," Wall Street Journal | Markets (Last modified April 13, 2023), https://www.wsj.com/market-data/quotes/futures/CL1/advanced-chart
[77] Olaf Konig et al, "G7 Sets Price Cap for Russian Oil at USD 60 Per Barrel," *Baker McKenzie Sanctions News* (December 9, 2022), https://sanctionsnews.bakermckenzie.com/g7-sets-price-cap-for-russian-oil-at-usd-60-per-barrel/

Western companies dominate the oil and gas insurance industry – data compiled by *Bloomberg* indicates that "between 50 percent and 60 percent of vessels that have carried [Russian] oil over the past year are protected against shipowners' liability risks by the London-based International Group of P&I Clubs," a consortium of shipping insurance firms.[78] E.U. regulations on the trade of Russian oil requires that these insurers "obtain attestations from their clients that the Russian crude shipped on the covered tankers complies with the cap," but add that the insurers are "not considered in breach of sanctions as long as they prove they acted in good faith" – a legally weak phrase that grants insurers legal protection through plausible deniability.[79] The opaque nature of oil trading, with several trading and shipping companies incorporated across several nations that may or may not be aligned on sanctions, makes it particularly difficult to enforce the oil price cap. Moreover, evasive maneuvering by traders through practices like oil blending, for example, have made the cap altogether unenforceable.[80] As the E.U. and U.S. shunned Russian oil imports, traders moved to Singapore to cash in on these undervalued hydrocarbons, warehousing oil in Singaporean storage tanks before blending cheaper Russian oil with oil from non-sanctioned states and then selling it back at global prices.[81] Since "financial institutions based in [Singapore] are prohibited from financing or dealing with Russian goods and companies," oil blending offers these institutions legal cover.[82] Ship-tracking data indicates a forty-fold increase in the volume of naphtha (a form of hydrocarbon) arriving in

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[78] Bloomberg Staff, "Russia Still Uses Western Insurance for Half of Oil Shipments," *Bloomberg News* (no date), Article accessed through Bloomberg Terminal – URL unavailable

[79] Bloomberg Staff, "Russia Still Uses Western Insurance for Half of Oil Shipments," *Bloomberg News* (no date)

[80] "Oil blending" refers to the process of mixing crude oils from various different nations in order to obscure the origins of the crude as a technique to evade sanctions or export and import bans; Elizabeth Lowe, "Traders Reap Big Profits in Singapore With Russian Oil," *Bloomberg News* (January 18, 2023), Article Accessed through Bloomberg Terminal – URL unavailable

[81] Elizabeth Lowe, "Traders Reap Big Profits in Singapore With Russian Oil," *Bloomberg News* (January 18, 2023)

[82] Elizabeth Lowe, "Traders Reap Big Profits in Singapore With Russian Oil," *Bloomberg News* (January 18, 2023)

Singaporean ports compared to the same period last year.[83] Oil traders engaging in oil blending are seeing a "20 percent profit margin…more than the typical profit of between 10 percent and 12 percent."[84] This development is substantiated by the U.S. Treasury, which stated that roughly "75 percent of Russia's oil could be moving outside of the price cap."[85] Despite efforts to create and enforce an oil price cap or ban the import of Russian oil entirely, high energy prices allowed Russia to post a record account surplus of $227 billion at the end of 2022, "more than twice the previous all-time high of $120 billion posted at the end of 2021."[86] One of the critical flaws in the U.S. and E.U. "oil price cap" strategy stems from a recurring tendency to view oil trading as a free-market based on economics' doctrines focused on supply and demand curves. Oil does not trade on a "market" as it is frequently envisioned, but in contract forms, known as "futures," that are grounded in future expectations of demand and supply.[87] Interest in the oil market is therefore heightened by sanctions, as uncertainties in price expectations draw in additional speculators. The Kremlin is taking advantage of this new speculation, fronting the cost of ensuring its own oil on the condition that oil is traded outside of the price cap – a deal oil traders are keen to make as demand remains high across the globe. In the months since the United States and European Union attempted to constrain the trade of Russian hydrocarbons, the Kremlin now insures more than a third of all Russian crude, up from less than 20% a year ago.[88]

The combination of massive capital inflows into Russia from the export of oil and the restrictions on Russian money from entering European and American financial markets forced

[83] Elizabeth Lowe, "Traders Reap Big Profits in Singapore With Russian Oil," *Bloomberg News* (January 18, 2023)
[84] Elizabeth Lowe, "Traders Reap Big Profits in Singapore With Russian Oil," *Bloomberg News* (January 18, 2023)
[85] Bloomberg Staff, "Russia Still Uses Western Insurance for Half of Oil Shipments," *Bloomberg News* (no date)
[86] Bloomberg Staff, "Russia's international reserves frow again by 9bn, just shy of pre-wear $600bn level," *Bloomberg News* (no date), Article accessed through Bloomberg Terminal
[87] "Oil and Petroleum Products Explained," U.S. Energy Information Administration (last modified February 22, 2022), https://www.eia.gov/energyexplained/oil-and-petroleum-products/prices-and-outlook.php#:~:text=Crude%20oil%20is%20traded%20in,selling%20a%20futures%20contract%20today.
[88] Bloomberg Staff, "Russia Still Uses Western Insurance for Half of Oil Shipments," *Bloomberg News* (no date)

significant quantities of capital towards Russian sovereign debt markets. Investors dealing in emerging markets are leaning into Russian debt as it outperforms its competitors. Mackey Shields UK LLP, an emerging market (EM) debt fund, was one of several EM funds to benefit from a 76 percent return on investment between July and August 2022 (after the introduction of U.S. and E.U. sanctions on Russian government bonds) on a group of 10 Russian dollar bonds "worth a combined $32 billion" – a "very strong outperformance" according to Mackay Shields' EM co-head Philip Fielding.[89] These funds bet that higher hydrocarbon prices would put upward pressures to recycle petrodollar receipts, allowing Russia to pay back its bondholders despite prevailing skepticism in the market – an accurate prediction as the ruble's rally "on the back of high energy prices" created attractive conditions for bond buybacks. Since sanctions add complexities to the transactions of these debts, Russian bond prices became severely undervalued – Bloomberg's Valuation Service (BVAL) priced June 2047 Russian bonds at 41.4 cents, less than half its suggested valuation if freely tradable.[90] By August of 2022, as Russian sovereign debt bonds outperformed its competitors from other emerging market central banks, J.P. Morgan and Bank of America, among others financial institutions in the U.S. and Europe, reportedly moved back into Russian bond trading.[91] Restrictions on investors put in place by U.S. and E.U. sanctions, coupled with failures in curtailing Russia's oil revenues and associated account surpluses, further highlights the limitations on government authorities in driving successful sanctions' regimes. The imbalances in market values of products within the global political economy are inevitably balanced as enforcement and monitoring mechanisms become

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[89] Selcuk Gokoluk, "Russian Bonds Return 76% as Oil Cash Seeks a Home in Thin Market," *Bloomberg* (Accessed March 31, 2023), Article accessed on Bloomberg Terminal, URL unavailable
[90] Selcuk Gokoluk, "Russian Bonds Return 76% as Oil Cash Seeks a Home in Thin Market," *Bloomberg*
[91] Laurea Benitez, Katherine Doherty, "JPMorgan, BofA Are Among Banks Moving Back into Russian Bond Trading," *Bloomberg* (August 15, 2022), https://www.bloomberg.com/news/articles/2022-08-15/jpmorgan-bofa-among-banks-moving-back-into-russian-bond-trading

more expensive than evasion or circumvention of those mechanisms – in this case the U.S. and E.U. sanctions' regime against Russia.

4.2 – Cross-Border Dealmaking

A consistently underreported and underrecognized component of sanctions' regimes is the capacity for neighboring states to profit from the financial constraints enforced against the targeted state. Kazakhstan is currently undergoing this experience owing to sanctions against Russia – with its Agency for Regulation and Development of the Financial Market reporting that ruble-denominated government securities (known as OFZs) saw over $1.4 billion in transactions since the first wave of sanctions in March through December of 2022.[92] While the Kazakh agency did not offer comparisons to 2021 figures, its Central Securities Depository revealed it saw a "100-fold eight months in the volume of registered eurobonds and OFZ debt" traded through Kazakhstan's financial center.[93] Maintaining close relationships with Russian financiers, Kazakh financial firms are able to purchase Russian debt at steep discounts and then allow "buyers to collect coupon and principal payments by registering the debt with a Kazakh clearing house" – enabling Kazakh financial firms to circumvent the brunt impacts of sanctions on Russian debt. Since Kazakhstan toes the Western line in not officially recognizing Russia's

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[92] Nariman Gizitdinov, "Kazakhstan Lifts Veil for Market Backdoor on Buying Russian Debt," *Bloomberg* (January 12, 2023), https://www.bloomberg.com/news/articles/2023-01-12/kazakhstan-lifts-veil-on-market-backdoor-for-buying-russian-debt

[93] OFZ refers to ruble-denominated debts issued by the Russian Finance Ministry; Nariman Gizitdinov, "Kazakhstan Lifts Veil for Market Backdoor on Buying Russian Debt," *Bloomberg* (January 12, 2023), https://www.bloomberg.com/news/articles/2023-01-12/kazakhstan-lifts-veil-on-market-backdoor-for-buying-russian-debt

annexed Ukrainian territory or outwardly supporting the war effort, it is able to avoid scrutiny or secondary sanctions brought forward to it by the United States and Europe.

This same phenomenon was observed during the 1980s sanctions against Yugoslavia, where the International Criminal Tribunal (ICT) investigated the growth of financial infrastructure in neighboring Cyprus. The ICT observed that nearly 500 Yugoslav firms set up offshore holding companies in Cyprus and sent foreign exchange reserves there in anticipation of asset freezes by the UN and United States.[94] Through this operational base, Yugoslav firms could conceal the origin of goods and arrange evasive tactics to ensure the flow of goods and capital into and out of Yugoslavia. Despite the additional four-decades of evolvement of sanctions theory or the additional pressures of the SWIFT ban, the polarization of markets created by sanctions is regularly exploited – this time by savvy financiers in Russia and Kazakhstan as part of a plan to cash in on well-priced Russian sovereign debt. Implementing secondary sanctions on Kazakhstan would only further incentivize more traders to enter the market in hopes of acquiring it, as its scarcity in the market pushes its value upwards. This polarization is recognized and predicted in corporatist IR theory, but regularly confounds policy makers in the West since it reduces the power of government in geopolitical confrontations.

[94] Peter Andres, "Criminalizing consequences of sanctions: Embargo busting and its legacy," *International studies quarterly* 49, no. 2 (2005): 335-360.

5.0 – EXISTING ARGUMENTS

5.1 – Liberals and Sanctions: Russia is Hard to Quit

Clear after a year of sanctions against Russia is the persistence of the liberal world view amongst foreign policy media and pundits in the West. Popular political magazines like *Politico* and *Foreign Affairs,* amongst others, continue to rely on terminology like "cost-benefit analysis" and "economic costs" in their explanations and justifications for the current sanctions' regime against Russia.[95] By framing these sanctions through this explicitly economic and intentionally mathematical lens, liberals simplify the complexities of sanctions into universal principles and abstractions that avoid case-specific analysis. Little is mentioned about how exactly these cost-benefit analyses are calculated – instead, these terms are flung around with a priori assumptions that the West maintains undeniable advantages over Russia. The effects of sustained high energy prices and runaway inflation on the very Western economies inflicting sanctions upon Russia, for example, and the potential for Russians to determine a cost-benefit analysis predicated on different assumptions – such as the value of security or self-sufficiency – are largely omitted. Instead, liberal media relies on the same assumptions of commercial prosperity and universalism that were championed by the first advocates of liberalism a century earlier.

In an almost perfect reference to Woodrow Wilson's 1919 speech in support of the League of Nations, which claimed "A nation that is boycotted is a nation that is in sight of surrender. Apply this economic, silent, deadly remedy and there will be no need for force,"

[95] Moshe Hoffman, and Erez Yoeli, "Opinion: How Game Theory Explains Why We Have to Sanction Putin - Even If It's Costly." *POLITICO* (April 21, 2022), https://www.politico.com/news/magazine/2022/04/21/russia-sanctions-game-theory-00026566.

Politico signals the economic losses associated with Putin's invasion of Ukraine as the crux factor in Russia's foreign policy calculus.[96] In its article, "How Game Theory Explains Why We Have to Sanction Putin – Even if It's Costly," *Politico* establishes sanctions as the basis of a cost-benefit curve that will, alone, alter the strategic outlook of the Kremlin.[97] It is not alone – *Foreign Policy Magazine*, *The New York Times*, and numerous other popular Western news outlets all assume the West's position as strategically superior before emphasizing the efficacy of sanctions. While easily marketable for an American or European audience, narrowing the discussion of sanctions to a lens based on existing liberal frameworks constrains the ability of liberal foreign policy pundits to see the reality of sanctions. Questions regarding the lack of effectiveness of the West's sanctions one year into Russia's invasion of Ukraine are instead met with insistence – from a broad range of editorial work – that they are actually working (see *Foreign Affairs, The Economist,* and *The New York Times* articles all defending this position).[98] Beyond the proposition of moral righteousness or political savviness, sanctions are also considered an indirect tool for liberalizing a state by pressuring illiberal leaders through popular uprising – another concept borrowed from theoretical frameworks developed a century prior.

As mentioned earlier, economic liberal theory maintains that economies are "said to be better off" than it would be under autarky, and therefore holds that nations operate with an

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[96] The League of Nations is widely considered one of the first iterations of international liberalism institutionalized, read more here: Sophie Crockett, "The Role of International Organisations in World Politics," *E-International Relations Students* (2012); (n.a), "Economic Sanctions Reconsidered," p. 1
[97] Hoffman et al, "Opinion: How Game Theory Explains Why We Have to Sanction Putin - Even If It's Costly."
[98] Vladimir Miloy, "The Sanctions on Russia Are Working," *Foreign Affairs* (January 23, 2023), https://www.foreignaffairs.com/russian-federation/sanctions-russia-are-working; "Western Sanctions Will Eventually Impair Russia's Economy," *The Economist*, August 24, 2022, https://www.economist.com/finance-and-economics/2022/08/24/western-sanctions-will-eventually-impair-russias-economy; Valerie Hopkins and Anatoly Kurmanaev, "War and Sanctions Threaten to Thrust Russia's Economy Back in Time," *The New York Times* (December 7, 2022), https://www.nytimes.com/2022/12/05/world/europe/ukraine-war-sanctions-russia-economy.html.

incentive to avoid policies that would "lead the other to break economic ties."[99] Western media stories on Russia follow this trajectory almost perfectly – narrating that as the pain of sanctions squeezes Russians internally, diminishing their quality of life and their access to the riches of the liberal world, their patience with their regime will falter, eliciting calls for regime change and a path towards reconciliation with the West. Some go as far as to predict it – a recent *Foreign Affairs Magazine* article suggested that with Putin's demise comes "democracy for Russia," as losses on the battlefield make "his regime vulnerable to challenge from within."[100]

Liberal internationalism created a precedent of justification for the use of sanctions by (1) establishing that the expansion of liberal values as a prerequisite for world peace and then (2) stressing that the isolation of an illiberal state can lead to its liberalization. Even more so in the contemporary era of globalization, liberal theory is rooted in assumptions that liberalism advances commercial prosperity, making a powerful argument that the very use of sanctions is itself enough to inspire "a pressure which…no modern nation could resist."[101] Unfortunately for liberals, contemporary sanctions' regimes do not inevitably create the conditions for domestic unrest that liberal theory assumes.

Liberal assumptions exaggerate the role of that state within international relations, mistakenly placing governments at the center of sanctions' organization and implementation. The sanctions on Russia in 2022 were introduced and motivated by government authorities in the United States and European Union. Unfortunately for Washington and Brussels, however, sanctions designed in government offices do not always bring forward the cooperation or

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[99] Michael W Doyle, "Kant, Liberal Legacies, and Foreign Affairs," *Philosophy & Public Affairs* 12, no. 3 (1983), p. 231. http://www.jstor.org/stable/2265298

[100] Garry Kasparov and Mikhail Khodorkovsky, "Don't Fear Putin's Demise," *Foreign Affairs* (January 27, 2023), https://www.foreignaffairs.com/ukraine/dont-fear-putins-demise.

[101] (n.a), "Economic Sanctions Reconsidered," p. 1

coordination of non-state entities like corporations. Though some corporations moved out of Russia, most continue to linger owing to vast existing and highly profitable operations within Russia, including massive energy firms like France's Total Energy and construction giants like America's Caterpillar.[102] In total, only 8 percent of Western firms have fully left or divested from the Russian market.[103] Though articles from leading publications like *Foreign Policy Magazine* may state that the Russian economy is "no longer necessary for the world," the private sector has signaled that Russia is hard to quit, tying the West to Russia's domestic economy and frustrating efforts to isolate and – presumably – liberalize it.[104]

The liberal world view also exaggerates the desire of illiberal states to align themselves with the liberal world. In the case of Russian sanctions, the motivations for sweeping economic and financial isolation followed a similar thought logic to the claims of Wilson a century earlier: liberal commercial prosperity outweighs the spoils associated with war. A year into punishing sanctions on Russia, however, and it's clear that Russia's vast resource wealth coupled with Western demand is countering efforts to disrupt the Kremlin's war machine. Despite the supposed turmoil, Putin's appears to have solidified his social contract with the Russian people. While this thesis does not dive into the intricacies of this contract, it is important to note that in the wake of Russia's invasion of Ukraine, President Putin's approval rating jumped to 83 percent by March of 2022, up from 69 percent in December 2021.[105] By January of 2023, despite

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[102] "Over 1,000 Companies Have Curtailed Operations in Russia-but Some Remain," *Yale School of Management (*February 23, 2023), https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain.

[103] Wilhelmine Preussen and Nicolas Camut, "Majority of Western Companies Doing Business as Usual in Russia, Study Finds," *POLITICO* (January 23, 2023), https://www.politico.eu/article/majority-of-western-companies-continue-business-in-russia-study-finds/.

[104] Jeffrey Sonnenfeld and Steven Tian, "The World Economy No Longer Needs Russia," *Foreign Policy Magazine* (January 19, 2023), https://foreignpolicy.com/2023/01/19/russia-ukraine-economy-europe-energy/.

[105] "Putin Approval Rating Russia 2023," Statista, last modified February 2, 2023, https://www.statista.com/statistics/896181/putin-approval-rating-russia/.

numerous setbacks on the physical battlefield, Putin's approval remained around 80 percent, according to statistics compiled by the Levada Center, an independent pollster within Russia.[106] These figures square directly against the liberal assumption that domestic populations will yearn for a liberal regime change when isolated from the liberal world, yet little is mentioned in Western media or foreign policy circles for the support for Putin's illiberalism within Russia.

The flaws in existing liberal IR theory are regularly overlooked or ignored by foreign policy media – and in the case of Russian sanctions, theory is not limited to academic discourse. Foreign policy publishers do not just analyze, but also influence Western consensus on great power conflict. Authors and editors at *The New York Times* and *Foreign Affairs Magazine*, amongst others, are also contributors to analytical works by think tanks with direct influence on Western foreign policy. Columnists like Paul Krugman and Fareed Zakaria, for example, outwardly believe in the effectiveness and necessity of U.S. sanctions and also regularly contribute to written analyses by the Council on Foreign Relations, a New York-based think tank unofficially referred to as America's "Imperial Brain Trust."[107] Theory, therefore, plays a central role in determining the thought logic of entire arms of the government – without consistent challenge, it stagnates alongside the foreign policy of governments that utilize it.

5.2 – Realists and Sanctions: Putin's Enablers

Of course, it is simplistic to group all foreign policy experts tracking this war into the liberal camp. The significance of the Russian invasion of Ukraine produced a sizeable minority

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[106] Statista, "Putin Approval Rating Russia 2023."
[107] Robert J McMohan, "A Question of Influence: The Council on Foreign Relations and American Foreign Policy," (1985), 445-450

of analyses that claim Russia's invasion is just another signal of the demise of liberalism and the return of realist anarchy endemic to great-power conflict. *Jacobin Magazine* argued that illiberalism pushed by states like Russia was paralleled by its growing popularity within the West and furthered that the wave of political liberalization during the era of American pre-eminence following the collapse of Soviet communism was a brief irregularity in an extensive history of political realism.[108] *Foreign Affairs Magazine* made this point less cryptically, stating, "Detractors contend that spheres of influence are morally indefensible, as the great powers condemn smaller countries to suffer at the hands of their larger neighbors. Yet this is… more often a mere fact, an assertion of geography and power."[109] These analysts see the world's return to great power conflict as the natural state of international relations, and that the unipolar moment of Western (primarily American) power at the end of the Cold War was not a triumph of liberalism but "a declaration of [America's] own global reach and primacy as anything else."[110]

On the surface, realism offers a better explanation than liberalism for the failure of Western sanctions to counter the Kremlin's aggression in Ukraine. As mentioned earlier, in realism the state views "security as its sole responsibility, casts caution on alliances that outsource its national security, and remains suspicious on economic relations and the national interest."[111] This logic, applied to the Russia-Ukraine war, entails that neither Russia's behavior towards Ukraine nor its desire to join the liberal world can be altered by economic sanctions.

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[108] Referencing Francis Fukuyama's claim that "history is over" in the apparent triumph of liberalism over communism following the collapse of the Soviet Union – Fukuyama's *The End of History*: Francis Fukuyama, "The end of history?" *The national interest* 16 (1989): 3-18; Paul Robinson, "The Russian Rebuke to 'End-of-History' Triumphalism Is Complex and Potentially Dangerous," *Jacobin* (December 12, 2022), https://jacobin.com/2022/12/russian-civilizational-theory-conservatism-critique-of-liberalism.

[109] Emma Ashford, "The Persistence of Great-Power Politics," *Foreign Affairs* (February 21, 2023), https://www.foreignaffairs.com/ukraine/persistence-great-power-politics.

[110] Emma Ashford, "The Persistence of Great-Power Politics"

[111] Jonathan Kirshner, "Realist political economy: Traditional themes and contemporary challenges," In *Routledge handbook of international political economy (IPE)*, Routledge (2009), p. 36

Russia will seek self-preservation, ensuring its borders and its interests are insulated from the West by buffering itself through the annexation of Ukraine. Through a realist lens, the Kremlin does not view the economic damages it suffers as a primary concern of the state – so long as security can be maintained or advanced. The benefits associated with seizing Ukrainian territory, which alongside buffer territory against NATO includes vast swathes of arable land, far outweighs the economic costs lobbed by Western governments against the Kremlin. While sanctions may constrain parts of the Russian economy, the Kremlin can also stand to gain economically from the acquisition of Ukrainian territory – Ukraine is Europe's second largest land mass, with 55 percent of its land arable.[112] In 2021, Ukraine supplied over half of the world's sunflower-derived products, 17 percent of the world's barley exports, and 12 percent of global corn exports.[113] The Levada Center's internal polling of Russian citizens referenced earlier insinuates that they – too – believe this trade-off is positive.[114] Additional arable land offers Russia more leverage over critical global food staples like wheat and maize, while the exit of several Western firms from the Russian market offers it the chance to seize foreign assets, offsetting some of the costs of sanctions. Though economic prosperity measured by GDP may decline as Russian trade with the rest of the world falters, Russia gains the more tangible benefits of increased security and political autonomy. Unlike liberals, who tend to view economic isolation as a prerequisite to domestic chaos, realists see this isolation as an ultimate guarantor of security.

Developments over the past year suggest that the realist narrative of IR is proving accurate. The Kremlin, taking advantage of American and European firms leaving Russia, is

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[112] (n.a), "Ukraine Agricultural Production and Trade," *USDA – Foreign Agricultural Service (*April 2022), https://www.fas.usda.gov/sites/default/files/2022-04/Ukraine-Factsheet-April2022.pdf
[113] (n.a), "Ukraine Agricultural Production and Trade," *USDA – Foreign Agricultural Service*
[114] Statista, "Putin Approval Rating Russia 2023."

seizing foreign-owned assets within its borders, strengthening its control over sectors of the economy. Former Russian president Dmitry Medvedev admitted as much, stating “the seizure of foreign assets and their possible nationalization” is an option Russia is willing to exercise.[115] These property and asset seizures include oil and gas fields, like the Sakhalin field formerly operated by Shell, furthering Russian leverage over the West and mitigating the effect of sanctions (discussed in previous sections).[116] In realism, sanctions are classified as a weapon – realists do not distinguish sanctions as purely “economic.”[117] As a result, illiberal states will behave as if in wartime – they will isolate themselves, militarize and nationalize their economies, and heighten nationalist rhetoric. A year into this conflict, President Putin’s decision to invade Ukraine has seemingly consolidated the Kremlin’s control over the Russian economy. The ousting of U.S. and E.U. firms has protected Russia’s domestic market from foreign influences, while heightening the Kremlin’s power over its domestic affairs and opening new opportunities for surveillance and propaganda. According to a meta-analysis of comprehensive sanctions packages from 1976-2012, sanctioned economies experience an average GDP decline of 2.3 to 3.5 percentage points.[118] Russia’s economy a year into its sanctions, however, is expected to by grow by 0.3 percent, according to the IMF, a reversal of the IMF’s initial claims of a 2.3 percent to 5.6 percent decline in Russian GDP for 2022-23.[119] Between Q2 and Q3 of the past year, as

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[115] Richard Partington, “Russia Plans to Seize Assets of Western Companies That Pull Out,” *The Guardian* (March 10, 2022), https://www.theguardian.com/world/2022/mar/10/russia-plans-to-seize-assets-of-western-companies-exiting-country.

[116] Sabrina Valle, “Putin Orders Seizure of Exxon-Led Sakhalin 1 Oil and Gas Project,” *Reuters* (October 8, 2022), https://www.reuters.com/world/europe/russias-putin-signs-decree-setting-up-new-operator-sakhalin-1-tass-2022-10-07/.

[117] (n.a), “Economic Sanctions Reconsidered,” p. 1

[118] Matthias Neuenkirch and Florian Neumeier, "The impact of UN and US economic sanctions on GDP growth," *European Journal of Political Economy* 40 (2015): 110-125, p. 117

[119] “Impact of EU Sanctions on the Russian Economy.” CDE Almería - Centro de Documentación Europea - Universidad de Almería. European Documentation Centre, Accessed December 19, 2022, https://www.cde.ual.es/en/impact-of-eu-sanctions-on-the-russian-economy/.

new waves of Western sanctions hit the Russian economy, the percentage of GDP driven by domestic consumption increased by over 8.5 percent, according to Moody's Analytics.[120] Government consumption as a percentage of the economy is pacing up 3 percent quarterly since the first wave of sanctions.[121] It appears the Kremlin is outmaneuvering this sanctions' regime.

Though realism explains several dynamics of international sanctions on Russia, two of its central precepts – that (1) "the mere possibility of conflict" conditions the foreign policy of the state and that (2) states are central in international relations – are not reflected in Russia's behavior over the past year. Russia's own geopolitical maneuvering since its invasion of Ukraine demonstrates its more nuanced approach to international relations than central tenets of realism would predict. Understanding the limits of its own manufacturing and investing capabilities, Russia has turned east, inviting capital from the Middle East, India, and – most notably – China. Russian investors, pivoting away from the dollar and euro, are amassing Chinese yuan, which now constitutes over 14 percent of Russia's stock trading, up from 3 percent before the sanctions.[122] In 2022, nearly 90 percent of Russia's semiconductor imports came from China, up from less than 30 percent in 2021.[123] If operating under a realist framework, the Kremlin's existing anxieties about China's involvement in Central Asia and its sizeable investments in

[120] "Russian Federation - Private Consumption," Moody's Analytics, accessed February 17, 2023, https://www.economy.com/russian-federation/private-consumption.
[121] "Russian Federation - Private Consumption," Moody's Analytics, accessed February 17, 2023, https://www.economy.com/russian-federation/government-consumption.
[122] Alexandra Prokopenko, "The Risks of Russia's Growing Dependence on the Yuan," *Carnegie Endowment for International Peace* (February 2, 2023), https://carnegieendowment.org/politika/88926.
[123] Francois Chimits and Antonia Hmaidi, "China Moves to Fill the Void Left by Russian Sanctions – on Its Own Terms," *Mercator Institute for China Studies* (August 26, 2022), https://merics.org/en/short-analysis/china-moves-fill-void-left-russian-sanctions-its-own-terms.

Russia's interior would limit its involvement with China, yet the Kremlin is prioritizing Russia's commercial revival rather than isolating itself from potential adversaries.[124]

In addition, the West's heavily financialized and business-centric approach to sanctions indicates its awareness that states are not at the center of this conflict. Though the media's spotlight on Putin is natural given his position as chief commander of the Russian military, the sanctions' regime implemented by the United States and European Union demonstrates an understanding that the Russian political system is dominated not by politicians, but by oligarchs and interest groups with connections to the Kremlin. Sanctions on Russia are not limited to the Russian Duma or Russian military leaders, but instead pressure the Kremlin through targeted approaches against Russia's business elite. Defined by the U.S. Treasury's OFAC as "Putin's enablers," over 1400 individuals and 140 organizations have been directly or indirectly sanctioned by the West.[125] These individuals and their associates, all with varying degrees of proximity to Putin, comprise the bulk of targeted individual sanctions against Russia brought forward by the U.S. and E.U. Far from a state-centric orientation, the sanctions' regime against Russia utilizes a far more multifaceted approach intent on reducing the profit margins of Russia's oligarchs, shifting the delicate balance of power between interest groups within the country – what the West deems the real power brokers in Russia.

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[124] Golnar Motevalli, "Russia Is Biggest Foreign Investor in Iran, Trade Official Says," *Bloomberg* (January 29, 2023), https://www.bloomberg.com/news/articles/2023-01-29/russia-is-biggest-foreign-investor-in-iran-trade-official-says.

[125] A majority of these sanctions target the businesses and special interest elite running Russia's vast empire of natural resource wealth, including Vladimir Potanin – oligarch of mining giant Norilsk Nickel, Viktor Vekselberg – oligarch of Renova Holdings, an aluminum exporter, and Alisher Usmanov – oligarch of multiple mining conglomerates, as well as countless others; "Consolidated List of Financial Sanctions Targets in the UK," Office of Financial Sanctions Implementation – HM Treasury (February 9th, 2023). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1135550/Russia.pdf

The sanctions against Russia are a far more complex story than allowed by realist doctrines. The U.S. and E.U. are not engaged in a battle defined by state conflict, but instead employ a hybrid strategy designed to pressure the Kremlin through disruptions to non-state entities – including the large and influential businesses and business elite that form the backbone of Western targeted sanctions. As Russia moves away from the West, rather than moving to isolate its economy to the outside world, it is instead inviting investment from large and potentially adversarial nations like China. Realism's state-centric, isolationist statutes constrain its ability to explain the nuances of sanctions in this 21st century great-power conflict.

CONCLUSION

Wave after wave of sanctions from the United States and European Union and their many global partners has, as of April 2023, failed to change the Kremlin's calculus for its invasion of Ukraine. Over a year since its army first crossed the Ukrainian border, Russia is devising new offenses to crush Ukrainian resistance, while popular support for the war effort is dwindling in the West – recent polling shows an 18 percent increase in the number of Americans that believe the U.S. is providing too much aid to Ukraine, a figure paralleled in Europe.[126] Russian oil continues to pump around the world as clever oil traders seize on attractive distribution arrangements with the Kremlin, ultimately funneling some of that oil back into European and American economies. Though the Kremlin may no longer sell at world oil prices, its more direct relationships with traders and countries interested in its oil is wedging the global oil market, opening avenues for sanctions evasion. These revenues are restoring Russia's accounts, while its financial markets – though smaller – are now even less exposed to the West as it deals increasingly in Chinese yuan and develops infrastructures outside of SWIFT.[127] In the meantime, Western foreign policy media continues to push narratives that sanctions *are* the solution, and they *will* work given enough time. Constrained to a narrative framed with liberal assumptions on international relations, publishers and think tanks direct U.S. and European foreign policy with nation-states at the center – little attention is given to the vast array of private institutions and

[126] Russia Matters Staff, "Polls Show Western Public Favors General Support for Ukraine, But is Increasingly Skeptical About Supplying Arms," *Russia Matters* (February 9, 2023), https://www.russiamatters.org/blog/polls-show-western-public-favors-general-support-ukraine-increasingly-skeptical-about
[127] Alexandra Prokopenka, "The Risks of Russia's Growing Dependence on the Yuan," Carnegie Endowment for International Peace (February 2, 2023), https://carnegieendowment.org/politika/88926

investors engaged in the trade of oil, grains, and bonds originating from the world's 11th largest economy.

The inherent polarization of political economy – the reality that in all transactions exist winners and losers – is regularly minimized or forgotten in foreign policy media. This behavioral pattern reduces the importance of the state and adds layers of complexity to the concept of sanctions, elevating sanctions away from debates of liberalism or realism and into a realm focused on power dynamics rather than theory. The purpose of this thesis is not to highlight that sanctions are doomed to fail or that sanctions are not a vital tool for the 21st century – a looming showdown between the United States and China over Taiwan actually heightens their importance. However, sanctions in their current form do little to alter the political dynamics in the states they target – particularly large and well-connected states like Russia. For sanctions to work, their frameworks must elevate beyond state-centric approaches and address the way money and influence really exchanges hands across the world economy.

The successes or failures of sanctions do not hinge on government authorities – instead, private businesses and financial networks serve as the primary players. Focused on improving profits and minimizing losses, these arrangements of insurers, bankers, traders, and financers participate in trade with Russia through evasive and elusive methods to cash in on underpriced assets. To change this behavior, foreign policy theory stagnates on state-centric approaches that only serve to proclaim big penalties with little ability to enforce them. The notion that sanctions organized by the liberal world can elicit behavioral change in a targeted country – what Woodrow Wilson claimed a "silent and deadly remedy" – is wishful thinking.[128] In practice, effective sanctions must confront businesses, not states. In the case of Russian sanctions in 2022-

[128] (n.a), "Economic Sanctions Reconsidered," p. 1

23, the polarization of markets created by trade barriers only incentivized more elusive and often illicit tactics to turn profit. In the global casino that is today's interconnected economy, minimizing the number of players does not end the game – it only raises the stakes.

Total Words without citations: 13,912

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