Sanctions and Decision-Making Processes in Russia: Towards a Better Understanding?

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Abstract

Sanctions are a method for countries to coerce a change in policy. In theory, when Russia’s largest trading partners all placed sanctions on Russia following its annexation of Crimea, Russia would have eventually decided to withdraw from the region to reestablish its trade relations. Three years later, no such change in policy has occurred. This leads to the question: are sanctions on Russia ineffective? To better understand the extent to which sanctions on Russia are effective, this paper seeks to explore how one can best understand Russian foreign policy decision-making concerning Crimea in response to economic sanctions. To assess this question, I consider the Russian perception of the sanctions, applying Expected Utility Theory and Prospect Theory to investigate if either offer a useful framework for understanding the situation. Ultimately, I argue that Prospect Theory offers a useful lens to view the Russian foreign policy decision-making behavior while under sanctions.

Keywords

Sanctions, Russia, Crimea, Prospect Theory, Expected Utility Theory, Annexation
Introduction

In March 2014, the approximately two million individuals living in the Ukrainian peninsula of Crimea were ‘reunified’ with Russia (Macias, 2015). As a response to this annexation several states placed economic sanctions on Russia. In June 2017, three years later, the EU extended its sanctions, while the U.S. expanded sanctions and committed not to end them until Russia exits Crimea (Kottasová, 2017; Baczynska, 2017). Sanctions are a tool used by states and intergovernmental bodies typically designed to “coerce, deter, punish, or shame entities that endanger their interests or violate international norms of behavior” (Masters, 2015). However, the Russian response to sanctions over the past three years does not indicate that Moscow intends to alter its foreign policy objectives. Therefore, to better understand the extent to which sanctions, and more narrowly sanctions on Russia, are an effective tool, this paper seeks to explore how one can best understand Russian foreign policy decision-making concerning Crimea and in response to economic sanctions. To do so, I use Expected Utility Theory and Prospect Theory – two psychological theories that have been adapted to economics and international relations. Following a discussion of each theory and the explanations each offers for decision-making behavior, I use pattern-matching to apply each theory to pertinent speeches and events to investigate which theory offers the best explanation for Russian decision-making. Ultimately, I argue that Prospect Theory offers the best framework for understanding Russian foreign policy decision-making in light of the economic sanctions. An improved understanding of how states make decisions with respect to sanctions is useful in contributing to the overall debate over whether sanctions are an effective tool to induce change from other states.

Background

Catherine the Great incorporated Crimea into the Russian Empire in 1783, where it remained until Nikita Khrushchev offered it to Ukraine as a “present” in 1954 (Sasse, 2017). In 2013, it appeared that Ukraine would become more politically and economically tied to the West, as the country negotiated a trade agreement with the EU (Aljazeera, 2014). On November 21, 2013, however, Yanukovich announced abandonment of the trade agreement and sought closer ties with Moscow. Massive pro-EU and anti-government protests broke out in Kiev’s Independence Square, ultimately resulting in a change in government. The new pro-Europe government contributes to rapidly deteriorating Ukraine-Russia relations (Aljazeera, 2017).

On March 16, 2014, in a referendum condemned by the West as illegitimate, 97% of voters in Crimea voted to succeed from Ukraine and join the Russian Federation, a move some have viewed as Crimea “returning home” (BBC News, 2015). Following the referendum, leaders of Western states, including the U.S. and EU member states, warned Russian President Vladimir Putin against absorbing Crimea into the Russian Federation and imposed a travel ban and asset freezes on key Russian officials to deter such action. Despite the warnings, President Putin signed a bill to annex Crimea into Russia on March 18,
2014 (BBC News, 2015). Official sanctions on Russia soon followed from the EU, U.S., and a host of other countries, including Australia, Iceland, Japan, and Norway (Dreyer and Popescu, 2014: 1). These countries are against the annexation because they believe that it is a violation of Ukrainian sovereignty.

The Kremlin, on the other hand, justified the annexation through its compatriot policy, officially meant to protect ethnic Russians living in nearby counties (Grigas, 2017). Russia’s compatriot policy was initially introduced by Vladimir Putin in 2000 during his first presidential term and is now outlined in Russia’s “National Security Strategy to 2020”. Further, the Russian constitution states, “the Russian Federation shall guarantee its citizens defense and patronage beyond its boundaries” (Grigas, 2017). From the Russian perspective, in the words of Russia’s Foreign Minister Sergey Lavrov, “We are talking here about protection of our citizens and our compatriots, about protection of the most fundamental of human rights – the right to live – and nothing more” (Treiman, Bunkis and Navarette, 2014). From the Western perspective, though, the compatriot policy is little more than an excuse for a land grab in former Soviet areas, as appeared to be the case in South Ossetia and Abkhazia in 2008 (Grigas, 2017: 4-5). While Russia may view actions beyond its borders as protecting its compatriots, other states view it as a violation of state sovereignty and condemn such actions.

Since the annexation of Crimea, states have scaled up the sanctions several times in addition to blacklisting several senior Russian officials and companies that the West accuses of undercutting the sovereignty of Ukraine (BBC News, 2014). These sanctions have contributed to the current political and economic climate confronting decision-makers in Russia today, which leads back to the main question this paper explores: how can we best understand Russian foreign policy decision-making concerning the economic sanctions and Crimea?

**Theory**

The implementation of the sanctions has sparked a debate over whether sanctions work, and more narrowly, whether sanctions work on Russia. Three years on, experts still do not have a clear answer. The debate, according to Iana Dreyer and Nicu Popescu (2014: 1), revolves around two central themes: the extent of economic impact on Moscow and whether the sanctions are enough to change Russia’s behavior. A third theme considering Moscow’s perception of the sanctions is largely absent from this discussion. The Russian perspective is a crucial component, however, because the real decision-making power to change the situation rests with Moscow. This section, therefore, offers two theories that may be useful in understanding Russian decision-making behavior with respect to the economic sanctions. The fundamental point of contention within these theories revolves around the idea of rational choice, which is the notion that actors always conduct a logical cost-benefit analysis when making a decision.

**Expected Utility Theory**

Expected Utility Theory (EUT), which fundamentally believes actors are rational, offers one potential
lens with which to consider Russian foreign policy decision-making while under economic sanctions. EUT assumes two fundamental aspects about decision makers. First, in accepting that actors are rational, it assumes they always make logical decisions to maximize their benefit. Second, EUT assumes that actors consider the probability of possible outcomes – a certain outcome will be preferable to a chance, even if the guaranteed amount has a lower net gain than the gamble. When dealing with uncertain outcomes, EUT states that decision makers will consider various options based on each option’s expected utility. Utility refers to the subjective value or benefit of the outcome (Mongin, 1997: 342).

Bruce Bueno de Mesquita, who adapted EUT to international conflict, outlines five central axioms that sum up the core of EUT. First, decision-makers are rational, and therefore, order various outcomes in terms of preferences. Second, actors order preferences transitively. The actor will rank preferences so that \( A \) is a more favored outcome than \( B \), which the actor prefers to \( C, D, E \), and so forth. If the cost of preference \( A \) outweighs its benefits, a rational actor would choose option \( B \). The third axiom of EUT is that decision makers know the subjective value (the utility) of their actions. Fourth, actors consider outcomes through examining both the utility of the outcome and the probability of success. This is a potential outcome’s expected utility. Finally, the fifth tenet of EUT is that decision makers always select the option with the greatest expected utility (Bueno des Mesquita, 1989: 144). Generally, the most important variables for decision-makers within the EUT framework is a potential outcome’s probability of success or failure and its expected utility.

This theory is consistent with the logic behind imposing economic sanctions. The sanctioning party or parties inherently assume the rationality of the target and that negotiations will follow the sanctions, eventually leading to a desired goal (Hakimdavar, 2013: 186). In the realm of economic decision-making, the most important consideration is taking into account short-term financial prospects when deciding whether to take a risk for a long-term financial gain (Briggs, 2015).

With specific regards to understanding Russian foreign policy decision-making in response to the economic sanctions, one would expect to see the following while using EUT as a framework: (1) the consideration of alternate outcomes with respect to preferences and the probability of each outcome occurring; (2) the perusal of actions in order of favored outcomes; and (3) for Russia to always choose the outcome that will yield the highest utility. Most importantly, EUT expects that Russia will always rationally weigh the probability of success and the utility of a potential outcome before choosing an action.

**Prospect Theory**

Prospect Theory (PT) emerged as an alternative to EUT in 1979. Critics of EUT claim that one cannot simplify decision-making behavior to merely one model of normative behavior. Rather than rationally considering the utility and probability of an outcome, PT posits that actors make decisions from a
personal reference point and fear losses more than gains, even when each outcome has the same probability of occurring (McDermott, 2001: 18).

Like the five axioms that comprise EUT, there are six major points to PT. First, people think in terms of gains and losses of a decision from a reference point rather than the net outcome of any particular decision. When making a decision, actors are primarily concerned with changes from a perceived position, rather than the final position itself. Second, actors think about gains and losses differently. Decision-makers are less likely to take a risk to gain something and more likely to take a risk to prevent a loss. The third important point to PT is that actors dislike losing more than they like winning. This distaste for losing is called loss aversion, a phenomenon that implies that actors hold more value for what they already have compared to a similar thing they do not possess. The tendency to over-value current possessions is called the endowment effect, which states that the mere acquisition of an object makes the object more valuable to its owner (Levy, 1992: 174-79).

Fourth, PT states that because actors make decisions from a reference point, the framing of a problem, or a decision-maker’s interpretation of a situation is critical to an actor’s response to events. According to PT, framing a choice in terms of gains or losses can significantly influence an actor’s preferences because of loss aversion. The fifth central point to PT posits decision makers overweight small probabilities and underweight high probabilities. This directly contrasts EUT, which states that actors rank possible outcomes linearly by probability. Finally, the last major point of PT is that decision-makers tend to simplify choices, cancelling out options that seem similar and focusing only differing aspects of each alternative option (Levy, 1992: 174-79).

Generally, PT argues that decision-makers (1) consider options from their own reference point; (2) fear
loss (particularly of current possessions); and (3) frame prospective choices in terms of gains or losses. Figure 1 represents the relationship between loss aversion and framing. When actors interpret, or frame, a potential outcome with high probability as a loss, they are more likely to take risks than a high-probability potential outcome in the domain of gains. This is because decision-makers are desperate to avoid significant losses. The opposite is true, however, in a low-probability situation (Byrne, 2013).

With respect to Russian decision making vis-à-vis the economic sanctions and Crimea, there are several components that one would expect to see when using Prospect Theory as a framework. First, one would expect Russian perception of reality to play a bigger role in decision-making processes than objective, rational thought. The framing of choices in terms of loss would also play a large role in explaining Russian actions. This loss aversion would also lead to the over-valuation of what Russia considers to be its “possessions”.

Analysis

To understand if either Expected Utility Theory or Prospect Theory offers a useful framework for understanding Russian foreign policy decision-making behavior with respect to Crimea while under economic sanctions, I apply the major tenants of each theory to key speeches and events. This investigation, while limited by the knowledge available regarding the Russian decision-making process, shows that Prospect Theory provides a useful lens to view Russian foreign policy decision-making behavior.

**Applied Expected Utility Theory**

A central tenet of EUT is the consideration of alternate outcomes with respect to preferences and the probability of each outcome occurring. While it is possible that President Putin and his advisors did consider the probability of success in deciding to annex Crimea, it does not appear that they appropriately accounted for the possible consequences from the international community. In March 2014, Putin publicly revealed that planning to reclaim Crimea began three weeks before the referendum after an all-night meeting with security advisors – the event that Putin previously claimed was his main reason for the annexation (Kondrashov, 2015; MacFarquar, 2015). It is impossible to fully know the events of this all-night meeting, or what probable outcomes the Russian leadership considered. However, giving Mr. Putin and his advisors the benefit of the doubt, it is reasonable to assume that they considered the most strategic and likely to succeed methods for bringing Crimea back into Russia. This type of consideration is consistent with EUT.

However, on March 17, 2014, in the time between the referendum on March 16, 2014 and Russia’s official legislation to annex Crimea on March 18, 2014, the international community warned Russia not to take such action because it would violate the sovereignty of Ukraine. Despite the warnings, Russia did not change its behavior and continued with the original plan. While it is also impossible to know the full
considerations of Vladimir Putin and his closest advisors, it seems apparent that Russian decision-makers did not account for the change in probability of long-term success given economic sanctions. While the implementation of sanctions does not take away the short-term ability for Putin to annex Crimea, it does change the ability to keep Crimea for an extended period of time. Since Crimea is not a self-sufficient territory, annexing it despite an imminent threat of sanctions with the potential to hurt the Russian economy does not appear to show a consideration for alternate outcomes, as one would expect to see given EUT.

Additionally, failing to adapt to the threat of economic sanctions does not show the perusal of actions in order of favored outcomes, another of EUT’s central axioms. However, the seventeen hours of negotiations on the Ukrainian conflict in Minsk, Belarus in February 2015 does appear to align with the EUT notion that actors will pursue transitively ranked preferences. In exchange for the resumption of economic relations (this does not mean an end to the sanctions, however), Russia agreed to a ceasefire in Eastern Ukraine, the withdrawal of weapons, and Ukrainian control of the border by the end of 2015 (Weaver and Luhn, 2015). Such negotiations as the Minsk Agreement appear in accordance with EUT. Russia realized the cost of annexing Crimea and supporting separatist movements in Eastern Ukraine outweighed the benefits, and therefore Russia decided to enter negotiations to move towards a less desired, but overall more beneficial option. This would support EUT as a valid theory for explaining Russian decision-making behavior had Russia adhered to the ceasefire agreement.

However, the Organization for Security and Cooperation in Europe (OSCE) frequently documents violations to the ceasefire and note an increase in violence (Dacic, 2015). In fact, the OSCE noted a violation of the Minsk Agreement on the very day of its implementation, and in conjunction with the Joint Centre for Control and Co-ordination (JCCC) continues to report sometimes over one hundred violations in a single day. These violations are both incoming and outgoing (OSCE, 2015a). The continuous violations of the Minsk Agreement from the very start of its implementation shows that Russia’s apparent willingness to pursue an alternative transitively ranked choice was never serious. Therefore, EUT does not provide a very beneficial framework for understanding how Russian decision-makers rank and pursue the most beneficial strategy.

EUT also expects decision-makers to always choose the outcome that will yield the highest utility. Given the cost of acquiring Crimea and of the sanctions, it does not appear that this is a valid explanation for Russia’s actions. Fischer and Rogoza outline the benefits of the annexation: strengthening support for Vladimir Putin, natural gas and crude oil reserves, ownership of the Crimean tourist infrastructure and other industries, and broad access to the Black Sea (Fischer and Rogoza, 2014). While it is true that the annexation did provide an increase in Mr. Putin’s approval rating, it is also important to note that they were also very high before the annexation. Since 2008, his approval ratings have fluctuated between 54 and 85 percent despite widespread belief in a corrupt government and low confidence in the Russian
economy (Ray and Espiova, 2017). In perspective, President Putin, both before the annexation and after, enjoys a higher approval rating than most other major world leaders (Heintz, 2017). Putin did not need to annex Crimea to save approval ratings because they were never in jeopardy. Similarly, Russia does not need Crimea for oil or natural gas reserves. Russia is already the world's second highest producer of fossil fuels. Estimates suggest that Russia – 633.3 times larger than Crimea – accounts for more than 80% of the world's energy supply and has a 455-year supply of coal (Clemente, 2015). Russia in no way needs to depend on Crimea for energy resources, and in fact, Russia now needs to provide energy for much of Crimea (Fischer and Rogoza, 2014). Additionally, the annexation itself took away much of the benefit Russia could have received from Crimean industry. Since the annexation, industry in Crimea has suffered, especially for tourism. Moreover, more than three-quarters of the region's international investments have since pulled out of the area (Yablokova, 2015). While expanded access to the Black Sea does provide Russia with some utility for military infrastructure, the need for a warm-water port is becoming less necessary as military naval technology advances (Micaleff, 2017). The clear majority of the benefits to acquiring Crimea, as identified by Fisher and Rogoza were not actually very strategic or important for Russian interests, which indicates that the decision to annex Crimea was not an outcome of high utility for Russia.

On top of the lack of substantial benefits to the annexation, it has come at great cost to Russia. In 2014, Russia spent 125 billion rubles on Crimea, and it continues to spend billions annually in the region three years later (Micaleff, 2017). On top of this expense, Russia faces the damaging effects of the economic sanctions. Following their implementation, the Russian economy plunged into a recession, resulting in high inflation, high unemployment, and negative economic growth, that is only showing signs of starting to recover three years later (largely due to rising global oil prices and growing macro-stability) (World Bank Group, 2017). Additionally, inflation is rising and the value of the ruble is dropping. This, combined with Russia’s ban on food imports form the EU and U.S. (in retaliation of the sanctions), has caused a sharp increase in the price of food. Rising food prices have caused difficulties for many Russians and has had a terrible effect on Moscow’s restaurant industry (Birnbaum, 2015). By annexing Crimea, Russian decision-makers chose an option with very little benefit at a very high cost. This does not reflect the EUT concept that actors will always select the option that provides the highest expected utility.

The most important theme of EUT, however, is rational decision-making. EUT expects that Russia will always rationally weigh the probability of success and the utility of a potential outcome before choosing an action. While it is impossible to truly know everything President Putin and his advisors considered when choosing whether or not to annex Crimea, one can make observations based on events that followed the decision. Given the high cost of the annexation and consequences of the sanctions, it does not appear that Russia rationally weighed the utility of annexing Crimea. Furthermore, by moving ahead with the annexation despite warnings from the West that sanctions would follow the action shows that
Russia did not rationally weigh the probability of full success because they underweighted the potential harm from the sanctions. For these reasons, EUT does not appear to offer a useful explanation for understanding Russian decision-making with respect to the economic sanctions.

**Applied Prospect Theory**

Prospect Theory, as an alternative to Expected Utility Theory, allows for decision-makers to act outside of strictly rational thought. Several key concepts, such as loss aversion, the endowment effect, and framing are important to PT framework for understanding decision-making behavior. According to PT, these also have an effect on whether an actor is risk-seeking or risk-averse. These concepts, applied to key events and speeches, appear useful in understanding Russian decision-making behavior around the economic sanctions.

Prospect Theory argues that the fear of loss plays a big role in decision-making. In fact, loss has surrounded much of President Putin’s rhetoric regarding the annexation of Crimea. This loss aversion would also lead to the over-valuation of “possessions”. According to Rudy and Venteicher, “states are willing to fight to defend the same territory they would not fight to acquire in the first place. In such cases, states fight to defend their territory because they value it more due primarily to the fact that they own/control the land (as suggested by the endowment effect), and possible losses generates more risk acceptant behavior due to loss aversion” (Rudy and Venteicher, 2006). In this case, Crimea is the “overvalued possession” that Russia is willing to accept risk and considerable financial loss to defend.

According to a Standard and Poor’s estimate, Russia would have to pour approximately one billion dollars into Crimea annually to bring the living standard in Crimea up to Russian standards (Kottasova, 2015). Crimea needs most its energy, drinking water, and food imported, as well. On top of the costs of merely maintaining Crimea, there are also costs associated with integrating it into the Russian Federation. Moreover, the annexation also resulted in a steep decline in Crimea’s tourism industry – the largest sector of the Crimean economy (Fischer and Rogoza, 2014). To help combat the steep decline in tourism, and perhaps also because Crimea has a long-standing history as a popular Russian vacation destination, Russia is also pouring billions of dollars into projects meant to boost tourism. In October 2016, Russia began construction on a multi-billion-dollar project to build a bridge to Crimea (BBC News, 2016). In April 2017, Russia also announced plans to spend $8.5 million (475.4 million rubles) to subsidize flights to Simferopol, Crimea (Montag-Girmes, 2017). Despite the considerable cost, Vladimir Putin maintains his position on Crimea, clearly stating, “I believe we did the right thing and I don’t regret anything,” to RIA Novosti, a state-operated Russian news agency (Neuman, 2015). Putin maintains that the annexation righted a historical wrong – namely that Crimea has always belonged to Russia rather than Ukraine (Meyers and Barry, 2014). The massive amount of money and resources Russia is willing to pour into a tiny peninsula in the Black Sea appears rationally disproportional. The endowment effect helps to explain the motivation behind such a risky action. This is particularly evident in President Putin’s justifications
for the annexation because Crimea is historically and rightfully part of Russia. This is also an example of loss aversion, in that much of Mr. Putin’s justification for the annexation revolves around the argument that Crimea existing as a part of Ukraine instead of Russia is a terrible loss.

PT would expect to see such framing of choices in terms of gains or losses. As discussed above, Putin already frames loss of Crimea as an injustice. The economic consequences of the sanctions, however, do not receive an equally negative framing. On the one-year anniversary of the annexation, marked by a huge celebration in Moscow, Putin acknowledged that the sanctions are “not fatal, but naturally damage our ongoing work” (BBC News, 2015). He went on to argue that the sanctions are worth any ensuing struggle because of what Russia would lose if it submitted to the coercion of the sanctions. In his speech, Putin frames this potential loss by saying, “The issue at stake was the sources of our history, our spirituality and our statehood – the things that make us a single people, and a single, united nation” (Herzenhorn, 2015).

Putin’s statement reflects an awareness of the harmful effects of the sanctions. However, by referring to Russia’s “ongoing work,” he also alludes to the notion that Russia is not willing to change its policy to bring an end to the sanctions. Putin therefore frames loss from economic sanctions as second to the potential loss of Crimea. Thus, in the process of decision-making vis-à-vis the economic sanctions, the possession of Crimea is Russia’s point of reference and Russia fears losing Crimea a second time. On the other hand, Russia also faces potential harm from the international community’s sanctions. Since Russia fears losing Crimea, they risk economic harm from these sanctions. This harm manifested in several ways following implementation of the sanctions, including a credit rating cut from Standard & Poor’s, a steep devaluation of the ruble, inflation, a decline in foreign investment, falling bond prices, a reduction in economic growth, and a rise in geopolitical tensions (Philips, 2014). The desperation to prevent the loss of Crimea, combined with the high-probability of loss due to the economic sanctions and international pressure places Russia in the upper left quadrant of the graph in Figure 1.

According to PT, this makes Russia risk-seeking. The willingness to endure economic hardship to hold on to Crimea already reflects some risky behavior. However, the lack of action on changing Russia’s policy regarding Crimea is not the only risky behavior emerging from Russia since the advent of the economic sanctions. Russia not only consistently stands behind the actions that led to the sanctions in the first place, but it is encouraging similar actions in other parts of Eastern Europe that belonged to Russia before the collapse of the Soviet Union. These actions are consistent with the Russian Compatriot Policy used to justify the Crimean annexation. Shortly before the one-year anniversary of the Crimean annexation, President Putin signed agreements with South Ossetia and Abkhazia, breakaway regions of Georgia bordering Russia. The 25-year agreement with South Ossetia created a common security space and allows citizens to cross the border freely. Critics of this arrangement equate it with a Russian annexation of South Ossetia (Herzenhorn, 2015). The agreement with Abkhazia establishes a “strategic
partnership” in the “social, economic, and humanitarian spheres” and a joint defense and security space with a unified group of Russian-Abkhaz troops (Radio Free Europe, 2015). Furthermore, Russia also supports the separatists in Donetsk and Luhansk in Eastern Ukraine (Herzenhorn, 2015). These actions all share similarities with the actions that led to the sanctions in the first place. This demonstrates risk-seeking behavior, which suggests that PT offers a fitting explanation regarding Russia’s framing of the situation in terms of potential loss of Crimea.

PT also posits that perception of reality plays a bigger role in decision-making processes than objective, rational thought. This is evident in the Russian framing of the situation to fear the loss of Crimea more than loss from economic sanctions. According to PT, the way in which a decision-maker frames an issue is critical to how the actor will respond. This offers an explanation for why President Putin continuously reaffirms the importance of unity among historically Russian regions rather than changing policy to prevent economic loss from the sanctions. Forgoing objective and rational thought also is evident through the evident overvaluation of Crimea and the underweighting of potential harm from the sanctions.

Prospect Theory’s framework for decision-making appears to offer a useful explanation for understanding Russian decision-making behavior in this case. Loss aversion and the endowment effect describe why Russia so adamantly seeks to keep and support a territory that offers it such little benefit in return, even in the face of risking high financial loss. Moreover, it also offers an explanation for Russian risk-seeking behavior in other similar situations since the implementation of the sanctions.

Towards a Better Understanding

In this case, PT offers a more useful understanding of Russian decision-making behavior than EUT. EUT expects states to behave rationally, weigh potential outcomes, and always select the option that will yield the highest expected utility. In contrast, PT argues that actors do not think rationally when making decisions that can result in significant gains or losses. Furthermore, PT focuses more on how a state frames the situation for itself, rather on objective thought processes. PT argues that states overvalue possessions and are therefore more likely to engage in risky behavior when faced with a loss of these possessions.

With respect to the sanctions meant to coerce Russia into changing its behavior toward Crimea, rational decision-making does not appear evident, as Russia celebrates the annexation of a region with no noteworthy benefits, despite the significant negative financial effects of the sanctions. However, President Putin’s rhetoric shows that he does not frame the situation in terms of potential financial loss, but rather in terms of the potential loss of Crimea – a Russian “possessions”. Russian decision-makers are willing to risk the financial harm of the sanctions because it fears losing Crimea. This is more consistent with the framework PT offers for understanding decision-making behavior than that of EUT.
Conclusion

Prospect Theory offers the clearest explanation for understanding Russian foreign policy decision-making behavior vis-à-vis the economic sanctions and the annexation of Crimea. This contributes to a comprehension of how states respond to sanctions. In the case of economic sanctions on Russia, PT explains how Russia is willing to accept high financial costs to prevent the loss of Crimea. However, it is also important to note the limitations of this study. Only three years old, the sanctions are relatively new, and therefore, this study can only make conclusions about short- and-medium term policy decisions, rather than long-term information.

This does, however, open an interesting opportunity for future research. Repeating this study with new information as the sanctions either continue or Russia changes its policy will either confirm or negate the claim that PT provides a useful framework for understanding Russian decision-making behavior in the face of economic sanctions. Furthermore, additional case studies of other state decision-making behavior under economic sanctions is another opportunity for future research. This study can only make claims about Russian decision-making behavior, however, conducting a similar analysis of other similar cases would expand the understanding of whether Prospect Theory is a useful tool for understanding state behavior with respect to sanctions.

References


