

# Russia cannot win the war

*Russia's invasion of Ukraine has the potential to develop into a protracted war that will weigh heavily on the Russian economy. **Paul De Grauwe** argues that Russia simply lacks the economic resources to sustain a prolonged conflict of this kind and that the world should be deeply concerned about the potential for Vladimir Putin to turn to unconventional means as an alternative.*

Russia is a small country. From an economic perspective, that is. According to the IMF the gross domestic product (GDP) of Russia amounted to \$1,648 billion in 2021. This is about the same size as the combined GDP of Belgium (\$582 billion) and the Netherlands (\$1,008 billion) in the same year. Even if you add those two countries together, you still have a small country. Russia's GDP represents barely 10% of the EU's GDP. Russia is an economic dwarf in Europe.

Can such a small country win an intense war against a country that is resisting tooth and nail and that will have to be occupied for a long time? My answer is no. Russia does not have the resources to do so.

To win such a war, Russia will have to drastically increase its military spending. Russia today spends about \$62 billion (about 4% of its GDP) on the military. That's 8% of US military spending. Such a military budget will not be sufficient to continue waging an intense and protracted war. More military spending will have to be made. But military spending is economically wasted. The tanks and combat aircraft that must be produced to wage the war are investments that are economically useless. This contrasts with investments in machines (and other production factors) that make it possible to produce more in the future. Tanks and fighters will not allow one extra ruble of production in the future. They will, however, crowd out productive investment. The economically small country that Russia is today will therefore become even smaller in the future.

Instead of cutting back on productive investment, the Russian dictator could cut consumption in Russia to make way for more military spending. The fact that Russia has such a small GDP while the country has 146 million inhabitants (more than 5 times the population of Belgium plus the Netherlands) hides the fact that most Russians live in relative poverty. Putin will have to push them even further into poverty to realise his megalomaniac ambitions. It is doubtful whether this policy will strengthen his dictatorship.

There are other effects to be expected from a policy that pushes a country into a war economy. The incomes earned in the war industry will not be able to be spent on consumer goods because these are in short supply. As a result, inflation will rise sharply. The temptation will be great to introduce price controls. The result is known: rationing and scarcity. Paradoxically, this will fulfill Putin's ambition: a return to the Soviet Union with its long waiting lines in front of the shops.

Russia is economically a small country; it is also an underdeveloped country. It has a production structure of a typical African country. The country mainly exports raw materials and energy (gas and crude oil). They make up 80% of Russian exports. Imports are concentrated in manufacturing products (machinery, transport equipment, electronics, chemicals, pharmaceuticals). Those products represent more than three quarters of total Russian imports.

The problem with such an underdeveloped country is that export earnings are subject to large fluctuations. Today, energy and commodity prices are very high. That has allowed Russia to pile up more than \$600 billion in international reserves (dollars, euros, pounds, gold). It has also boosted the budgetary revenues of the Russian government. But those are temporary effects. They have created the illusion that Russia has the resources to wage a protracted war.

It is already clear that this is an illusion. About half of these international reserves are now being frozen by the punitive measures imposed by Western countries. This also makes clear how dependent an underdeveloped country is on the Western powers that control the international financial system. The vast stock of international reserves now available to Russia is not a source of power, but its Achilles heel.

Moreover, these high commodity prices are a temporary phenomenon. "What goes up must come down". Gas prices, oil prices and commodity prices will fall again and will shrink the resources available to the Russian government and make a protracted conventional war impossible.

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Russia is economically a small and fragile country. It is, however, big in two other dimensions. The first one comes from its large resources of energy (oil and gas) and raw materials. This provides Russia with a lot of political leverage in Europe. Russia may cut off deliveries of gas to Europe in response to Western sanctions. This would certainly be painful in the short run in those countries that foolishly have made themselves too dependent on Russian gas. If Russia cuts its gas deliveries today, however, this would, in the longer run, destroy the main source of Russian foreign revenues as European countries would look for, and find alternatives. It would reduce even further Russia's resources to wage war.

The second pillar of Russia's power is, of course, its nuclear arsenal. Nuclear bombs do not win a conventional war, but one can destroy a country with them, in the blink of an eye. And here lies a great risk for the rest of the world. What will a dictator do when he realises that he cannot win the war by conventional means but by other means? That remains the most terrifying question today.

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