

# Economic Warfare

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## Introduction

*Nervus Belli, Pecuniam Infinita* (Cicero), "The sinews of war are infinite money". A very simple idea which we have founded over the years many military tactics that today we know as Economic Warfare.

The continental blockade of Napoleon in 1806 banned almost the entire European continent trade with England in order to stifle their economy and prevent exports to the continent; in 1915 France and England obstructed all supplies to the enemy; Germany's submarine war against the merchant ships that supplied Britain and the strategic bombing in World War II; The Marshal Plan, which was nominally a project to help rebuild Europe but that U.S. used in order to secured the support of Western Europe in the subsequential Cold War; the "el Bloqueo", the embargo that for 50 years prevented all trade between Cuba and the U.S. and the most recent economic sanctions against Russia in 2014; are all examples of Economic Warfare.

Today, the economic war is manifested more in sanctions than in direct attacks on the destruction of the productive capacity of the enemy and for its characteristics it is likely that it will increasingly important in global scenarios as the volume of foreign trade grows steadily around the world.

*"The Economic Warfare has the task of disorganizing the enemy economy to prevent any activity for war purposes, and its effectiveness varies depending on the enemy self-sufficiency, infrastructure and import/export subject, however, to the control of the Naval Forces; practically a siege conducted with weapons with long-term effect that aim to create pressure in order to penetrate the economic fabric of the enemy".* (G. Lanzara)

This definition deals only with the purely warlike aspect of the Economic Warfare without analysing its more political aspect, and above all with the uses that can be made of it in times of peace as a lever in one's favour in foreign policy.

These are obviously the most interesting aspects, even if I recognize a certain flavour in the strategic bombing, and that I want to analyze in this essay.

# Features

## **Economic Warfare as the dominant strategy?**

In which cases is an economic attack preferable to an armed intervention? When the "cost", understood as the economic, social and political cost, of armed intervention exceeds that of economic attack.

In 2015, India obstructed the supply of fuel to Nepal, severely affecting the country's economy, in which case the political cost of armed intervention would have cost India much more than its quotes of fuel exports to Nepal. In 1973, Arab oil exporting nations, unable to compete with the US militarily, increased price to the point of causing an oil shock, which was a more convincing argument than the threat of military conflict.

The capitalist system by its nature is very vulnerable to economic actions of this weight and the current diffusion of this system makes Economic Warfare "weapons" interventions very interesting.

Economic sanctions have even more effect when they deal with modest objectives, such as single goods or services, when the target country is economically weaker and politically more unstable than the one imposing the sanctions, when the two countries are linked by important commercial exchanges before the sanctions, obviously, the more relevant it is to the quota of trade between the two countries, the more the target economy will be hit and, finally, when the sanctions are imposed quickly without giving the market time to find a new structure. (Kimberly Ann Elliott - Center for Global Development)

## **Limits**

Obviously the actions of War Economy have limits that define the most correct uses. First of all, the effectiveness of sanctions and other economic measures tends to decline over time as the target countries seek alternatives to these sanctions, than sanctions must act on political elites. As a rule, the population is influenced by the impact of sanctions more than the political elite for whom they were originally intended. And than as a result of economic globalization, the current sanctions and economic measures often work like boomerang; they damage the countries that decided about them.

## **Sanctions**

Different problems require different solutions, so Economic Warfare tools also have different purposes.

Not only trade can be the target of Economic Warfare policies, the large companies of a country due to their ability to create pressure groups and their close ties with politics can suffer heavy losses due to direct actions against their assets abroad, the freezing of their investments or taxation can be used against these companies with the same effectiveness as trading actions.

In addition, we can divide sanctions into direct "attacks" on a target country and actions to support an ally, competitor of the target country in order to indirectly weaken the target economy.

The most striking cases of Economic Warfare fall into direct sanctions, directly affecting the trade of a country or its productive assets, these actions are not always total as an embargo, more often are realized tax increases or the application of quotas in order to control the volumes.

Indirect support actions undermine the market by making it more difficult for the target economy to operate. In 2018 Trump raised tariffs on steel imports for a protectionist policy, excluding Canada and Mexico created a competitive advantage for these two countries by supporting their economies.

	Indirect	Direct
Trading	Preferential trade tariff discrimination Tariff reduction Direct trade Best licenses (export, import)	Embargo Boycott Duty increase Unfavourable tariff discrimination Dumping Black list Import or export quotas License denial
Asset	Support assistance Investment guarantee Incitement to export and import of private capital Favourable taxation Promises all these measures	Freeze assets Control of exports and imports of capital Suspension of aid Adverse tax Suspension of payments Threat of these measures

### Internal conflicts

When conflicts are internal to a country, Economic Warfare tactics can be used both against the government, such as strikes and boycotts, and against pressure groups (adverse tax and regulation)

# Global dimensions of Economic Warfare

## Economic dimension

Economic sanctions obviously have more weight for those countries whose economy are more depending on foreign demand and imports. So what factors constitute a 'defence' against negative economic sanctions?

First of all, a high domestic demand, able to absorb the quotas of production that is normally exported, would lead to an overstock and then to a drop in production with problems of unemployment and a drop in GDP.

A strong currency, able to withstand any attacks without suffering excessive devaluation. In addition, a strong currency can easily be supported by allied countries, which do not participate in economic sanctions, by exchanging reserves of their own national currency and buying "attacked" currency to control its inflation rate.

Even the management of foreign direct investment becomes an excellent weapon of defense of Economic Warfare, high foreign investment on its territory make the threat of action against these assets a risk and therefore a cost for every country that participates in the sanctions, elementary Games Theory!

As for their direct investments abroad are obviously exposed to the country risk of being "frozen" but, on the other hand, a control of assets or strategic goods, ensures a strong threat of repercussions in the event of an attack. Since 2005, China has started a systemic investment in Africa for the control of gold and rare earth reserves, as well as the Sovereign Fund of Qatar is reinvesting the income of the control of oil reserves, a strategic good, in strategic assets around the world.

Risk management theories obviously suggest diversifying their foreign investments not only across multiple countries, but across multiple "zones of influence" so that they are less exposed to collective sanctions.

Trade agreements are the best strategy to prevent indirect damage due to any sanctions that may provide an advantage to other countries that compete with us for market quotas that are, in fact, an asset for the country.

## Social dimension

Economic Warfare can have several social impacts, which mainly depend on the weight of the sanctions imposed.

In the 1930s, Stalin imposed an embargo on food supplies to Ukraine, causing a famine that struck the country for two years, known as Holodomor, in which case the social impact was enormous.

By hitting the imports of a country, the availability of consumer goods is reduced and the price increases. This obviously leads to an increase inequality; if the sanctions were to last over time, there would be a drastic drop in income (purchasing power) even among the richest groups of the population (loss of jobs and reduction in domestic demand for goods and services), at this point we would have an increase in equality at very low levels of wealth.

Therefore, very strong and effective economic sanctions can a country to move backwards toward on the Kuznets curve.

In 2014 the sanctions against Russia imposed economic sacrifices on the population, to compensate for this threat to the stability of the country Putin used the economic attack of the Western world to rise nationalist sentiment and the consensus towards his party grew a lot.

### **Geopolitical dimension**

The great areas of influence in which the world is divided represent the beginning of a globalization of foreign policies, in the 1950s these areas of influence materialized with the creation of the Coordinating Committee for Multilateral Export Controls, CoCom (USA and Western Europe) and the Council for Mutual Economic Assistance, Comecon (USSR and Eastern Europe) which were the "trade side" of the Cold War. The smaller countries that joined these sides trade part of their national sovereignty in exchange for protection that provided political stability and raised growth rates (Marshall Plan), what they needed after the war.

This trend leads to the strengthening of those countries that already have a very high "negotiation power" in terms of economic and political influence. It is easy to see how the reasons of rising of global elite, the ownership of the means of production, are the same that lead to the strengthening of the countries that are already world economic leaders.

An economic war obviously represents a cost for both parties, in terms of falling trade and free market quotes for third parties that, not involved in the "conflict", can benefit from the situation. There are therefore changes in alliances and geopolitical balances that must be calculated in the cost-benefit analysis of an economic war.

It is this kind of opportunity that a smaller country can use to increase its global importance. Private companies usually have no direct interest in economic sanctions against a country and therefore have to bear this cost. By using a third country not involved in the sanctions as through these companies they can evade the sanctions by paying, in terms of taxes, to this third party "the transit".

### **Technological dimension**

As in many other fields, war applications also drive research and innovation also in economic warfare.

The need to improve supply transports during the Second World War led to the birth of Operational Research, still used today in optimization problems.

In the same years Alan Turing designed his decoding machine which then led to modern computers and John Nash wrote the Game Theory which led to the geopolitical balance of the Cold War.

In more recent times the creation of crypto-currencies, which by their nature are more evasive and difficult to control than traditional currencies, is a very attractive weapon of Economic Warfare, especially as protection against the forced devaluation of national currency.

Russia has recently offered its help to the Venezuelan government to create a national crypto currency with the aim of evading US economic sanctions on Venezuela (Simon Shuster, Time).

Therefore, the technological dimension of the Economic Warfare, even if more conceptual than material, has a very strong impact on our lives.

## **Conclusion**

I believe that economic war can in future replace traditional military actions and that this is a step forward for humanity in terms of civilization.

The great cost advantage of using economic sanctions rather than armed intervention will make it the means by which countries will act against each other in the future. The importance of supranational organisations watching over the use of these instruments will grow at the same time.

I do not believe that the threat of economic war can push countries to seek more independence by reducing their trade, the world will always tend to create new connections under the pressure of globalisation and foreign trade is one of these connections.

I am aware of the enormous social impact of a big economic conflict, especially in terms of inequality, but I cannot imagine the consequences of an economic war being worse than the use of nuclear arsenals, and I am therefore convinced that managing to put aside traditional violence as a means of resolving conflicts is a step forward for us as a specie.

The next step will be to look for something to replace this new type of war because as long as there are different interests there will be conflicts and we will need increasingly civilized ways to resolve them.