CURRENT ECONOMIC WARFARE

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Abstract

The paper addresses the current issues of the international economy development. It defines the “Economic Warfare”. This term involves the use of economic tools to force the enemy to change policies or behaviour or to impair enemy's ability to lead normal relations with other countries. Conventional methods of economic warfare contain trade embargos, boycotts, sanctions, tariff discrimination, freezing capital assets, suspension of aid, and a ban on investment and other capital flows, expropriation etc. The basic concepts related to economic warfare, strategic dimension, the importance of economic warfare, and positive economic sanctions there will be defined in the paper, including the effects of economic warfare, economic warfare origins, evolution theory of globalization and the current development of the war economic management. Mainly economic sanctions are discussed on the basis of the use of economic weapons and their impact on individual states. There is contradictory impact of sanctions due to possible “boomerang effect”.

Key words: economic warfare, economic sanction, economic weapon

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Introduction

The concept of economic warfare was traditionally used as a supplementary tool for the armed conflict - the economic pressure on the enemy. In the near future it could represent a new way of declaring war. The balance of power between the states no longer means the assessing the strength of conventional armed forces. After the end of the Cold War, the main economic domain has become a measurement of the state force at regional and global level. The current trend is to measure the balance of power using economic indicators, not only military capabilities. Confrontations between competitors in a particular region leads often to the use of weakness and enemy´s dependence on foreign sources, as well as the introduction of financial measures aimed to alleviating or limiting its influence. Primarily military means are not being used. Nowadays geopolitics is experiencing a renaissance.

Natural resources, energy, manufacturing, bonds and many other flows of goods and services are currently used as a tool for fulfilling the objectives of foreign policy. Sanctions and economic measures are classic examples of “economic warfare”. These compositions are shown to be effective in combination with traditional military actions.

Therefore basic concepts related to the issue of economic warfare will be defined, economic warfare tools will be structuring and their impact on the economy will be explored in the following text. At present we encounter manifestations of economic warfare as from Russia to other countries, but also the implementation of sanctions against Russia from the European Union. Sanctions and economic measures here are classic examples of economic warfare.

1 The Concept of Economic Warfare in a Globalized World

The concept of economic warfare was traditionally used for solving the economic tactics of armed conflict. (Coulomb, F., Bellais, R. 2008). In the near future it could represent a way of waging war. Thus the economic war replaces the Cold War. The gaining market has replaced the conquest of the country through their companies. Economic warfare has become a worldwide and takes many forms. It is preferable to armed conflict. Its aim is to export as much as possible and to obtain the largest possible share of world trade. The mercantilist analysis shows that the strength or power brings the effect for the economy and aggressive trading brings the trade surplus. The notion of neo-mercantilism refers to the simultaneous analysis of international economic competition for the use of governments of developed countries, a new kind of economic interventionism. Theoretical foundations of these analyses are still vague, though they are associated with neo-realistic flow and with mercantilists and institutional economists. The notion of economic warfare should be used with caution. Neo-mercantilist laws are aimed to protect national industries and to develop international market share, not to damage competing nations. As a result of economic globalization, the current sanctions and economic warfare often function like a boomerang; they damage the same country that introduced them before.

The sanctions - also known as the restrictive measures - against third countries, individuals or other entities, are fundamental within the EU foreign policy using these sanctions in accordance with the principles of its common foreign and security policy. Some EU measures are imposed on the resolutions adopted by the Security Council under Chapter VII of the UN Charter. The European Union may decide to apply autonomous measures, in addition to the UN measures, or adopt restrictive measures.

Generally, the EU imposes its restrictive measures to achieve change in policy or activity in the target country, part of a country or in the government, entities or individuals. They are preventive tools enabling the EU to respond quickly to challenges and political development.[1]

Sanctions can be introduced as part of the integrated and comprehensive policy approach in the context of an overall strategy within the European Union foreign policy, including political dialogue, complementing efforts and other tools.

The global economy is in a sub-optimal situation due to multilateral sanctions. This may lead to a situation, when the decline in oil prices drag down other commodities, including industrial metals. There is no perfect symmetry between the decrease of one commodity and growth of another, and vice versa. It is not true that the decline in commodity prices weakens only one country. As examples the US and the EU embargos against Russia can be mentioned. As a result of imposed economic sanctions on Russia; Germany, Italy, France and others countries are adversely affecting. Mainly there were the corporations in these states that had greater trade relations with Moscow before the crisis.

The decline in oil prices led to an excessive weakening of countries such as Australia, Canada, Venezuela and Mexico. Their economies rely heavily on natural resources. On the other hand, some others countries such as China, falling prices of raw commodities significantly helped to overcome the downturn in economic growth. However, the decline in prices of natural commodities will be particularly painful for Russia, Venezuela, Iran and other less transparent economies. Some of these listed countries will seek support from the IMF and/or the World Bank. This seems to be another opportunity for strengthening the economic embargo. In this way there is a synergistic effect of this economic war.

However, the effectiveness of economic warfare has own limits:

1. The sanctions, such as embargoes, quotas, tariffs, freezing funds, are really effective when carried out through a large number of countries.
2. The effectiveness of sanctions and other economic measures tends to decline over time as the target countries seek alternatives to these sanctions.
3. 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.
4. As a result of economic globalization, the current sanctions and economic measures often work like boomerang; they damage the countries that decided about them.

[1] See Sanctions Policy at: http://eeas.europa.eu/cfsp/sanctions/index_en.htm.

5. Capital controls – they require regular monitoring of inflows and outflows of capital from one country to another country.

The highest efficiency when damaging the enemy's economy depends mainly on:

1. cyberspace;

2. the area of finance;

2. information through social media;

3. purchase a certain market share suitable for political goals, thus distorting the domain of the target country; this tactic is difficult to distinguish from normal fusions or joint ventures;

4. economic measures borrowed from financial markets; they are threatening as well as the sanctions – they may weaken the currency, raise inflation, price increase or decrease in goods in countries with monoculture.

2 The Strategic Dimension and the Importance of "Economic Warfare"

The idea of economic warfare is not new. (Coulomb, F., Bellais, R. 2008). Economic warfare is a direct or indirect manipulation of the economy through state actor or other entity through legal or illegal means. It is a form of aggression conducted by state or non-state actor. It has been carried out by states for centuries. According to current ideas, this term refers to the worsened international economic competition and unfair actions of governments. The problem is that this concept does not distinguish economic war, economic war and a trade war from economic competition.

The economic war means a conflict of government intervention when supporting their own economy or weakening the economies of other countries or regions. According to Encyclopedia Britannica from 1983, the definition is the following: *"It´s every match between companies or countries that does not come into bloody conflict."* Another characteristic is the following: "economic war means a condition where a set of economic instruments used by the state or group of states, in order to increase the dependency of a country or group of countries and make them to change the existing policy". (Sánchez, J. J.**,** Méndez, M. J., 2012)

Use of economic instruments, as weapons, means economic loss not only for the target country, but also for the country that uses the instrument. In this paper the "economic war" was defined as a coordinated and/or cohesive enforcement (full spectrum) of these tools and strategies. In other words, some strategic objectives, fulfilled by a military action in the past, could be achieved today and in the future with alternative tactics, often from the economic sphere. The more complex tactics will be, the greater the economic war will evolve as a way how to fight against each other. In fact, the current capacity in the field is theoretically sufficient for creating an alternative strategy for gaining policy objectives without traditional firepower usage.

Some geopolitical areas could be particularly subject to economic warfare scenarios. For example, in the Asia-Pacific region, the economic interdependence between states is so deep that the tools of economic warfare would be effective as well as alternatives to symmetrical conflict that would have disastrous results for all states in that region.

3 Economic and Trade War

The concepts of economic warfare and trade war are often incorrectly confused or equated, although they are basically two completely different though are closely related phenomena. This confusion is caused due to their phenomenal forms conformity. However, it is necessary to be able to distinguish economic war and a trade war, to be able to find out the nature of these phenomena based on a specific study of the economic processes, even when they mingle and often act simultaneously.

Businesses have some similarities with economic warfare, especially when using wide range of commercial and political means, but the essence of a trade war is different in comparison with the essence of war. The aim of a trade war is monopolistic control of internal or external market or increasing market share when using all means that are for the monopoly or monopolies available to achieve maximum profit. The most common means of a trade war are: tariffs, dumped export licenses, quotas, currency restrictions, temporary price reductions even below production costs, a ban on imports etc. These means are aimed mainly against exports or sales of competitors and they are related to purchase of competing businesses, so again, against their export sales (e.g. competition for raw materials). The trade war is being waged not only at foreign market, but also at the internal market.[2]

A country that leads the economic war monitors all deliveries and purchases of target countries, not only at domestic market, but also at markets in their allies and neutral countries. One solution how to influence the trade with these countries is called "blacklists posting". These lists content quoted companies of allied and neutral countries that trade with the enemy and supply it by banned goods (Chossudovsky, 2012). Then various sanctions against companies listed on the blacklist are introduced, trade with these companies is restricted or even banned, their funds are blocked and it is forbidden to transport their goods, insurance etc. New solutions how to use the means of economic warfare are contained in the Charter of the United Nations. There is the UN Charter´s provision on economic sanctions against the

[2] See *The Missing Doctrine of Economic Warfare*, M. G. Barone, 2014, http://securityobserver.org/the-missing-doctrine-of-economic-warfare.

country that could undermine peace. In Section I, Article 2, para. 5th, of the UN Charter, all member states are obligated to "refrain from providing assistance to any state against which the United Nations is taking preventive or enforcement action".

Tab. 1: Positive and Negative Economic Sanctions during the Economic and Trade War

	Positive sanctions	Negative sanctions
Trading	➢ preferential trade tariff discrimination ➢ best most favoured ➢ tariff reduction ➢ direct trade ➢ best licenses (export, import)	➢ embargo ➢ boycott ➢ duty increase ➢ unfavourable tariff discrimination ➢ exclusion of the most favourite countries ➢ dumping ➢ black list ➢ import or export quotas ➢ license denial
Assets	➢ 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 to international organizations ➢ threat of these measures

Source: Economic War, p. 255 (author´s processing)

Thus the economic war is conditioned by not only economic, but also political and strategic situation of their country and its allies, and by situations of enemy states. Management plan of economic warfare is part of an overall strategic plan for the preparation and conduct of the war. At the same time strategies must take into account the country´s own capacity for leading an enemy´s economic war against domestic country´s economic potential, consider possible consequences of the impact on its economic and military potential and seek defence means against the enemy´s action.

Economic and trade war reflect many manifestations. (Early, B. R., Jadoon, A. ,2016) Main elements may be characterized as follows:

• Blacklist of domestic companies or companies of third countries trading with the enemy.

• Additional authorization requirement for sensitive goods, software and technology that could be used in weapons programs.
• Dumping or sale of commodity stocks aimed to reduce their prices, thereby reducing revenues of the countries selling these commodities.
• Embargoes on products that generate money such as oil or wood.
• The embargo on the import and/or export of certain goods, software and technology.
• The trade embargo, a ban on export, on the enemy and enemy´s allies.
• Restricting loans and credits for certain individuals/companies.
• Propaganda or the intentional use of economic misinformation in order to create panic stockpiling and confusion in enemy territory.
• Strategic purchases or buying commodities associated with the military at a world market.
• Detention, confiscation or nationalization of assets held by the enemy outside their territory.
• The arms embargo (the export of weapons, protective clothing, military vehicles, etc.).
• Property freezing for certain individuals/companies.
• Travel and visa restrictions for certain individuals.[3]

During the formation of economic and trade war, it is necessary to answer these questions:
How can the market handle the conflict?
Is there a link between the raw material resources and armed conflicts?
What is the role of economic cooperation in preventing hostilities?
How do austerity shock therapy and bad politics provoke social tensions?
How can economic incentives suppress aggression?
What are the characteristics of an economic system that meets all requirements?
What are the basic economic mechanisms that suppress violent conflict?
How does the profit motive support unnecessary military spending?

These instruments mentioned seem to be explicit. But there is also some “soft” version of the economic war in order to maintain supremacy and limit the maneuvering scope for the development of other countries. It is so significant issue that UNCTAD have devoted considerable space in the latest “Trade and Development Report” in 2014. In case of the

[3] Sanctions and their types are described at: https://www.government.nl/topics/international-peace-and-security/contents/compliance-with-international-sanctions.

economic and trade wars, there are a variety of ways how to strengthen the role of developing countries, and vice versa.

Conclusion

The need of a comprehensive security approach has been explicitly and intuitively perceived for a long time, its need has matured and new conditions have been created for it. The toolbar of economic warfare techniques has been still developing and the number of available tactics has been increasing. The international communities have not already chosen the institutional actors that should deal with economic defence. Combat measures have not been defined so far, so there is a space for harmful effects due to inconsistent procedure of e.g. the EU.

It is true that there is a connection between the performance of civil and the military sector. It contributed to strengthen the international economic relations in the context of economic warfare. Economic war serves as a tool within international economic competition and globalization. The growth of cases when using economic tools can be observed in order to exert pressure on country´s democratization. In the past, the United States used these economic tools against countries outside of the zone of influence (the USSR, Cuba, and Nicaragua). The Soviet Union used them against countries that did not follow the principles given by Moscow, e. g. Yugoslavia, Hungary, Poland and Czechoslovakia, and others.

Current development in introducing the economic war instruments emphasis on freezing the assets of particular individuals/companies; restrictions on travel and visas for some people; an arms embargo; restrictions on loans and credits for certain people/companies; embargo on the import or export of certain goods, technology and software; embargos on goods that generate money. At present, the aim of trade war is monopolistic control of internal or foreign markets or increase in market share. Economic war is conditioned not only economic, but also political and strategic situation of the country and its allies, and on the other side of the enemy´s situation. At the same time it must take into account the country's own strategy with the possibility of conducting economic warfare of the enemy against its own economic potential, its possible implications for economic and military potential and it must seek defense means against the action of the enemy.

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