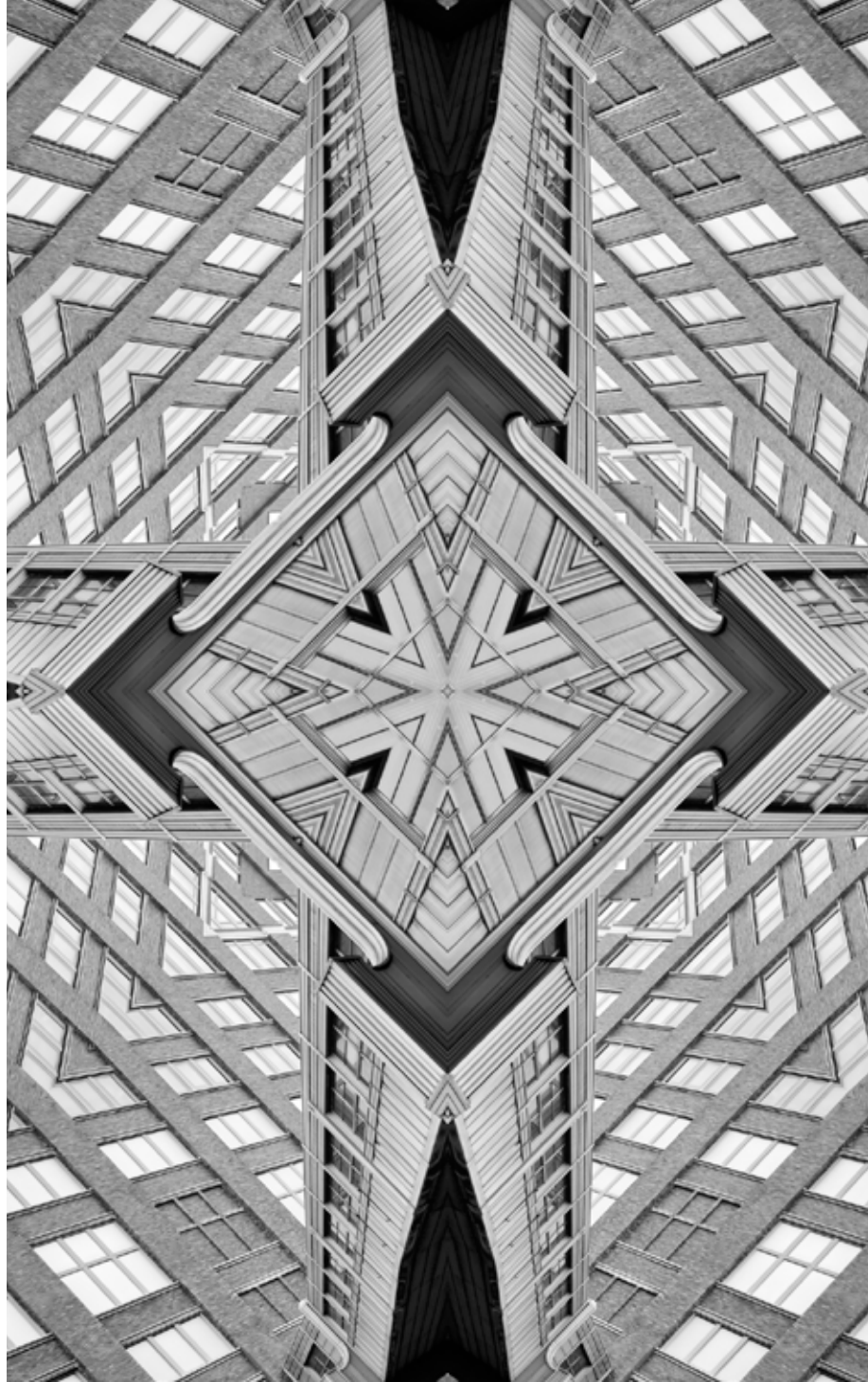


Issue

Brief

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Can Economic Sanctions Replace Armed Forces in Modern Warfare?

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Abstract

Economic sanctions are often seen as an alternative to war, but they do not always have the desired effect. This brief argues that for such sanctions to be effective, economic interdependence must be established, economic rationality must outweigh political ambition in the sanctioned country, and the message of the sanctions must be clear. Using the sanctions against Russia as an example, this brief contends that because of the interdependence of the sanctions, they hurt Russia and the European countries that implement them, making it difficult to enforce them thoroughly.

Before Russia invaded Ukraine in February 2022, the US and NATO countries denied deploying troops in Ukraine and chose to avoid engaging in direct warfare with Russia. However, they did declare that they would impose massive economic sanctions if Russia invaded, thereby seeking to deter Moscow. As it turned out, Russia did not fear the economic sanctions, invaded Ukraine, and the fighting continues. In response, the US, the European Union (EU), and Japan have implemented broad economic sanctions against Russia,¹ but this has not stopped Russia's military aggression.

What, then, is the purpose of economic sanctions? Should they be the next best thing in a situation where the use of force is not possible, as in the case of Russia's invasion of Ukraine? Are economic sanctions a viable alternative to modern warfare? And if the goal is not the next best thing, what means are available to induce a ceasefire or to change Russia's policies through economic sanctions? While there are many countries in the international community that condemn Russia, only about 40 states participate in sanctions against Russia, and those that do not participate in sanctions may be involved in Russia's evasion of sanctions.

Economic sanctions, like Napoleon's blockade of the continent, have long been regarded as a means of war, but there are few cases in which they have been effective. As seen in the UN sanctions against Iraq, which caused a humanitarian crisis, economic sanctions impose impoverishment on a country's citizens without putting pressure on those in power, and at the same time, those in power try to maintain their hold by expropriating those impoverished citizens. Even though economic sanctions are seen as a means of settling international disputes with limited effectiveness, there is also a misalignment of ends and means, as they cause suffering to citizens who are not directly responsible for the conduct of the war.

Taking sanctions against Russia as a case study, this brief will assess the nature of economic sanctions in contemporary warfare and examine under what conditions they can be effective. It will then explore whether it is realistic to consider economic sanctions as an alternative to war.

Understanding Economic Sanctions

First, for economic sanctions to have any effect, a certain degree of economic interdependence must be established. Economic sanctions will not have an effect unless some “pain” is caused by politically severing such relations. During the Cold War, trade relations existed between the East and West, but they were not so interdependent that the economy could not survive if trade relations were severed. After the end of the Cold War, both Russia and China joined the World Trade Organization and became part of the free trade system. As a result, China’s low production costs, high quality of labour, and infrastructure developed under the socialist system allowed it to acquire the role of the ‘world’s factory’, and Western countries began to invest in China and integrate it into the global supply chain. On the other hand, Russia, armed with its rich underground resources, developed natural gas and oil pipelines to European countries, exported rare metals (such as palladium), and became a major resource power in the global economy. Thus, even countries with different regimes united under a free trade regime that promoted economic dependence, and the increased interdependence created the conditions for economic sanctions to be more effective.

It is important to note, however, that the implementation of economic sanctions in a state of interdependence means that the “pain” will be felt not only by the sanctioned country but also by the sanctioning country. Economic sanctions are those that restrict economic activities for political purposes. The most effective sanction against Russia is the suspension of natural gas imports from the country, which can place an economic burden on it by depriving it of foreign currency income. At the same time, European countries that depend on natural gas from Russia will see their economic and social activities severely restricted by the implementation of the sanctions. Significant restrictions on their economic and social activities, risk-facing electricity shortages, and other problems caused by natural gas shortages will become evident.² The higher the degree of interdependence, the more effective the economic sanctions will be, but, at the same time, countries must be prepared for the risk of hurting themselves and the impact on their own economic activities and national policies. The problem has not surfaced because most sanctions have targeted relatively small economies (i.e., countries with asymmetrical interdependence), such as North Korea and Iran, but sanctions targeting economies of the size of Russia have revealed the difficulty of targeting countries with symmetrical interdependence. The difficulty of targeting countries with symmetrical interdependencies in sanctions targeting economies of the size of Russia became apparent.

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Second, the effectiveness of economic sanctions may be limited because of political calculations in the target country. Economic sanctions produce their effects by placing an economic burden on the target country, making it difficult for the policy to continue, forcing policymakers to change their judgement, and increasing public pressure by making life difficult for the people. However, economic sanctions will not be effective if policymakers have a strong will and believe there are more benefits to continuing the policy than any economic burden that can be placed on them. For example, in the case of North Korea's nuclear development, Kim Jong-un, who has a dictatorial authority to make policy decisions, recognises that the development and possession of nuclear weapons is the most important issue for his country's survival and has not stopped nuclear development even amid widespread economic hardship. Although economic sanctions should make it impossible for North Korea to obtain the necessary materials for nuclear development, it has been able to obtain these materials and continue its policy by developing on its own, smuggling, and other means of evading sanctions. Also, although it should not be able to obtain the funds necessary for nuclear development, it is believed to be happening through means such as the theft of cryptocurrency in cyberspace.³ Economic sanctions will not be very effective if loopholes can be exploited.

Public opinion can greatly influence these formulas because economic sanctions inevitably affect the lives of citizens and impose restrictions on economic activity, with public discontent building up. However, in the case of authoritarian or dictatorial political regimes, such public discontent is often violently suppressed. In this respect, economic sanctions are more likely to have an effect when people can express their dissatisfaction in the form of elections, which in turn influence policymakers. For instance, the 2015 Iran nuclear deal was reached in large part because of the 2013 presidential election, which saw the election of Hassan Rouhani, a moderate who pledged to lift economic sanctions.

Third, economic sanctions must have some strategic objective. In other words, economic sanctions cannot be effective unless the purpose for which they are imposed is clearly communicated. In this regard, economic sanctions against Iran were set with the objective of halting its nuclear development, but since Iran never withdrew from the Treaty on the Non-Proliferation of Nuclear Weapons and positioned its nuclear development as a "peaceful purpose" as a matter

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of course, the burden of economic sanctions became greater. However, the Iran nuclear agreement did not curb Iran's conventional weapons hegemony in the Middle East region, or reduce its influence over Iraq, Lebanon, and Yemen, and it has continued to pose a threat to Israel, which were among other strategic goals that were different from those of nuclear development, which led the Trump administration in the US to withdraw from the agreement and unilaterally reimpose sanctions. These sanctions are currently far from achieving their strategic goals, but this is partly due to the fact that they have not placed enough of an economic burden on Iran to exceed its resolve. Another problem is the many loopholes in the US unilateral withdrawal from the nuclear agreement and sanctions, as many countries are not cooperating with the sanctions due to a lack of legitimacy.

“The implementation of economic sanctions in an environment of interdependence means that the impact will be felt by the sanctioned and sanctioning countries. The higher the degree of interdependence, the more effective the economic sanctions will be, and sanctioning countries must be prepared for the risk of hurting themselves and the impact on their own economic activities and national policies.”

Economic Warfare in the Case of Russian Sanctions

Sanctions against Russia are broader and stronger than any imposed before by the US and the EU. However, from the perspective of effectiveness and if they can achieve strategic goals, they are not thorough sanctions even though they will likely have some effect.

European countries with deep interdependence on Russia were reluctant to impose energy-related sanctions because the sudden imposition of oil and natural gas embargoes would have a major impact on the economies and civilian lives within the European region. On the other hand, the US, which is less dependent on Russia, sought to implement energy sanctions first. At the same time, the G7 sought to demonstrate a united international position, but the US prioritised not giving Russia an opening to negotiate individually with other countries, which would disrupt the unity of the G7 and loosen the effects of the sanctions. The US also kept in step with the European countries and did not strongly pursue energy sanctions (the US suspended imports of Russian crude oil as part of its own sanctions).

However, Russia did succeed in limiting the sanctions to Western countries, while emphasising relations with Middle Eastern and African countries (with which it cooperates in the form of resource and grain exports, arms exports, and the provision of services by private military companies), as well as with China and India, whose behaviour is distinctly different from that of the G7. Therefore, it should be noted that the implementation of sanctions against Russia is limited to Western countries, while economic relations between Russia and the rest of the world continue.

To implement effective economic sanctions against Russia, it is important to stop fossil fuels such as coal, oil, and natural gas, which account for nearly half of Russia's exports, and unless the EU, Russia's largest trading partner and accounting for over 40 percent of energy exports from that country,⁴ stops its imports, the effect will be limited. It is often argued that even if Russia sanctions are implemented, China and India will not participate in the sanctions, creating a 'loophole' and making them less effective, but even though China is Russia's second-largest trading partner after the EU, it accounts for only 15 percent of Russian exports, and India only 1 percent.⁵ Even if the EU were to reduce its imports of Russian crude oil by 90 percent by the end of 2022, it would be difficult for China and India to take on all of the crude oil destined for Europe, making it a relatively small loophole.

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More importantly, when the European Commission proposed a ban on Russian crude oil imports, Hungary, a landlocked country that procures Russian crude oil through pipelines, strongly opposed the proposal, and it took four weeks to reach an agreement. The Hungarian government has not hidden its anti-EU stance, claiming that the single market rules imposed by Brussels infringe on its national interests. This can also be seen as a result of Russian President Vladimir Putin's attempt to take advantage of the bickering among the EU member states to strengthen relations with Hungarian Prime Minister Viktor Orbán, thereby preventing coordination within the EU. In other words, it is difficult to implement effective economic sanctions when there is no consensus within the G7 and the EU.

This intra-EU disharmony is even more pronounced with sanctions over natural gas. For Germany and Central and Eastern European countries that depend on natural gas imports from Russia, sanctioning natural gas will have a major impact on economic activity and the lives of citizens, as they would not only lack fuel for their main source of power generation, but would also be unable to obtain the gas they need for heating and cooking. According to some estimates, Germany's participation in natural gas sanctions would result in a loss of about €220 billion.⁶ In the case of crude oil, storage is relatively easy, and more than two-thirds of Russian crude oil is transported by sea, so there are hopes that imports can be shifted to the Middle East and other oil-producing countries, but this is not the case with natural gas. Most natural gas is transported by pipeline, and if it were to be transported by sea, facilities would be needed to cool and liquefy the natural gas, transport it by tanker, and then vaporise it again. Large-scale facilities would also be needed to store stockpiles, and these would have to be newly constructed. In addition, there is a big difference between the cost of transporting natural gas by pipeline and the cost of transporting liquefied natural gas (LNG). Even if Russian natural gas were to be replaced by LNG, the cost would have to be recovered by raising gas prices, which would inevitably affect economic activities and the lives of citizens.

This European dependence on Russian fossil fuels means that, as a result, Europe will continue to buy fossil fuels from Russia, which suggests that it will continue to provide foreign currency to Russia. Gazprom, a Russian gas exporter, has also stopped supplying gas to Poland, Bulgaria, the Netherlands, and other countries ostensibly because they did not pay in rubles, but in reality, they were the victims of Russian retaliation.⁷ This dependence on Russia and

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the pressure exerted by Moscow to ‘weaponise’ its gas supply has resulted in the EU losing its footing and sanctions against Russia have not been thoroughly enforced. In other words, the ‘loophole’ in the Russia sanctions is not in China or India, but in Europe itself, and in this sense, the sanctions have the character of a ‘doughnut’ with a hole in the middle.

Sanctions against Russia by Western countries have been swiftly decided and aligned by Western countries, but they are imperfectly implemented because they are sanctions with little damage to themselves. These ‘bottom-up’ economic sanctions, designed to do as much as possible, have a major problem. The message is not clear as to what kind of behavioural change is required of Russia because of the sanctions. Economic sanctions must properly communicate strategic objectives. However, sanctions by the West are intended to sanction Russia because they cannot enter a war without a clear exit strategy in their minds.

If the strategic goal is to bring Russia’s invasion of Ukraine to a ceasefire through economic sanctions, and for Russia to abandon the territory it has acquired and withdraw its troops, the current economic sanctions are still not enough. It is not clear what Putin’s war aims are, but at least he seems to have given up on his initial goal of a blitzkrieg attack on the capital, Kiev, and the collapse of the Zelenskyy regime, but he has concentrated his forces in eastern Ukraine and is aiming for full control of the Luhanshik and Donetsk oblasts of the Donbass region as well as two Southern oblasts of Zaporizhzhia and Kherson. As far as these strategic goals are redefined and the war is continued even at great cost, Putin’s political will is firm, and even if economic sanctions make people’s lives more difficult, he will not perceive it as an economic burden that would stop the war. If the strategic goal of the Western powers is to force withdrawal of Russian forces, they will need to step in with stronger sanctions, to the point of a natural gas embargo, even if it hurts themselves.

If the strategic goal is overthrowing the Putin regime, then the only way to achieve this will be through expressing dissatisfaction with the regime by the Russian people and an anti-regime movement, which will be difficult to induce through economic sanctions. Even if there is a buildup of discontent among the population, it is difficult to expect the anti-regime movement to gain momentum, given that dissident activists have been killed one after another

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in unnatural accidents or by chemical injections. In addition, although Russia is capable of regime change through elections, polls there cannot be said to be fair, and various forms of electoral fraud are said to take place⁸ despite the involvement of international monitoring agencies. In such an environment, it is difficult to imagine that the impoverishment of people's lives due to economic sanctions will bring about regime change. Similarly, although sanctions have been imposed on oligarchs (newly emerging conglomerates) who support the Putin administration and their assets have been frozen, there is no indication at this point that they are going to bring down Putin, and such regime change cannot be expected.

What, then, is the goal of the economic sanctions by Western powers? Presumably, it is aimed at raising the cost of war and taking away the ability to continue the war. As long as Europe, China, India, and other countries buy oil and natural gas, Russia will have the money to continue the war, but more than that, the war will be costly. In addition, sanctions have forced Russian crude oil to be sold at a considerable discount, with the price of Urals crude oil, mainly Russian crude oil, being almost US\$40 cheaper than North Sea Brent and other oil products. Furthermore, the menu of economic sanctions includes a ban on issuing Russian government bonds denominated in foreign currencies, making it difficult to issue war bonds to finance war expenditures. Given these circumstances, it is unlikely that the economic sanctions are aimed at an immediate ceasefire, withdrawal of troops, or regime change, but are likely to increase the cost of continuing the war in the hope that at some point Russia will run out of funds to continue the war and the population and Russian military will refuse to continue fighting. In addition, it is believed that the sanctions against Russia include product restrictions centered on semiconductors and other high-tech products, which will make it more difficult to obtain parts and other items needed for weapons production, and funds, thereby depriving Russia of the ability to continue the war.

Conclusion: The Consequences of Sanctions

The economic sanctions against Russia are being implemented by the G7 countries, mainly because Russia has invoked its veto power in the UN Security Council, making it impossible for the UN to take any measures. The G7 countries are aligning themselves as Western countries to put pressure on Russia and make it difficult for the war to continue. Although economic sanctions affect not only the targeted countries but also the business activities and the lives of the people of the implementing countries, they have been implemented with public support as a punishment for Russia's use of force in violation of international law to save the Ukrainian people.

However, these economic sanctions will not yield immediate results. Therefore, they will continue as long as the war continues, and even if a ceasefire is reached, it will be difficult to lift the sanctions unless Russia's occupation of Ukrainian land in violation of international humanitarian law (including by pro-Russian forces) is resolved. Since the purpose of the sanctions is not clearly stated, it is not even clear under what circumstances the sanctions should be lifted. As a result, there is a possibility that the sanctions will continue to be imposed without any opportunity for them to be lifted.


However, it will take a considerable time to achieve this because it will require the development of LNG storage and vaporisation facilities, and other related infrastructure. Germany has procured five vessels with facilities to vaporise LNG, but this is only temporary.⁹ If sanctions are to be effective in earnest, it will be important to reduce dependence on Russia even more than before.

However, the concern here is 'sanctions fatigue'. As long as the sanctions remain in place, the countries enforcing them will hurt themselves and will feel economic repercussions. Already, rising costs due to high oil prices are affecting people's lives, and global grain prices are also rising because Russia's Black Sea Fleet has stopped exports from Ukraine. These higher prices for raw materials necessary for daily life will make people's lives harder, and business with Russia will thin out, making it impossible for some companies to continue doing business. This will cause people to become dissatisfied even in countries where sanctions are in place, which will make it more difficult for Western countries to manage their regimes and result in a decline in support for them. If this happens, it is possible that at some point there will be a move to lift sanctions,

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even if fighting continues in Ukraine. In addition, there will be a disruption in the alignment among the Western countries, and Russia will probably try to take advantage of this by selling oil and natural gas at a discount to draw them into the Russian viewpoint. In addition, various disinformation and propaganda originating from Russia will be injected through social networking services to create a backlash within the Western regimes.

The Russian invasion of Ukraine is an event that is contrary to international law and must not be overlooked. The use of force by Russia, not to mention the Bucha massacre in June 2022, is violent and inhumane, and these acts must not be allowed to continue. Although Western nations will not deploy troops to Ukraine to engage Russian forces in direct combat, it is nevertheless important to make all efforts to deprive Russia of its ability to continue fighting by continuing to impose economic sanctions to make it easier for Ukrainian forces to fight. However, if the West stops the economic sanctions because of high energy prices and the damages to their economy, this will create an advantage for Russia, which may further intensify its attacks on Ukraine. To end this war, it is necessary to strengthen economic sanctions further, for governments to continue to explain the significance of economic sanctions to their citizens to make them aware of why and for what purpose these are being imposed to avoid a ‘sanctions fatigue’.

Finally, the West and the world should prepare for future economic warfare. This is exactly why the Japanese Diet (parliament) passed the Law on Promoting Economic Security in May 2022. The law provides opportunities for the government to intervene in commercial activities if there is a case of overdependence on foreign supplies. In times economic warfare, dependence—such as Europe’s dependence on Russian oil and gas—is a weakness. Strengthening economic security and improving supply chain resilience is a form of armament, and building industrial and technological capabilities to make the country indispensable in supply chains is a protection of national interests. 

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