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## The Russo-Ukraine War: Catalyst to Economic Statecraft's New Normal

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The Covid 19 shock jolted the world suddenly from a gently evolving world of Skype headlong into a vortex of Zoom, WebX and MSTeams. It redefined work and play and interconnectivity. It didn't change what was coming, but it forced a quantum leap that created a new normal. Some retreat may happen, but the world is different and will remain so. Similarly, the Russian invasion of Ukraine has forced a quantum leap in "war by other means." The war establishes a new normal in geopolitics. It may not be much different from what likely would have evolved, but Russia has shocked the system into a new normal that will reach well beyond Russia's relations with the new Western Allies. Importantly, it reframes and unleashes a broader array of coercive economic tools, heretofore non-existent or unused, that empower diplomacy, especially with authoritarian states.

As a poor graduate student, I had an old car, an American Motors Co. Rambler. It was small, simple, entirely mechanical. I could work on it myself to keep it running. Economic sanctions used to be like my Rambler. Simple, mechanical and blunt: a broadsword applied to nations to strangle economic activity by embargoing trade. Naval blockades blocking trade to Germany and Italy were used in both World Wars, as well as by Germany against Britain and France. US embargo of oil to Japan in 1941 succeeded but with serious collateral damage-- pushing Japan to attack Pearl Harbor.

U.S sanctions against Cuba, Burma, and Iran similarly imposed embargos on all or most trade. The theory is that enough economic suffering will spur the populace

to force desired policy changes on the regime or change the regime itself. Plan B is that the leaders of the sanctioned regime will be so moved by the suffering of their citizens, that they succumb and make the desired policy changes. Apart from apartheid in South Africa and Rhodesia, I am not aware of this ever working. Cuba is a classic example: U.S sanctions imposed on Cuba since 1960 have succeeded in creating substantial and long-lasting economic injury to Cuban citizens but failed in generating the desired policy response or regime change.

The painful humanitarian fallout of crude, broadsword-type sanctions has spurred a substantial remodeling toward "smart sanctions." Trading the broadsword for

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a scalpel slices out specific violators more precisely-- sensitive and/or influential industries, commodities, firms and individuals within an economy where pain can be applied. Spillover effects will occur, but the target sanctions can drastically reduce the

scope of pain while increasing its intensity on the targets.

Smart sanctions have reduced the pain of applied economic statecraft but have not proven substantially more successful. Again, they all both succeed, and fail. For instance, a study by the Office of the Chief Economist at the U.S. State Department of the smart sanctions deployed by the US and the EU against Russia after taking Crimea in 2014 [found](#) that the average sanctioned company or associated company lost about one-third of its operating revenue, over one-half of its asset value, and about one-third of its employees relative to their non-sanctioned peers. In short, sanctions succeeded brilliantly in punishing the intended targets with minimal collateral damage. On the other hand, they utterly failed to change Russia's behavior, policy, or strategy.



One can reasonably ask why use economic sanctions if they hardly ever work as intended. The simplest but surest response is that values matter. Modern enlightened civilization is based on the idea that value-based rules should govern international relations. It is one thing, and an important thing, for a country to express disapproval of an action by another country. Ambassadors write letters of concern; Heads of State write letters of outrage. States can recall their ambassadors or eject the other's ambassadors. It is another thing to back those concerns with painful economic sanctions—embargo of important products, block shipping lanes, prohibit imports or exports, freeze assets, close access to the banking system. Typically, these sanctions also will hurt the sanctioner; itself an important message of the importance of the action. These invariably are entirely successful--imposing pain where pain is meant to be felt-- and entirely unsuccessful at achieving the desired goal of changing behavior or policy.

Nonetheless, economic sanctions are an important tool because they are a necessary signal of the values of the sanctioner. Even in a realist world ruled by self-preservation and power, a cold cost-benefit analysis makes economic sanctions, especially 'smart' sanctions, an important tool. When values matter, economic sanctions are an important signaling process. They are the last step in the non-military tools of conflict.

A technical [definition of diplomacy](#) is influencing the decisions and behavior of foreign governments and peoples through dialogue, negotiation, other measures short of war or violence. Carl von Clausewitz famously broadens it: war is diplomacy by other means. There is no denying that war in its many forms must, for analytical purposes, increasingly fall under the umbrella of diplomacy. All the tools of diplomacy aim at political ends. The tools of statecraft—diplomatic, economic and military measures-- blend into a spectrum of measures to resolve conflict with only vague and fading lines dividing them.

The spectrum flows from political diplomatic measures, such as expressions of indignation or outrage to economic measures ranging from positive measures (foreign assistance, subsidies, debt forgiveness, trade agreements) to negative measures (embargoes, selective tariffs, commercial exclusions, strategic export restrictions, challenges raised to the WTO, asset freezes). Economic sanctions, the hard power of diplomacy blends all too easily into military measures. Military engagement evolves almost seamlessly from economic sanctions-- restricting weapons and necessary logistical supplies (fuel, shoes, semiconductor chips), to training, logistical support, air cover, naval cover, and finally boots on the ground. Conventional

war, likewise, is distinct but tied without clear lines to strategic warfare and finally mutually assured destruction.

If there ever were clean red lines between these, the Russian invasion of Ukraine shows, they are fading rapidly. Medvedev indicated that [exclusion from SWIFT](#) would be equivalent to a nuclear attack. Putin equated sanctions to a '[declaration of war](#),' that would force Russia to end Ukrainian statehood.

Medvedev and Putin are right. War is increasingly defined in the economic part of the spectrum. The American embargo of oil to Japan in 1941 looked to Washington like a standard economic measure, but was an existential threat to Tokyo, little different than a naval assault. In 1940, the global GDP was less than \$8 trillion (in 2011 dollars). Today is roughly \$100 trillion. That growth is the result of a highly integrated financial and trading system that, in turn, is the foundation of the current sanctions system that can be used to police it. Economic warfare is pushing ineluctably into the space heretofore occupied by the military. Phasing in military action is simply one more set of tools woven into the expanding spectrum of instruments available to both lift and to punish members of the community.

The success of the modern Allies in unifying over economic sanctions is an immense accomplishment. It shows, first and foremost, that even in a period of fractured domestic politics and fractious relations among nations-- the haves and have-nots and liberal and illiberal democracies—that the values defining modernity matter. A threat to that order, to borrow from Abraham Lincoln, still rallies the mystic chords of memory to what the civilizing principle has meant for world and the profound benefits from rules-based system that has evolved since 1945.



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This article is a result of the author's ascertainment and analysis, without compulsorily reflecting CEST's opinion.