

This article is forthcoming in the Centre for Joint Warfare Studies' Journal Synergy. All rights reserved. No part of this article may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without written permission from the author, except in the case of a reviewer, who may quote brief passages embodied in critical articles or in a review. Author's email: snigir@gmail.com

Economic Warfare: Keeping Visible the Iron Fist

The foundational weakness with all 'open-access' nations to this day is that Markets do not work well unless governments get out of them, at the same time Markets do not work at all unless governments get into them using power to stabilise. Herein lies the inseparable linkage between Markets and Power, both are joined at the hip and any system that seeks to operate one without the other or recognises one for the other is destined to crash.

By
Vice Admiral (ret'd) Vijay Shankar

Perpetual Peace: Economics the Rejoinder to the Waste of War

By 1793, a Europe sickened by colonial massacres and the bloodshed of the past three centuries of debilitating imperial wars saw in the aftermath of the American Revolution an impulse to transcend war. George Washington wrote from his experiences of the war of independence "it is time for the age of Knight-Errantry and mad heroism to be at an end," because "the humanizing benefits of commerce, would supersede the waste of war and the rage of conquest; ... as the Scripture expresses it, 'the nations learn war no more'."¹

Washington's declaration inspired the German philosopher Immanuel Kant to pen an essay in 1795, titled *Perpetual Peace: A Philosophical sketch*. The essay, in its preliminary articles, described a proposed global order that in inception was defined by a renunciation of arms, strategic military treaties and violence as an arbitrator of conflicts. His succeeding formulations were founded on three pillars; firstly, the civil constitution of every nation be democratic, similar and based on

open-access egalitarian principles; secondly, law of nations would be founded on a federation of Free States and thirdly guarantees of discord resolution between States would be settled through the “natural course of human propensities” identified as restraints intrinsic to the mercantile spirit, the power of money, the weight of majority commercial interests and should the need arise, economic injunctions. Central to Kant’s treatise was the belief ‘that war would be no more’.²

Perpetual Peace, attempted to underscore the indispensable condition for lasting peace. Even to this day despite its idealism it remains very influential. However, in its day, before the ink was dry on Kant’s thesis, ground realities asserted that there was something drastically skewed with the arguments. Far from ushering in perpetual peace, the economics of republicanism plunged Europe into competition and wars. France, without too much deliberation, transformed its internal peoples revolution (which in 1794 had slaughtered a quarter of million of its citizenry) to a peoples war of imperial conquest. While the continuing carnage in the ‘new lands’ built colonial empires which generated wealth to fund wars and surpluses which gave rise to new and lethal technologies. This in turn demanded innovative military doctrines and developed organisational skills that set off a string of irresistible revolutions in military affairs that eventually paved the way for the World Wars of the 20th century. So much for the reality of commerce and economics providing a basis for bloodless conflict resolution.

Marriage of the Invisible Hand with the Very Visible Iron Fist

Laissez-faire was a political as well as an economic doctrine of minimum governmental interference in the economic affairs of individuals and society. The origin of the term is uncertain, but folklore suggests that it is derived from a reply given by a French industrialist

when asked what the Louis XIV government could do to help business: “Leave us alone” he retorted. Laissez-faire is usually associated with the economists who flourished in France from about 1756 to 1778. The policy of laissez-faire received strong support in classical economics as it developed in Great Britain under the influence of economist and philosopher Adam Smith. The pervading theory of the 19th century was that the individual, pursuing his own desired ends, would thereby achieve the best results for the society of which he was a part. The function of the State was to maintain order and security and to avoid interference with the initiative of the individual in pursuit of his own desired goals. But laissez-faire advocates nonetheless argued that government had an essential role in enforcing contracts as well as ensuring civil order. Smith also laid the intellectual framework that explained the free market. He is most often associated with the expression “the invisible hand,” which he used to describe the self-regulating behaviour of the marketplace and demonstrate how self-interest guided the most efficient use of resources and provides balance to the economy of a country, with public welfare coming as a by-product.³ To underscore his laissez-faire convictions, Smith argued that the State and personal efforts to promote social good are ineffectual compared to unbridled market forces.

In the context of the vast, and for most, savage imperial enterprise that Europe unleashed in the 18th and 19th centuries, the matter of unbridled ‘market forces’ had manifold meanings. To the colonies where, Europe’s expansion into their worlds had transited from commercial and cultural equality to exploitative hegemony and finally to direct rule; market forces translated to loot, subjugation, slavery, lopsided indigenous economies and monopolies; making conquest and denying it to competitors, the new and most copious source of wealth.

The ‘invisible hand’ of the 19th century had a curious handmaiden, ‘the very visible Iron fist’. This lethal combination created capital on an inconceivable scale along with vast undivided apathetic governments (Hobbes’ Leviathan), organised armies and massive bureaucracies. Significant to our study is the emergence of another power tool of coercion and this was ‘political economics’.

Political Economics: A Branch of State Craft

The phrase political economics is not new, however it lost its essence through history and was replaced by ‘economics’ (literally in Greek to mean ‘run the household’) a more precise and formal scientific notion which stood for the mathematical study of the processes that govern production, distribution and consumption of goods and services. And yet, what differentiates is that political economics as an idea places economics in a position inseparable from politics and gives it a much more expansive span as an essential branch of state craft organised within the larger scope of a nation’s comprehensive power. It endows states with the capacity to selectively influence economic processes both internal and external; with it comes the potential to coerce and control political orientation of challengers and competitors.⁴

Political economic analysis examines the strategic pressures and interests that affect policies and how these pressures influence the political process, taking into account a range of interests, international environment, competing strategies and philosophical perspectives. In particular, analysis takes into account how non belligerent aspects of national power can be leveraged as a strategy to influence the pattern of economic growth or bring about sought after biases in the global system. This terminology in large part reflects the belief that economics is not really separable from politics. More than just a semantic classification of disciplines; it arose from the widespread view that economic factors are

crucial in determining political outcomes. Hence, as a discipline political economics historically viewed economic forces not only as influencing politics, but often as the principal determinant when military power reached its “Culminating Point”. Our examination will therefore be better served by keeping this framework in perspective.

Culminating Point of Military Power

Success in the application of power results from the availability of superior strength. However, as Clausewitz pointed out, when power is a function of physical force only, then it gradually diminishes with continued application and beyond a point the scales are turned and the reaction that follows is with a force stronger than that of the original force applied.⁵ Events in Vietnam, Soviet Union and more recently in Afghanistan and Iraq would suggest that not only had military power extended beyond the culminating point, but reached a chapter when reaction resulted in strategic losses that outweighed gains originally envisaged.

Indeed the history of contemporary wars has made planners question the efficacy of violence as an unconditional arbiter of friction between states. This is not because of any abstract concepts or illusion of happy endings but more on account of three very good reasons:

- The disproportionate destructive and disruptive promise that violence holds to all sides.
- The diminishing existence of any such thing as a productive war.
- The mounting reluctance of rational governments to employ radical means to alter the status-quo.

The dilemma about wars that societies face today are twofold, while wars in the past created larger, wealthier and more organised

communities and governments, “it today has got so good at fighting and our weapons so destructive that war is beginning to make further war of this kind impossible”.⁶ The utility of military power may have reached a culminating point when the suppression of violence demands less destructive solutions than what brute military power offers. In this context it would be interesting to examine if the concept of economic autarky provides a satisfactory retort.

Economic Autarky

The generally accepted theory of economic evolution in the pre modern era (1500-1800) was that after agricultural societies emerged, wars of conquest in the short term engendered wealth to the aggressor and waste to the victim. However, in the long run the same war became productive as instruments of government brought to conquered lands pacification, security, technology and the means to economic growth. Three centuries earlier, mercantilism was an essential feature in Asia of the pre modern period, whether in India, South East Asia (Vijayanagara or the Sri Vijaya Empires) or in China (Ming Dynasty and the voyages of Zheng He). This led to some of the first instances of significant government intervention and control over the economy, and it was during this period that much of the modern capitalist system was established. Internationally, mercantilism encouraged the many European wars of the period and fuelled European imperialism. It witnessed colonization of the Americas, Asia, and Africa during the 15th to 19th centuries. The trends in various regions of the world represented a shift away from medieval modes of organization, skill sets and methods of waging war. And these in turn generated territorial, political and economical gains of a magnitude that paradoxically, in time, made destructive wars counterproductive; this politico economic contradiction precipitated an

existential dilemma, since war was central to the growth of empires and indeed for the generation of wealth. The reaction to this new development was to ignite a contrary dynamic that urged imperial governments to retreat into the safety of its empires and embrace economic autarky.

Economic Autarky is a state of economic self sufficiency independent of international trade or interference. From an imperial standpoint economic autarky was an anomaly, for a mercantile economic policy that limited trade within empire placed demands for protection and denied itself the prospects of growth. The perversion that results is exemplified by the England's 'Navigation Acts of 1651'. These were conceived largely to exclude the Dutch rivals from English colonial trade, particularly the spice trade from India (remember, spice was the most cost effective preservative of meats, which was the fuel that military campaigns ran on!). These laws were disastrous in pure economic terms. Shutting out the Dutch and other Europeans, shrank England's markets, set off a fresh quest for exclusive resources and eventually made everyone less wealthy. The Navigation Acts exposed the foundational weakness of imperial economies which it shared with all 'open-access' nations of that period and indeed to this day. Markets could not work well unless governments got out of them, but Markets could not work at all unless governments got into them using force to pacify the world.⁷ Adam Smith's Invisible Hand and the Visible Iron Fist were two sides of the same (economic) coin.

An urge to restrict international trade can be described as autarkic if it appeals to nationalistic feelings and common interests, whereas foreigners have no regard for such interests and might even be actively working against them. It is quite true that a country that is heavily involved in international trade has a part of its industry dependent upon export markets for income and for employment. Any stifling of these

markets (brought about by recession abroad, by the imposition of new tariffs, by hostile action or by an antagonist indulging in economic rivalry or even the outbreak of war) would be acutely serious; and yet it would be a situation largely beyond the power of the domestic government involved to alter. Similarly, another part of domestic industry may rely on an inflow of imported raw materials, such as oil for fuel and power. Any restriction of these imports could have the most serious consequences. The threat implicit in such possibilities often results in nations adopting an autarkic economic policy that frees it from dependence. There is, however, no modern nation, regardless of how rich and varied its resources, that could really espouse self-sufficiency without suffering sharp drops in growth. Nevertheless, historically protectionist arguments, particularly those made in “the national interest”, draw heavily on the strength of such autarkic sentiments and end up paying a heavy economic price. An aggressive, yet not entirely convincing, alternative is to wage Economic Warfare.

Economic Warfare

From the seventeenth century until World War I economic warfare scholarship was dominated by the perspective of international law. But as belligerents ignored jurists' rules of acceptable conduct in economic warfare, the international law approach receded into irrelevance. Economic warfare comprises the use of, or the threat to use, economic means against a country in order to weaken its economy thereby causing a dent in its comprehensive national power. It includes the use of economic means to compel an adversary to change its policies or behaviour or to undermine its ability to conduct normal relations with other countries. Some common means of economic warfare are control of shipping, blockades, trade restrictions, boycotts, sanctions, tariff

discrimination, freezing of capital assets, suspension of aid, the prohibition of investment and other capital flows and expropriation.

Countries engaging in economic warfare seek to weaken an adversary's by denying access to necessary physical, financial, and technological resources or by otherwise inhibiting its ability to benefit from trade, financial, and technological exchanges with other countries. In modern times, its uses have broadened to include putting pressure on neutral countries and denying potential enemies goods that might contribute to their war-making ability. One of the primary types of economic warfare employed in the 20th century was the embargo, sometimes total and sometimes restricted to strategic goods.

The World War II Savvy of Economic Warfare

Practitioners and analysts alike have differed over the effectiveness of economic warfare. Its lack of success against Germany in World War II was a severe blow to the potency of the blockade as weapon. Economic warfare enthusiasts had underestimated the capability of determined leadership, to retain power despite economic hardship. In general, economic warfare seems able to do little more than hasten the escalatory process of conflicts. Strategies of economic warfare have two aspects:

- The institution of blockades, embargos, export control, contraband control, freezing assets and other instruments of economic warfare.
- The principles that define and determine list of contraband items.

Developments on the first aspect have come full circle; from Napoleon's Continental self-blockade prohibiting imports from the United Kingdom while promoting exports from the early 19th century, to the 20th century Warsaw Pact embargo of the USA and its allies restricting

exports without attempting to prevent imports. On the second aspect, lists of contraband swelled until by World War II they became all-encompassing. In modern wars every item of trade can have relevance to the war effort. Economists have even pointed out that the most strategic item is not necessarily the one having the greatest military use but the one relatively most expensive for the adversary to produce domestically and therefore bringing the greatest gains from trade, such as computers and digital technologies to the Soviet Union during the Cold War.

Statesmen and diplomats have never pinned high hopes on the effectiveness of economic warfare as a substitute for armed conflict. The popular classification of Germany, Italy and Japan as "have-not" nations in the run up to World War II gave the impression that they were vulnerable to economic sanctions. But vulnerability, we have learned, is a relative matter. Germany by long and careful planning in pre-war years, by extending the area under her control, by systematically stockpiling from invaded countries, by the ingenious use of substitutes and by restricting civilian consumption at home, successfully resisted the Anglo-American blockade.

Japan, in the early stages of World War II, was less successful than Germany in supplementing by conquest her domestic supplies of food and raw materials. Hence, she suffered more from economic sanctions. Early Allied embargoes on airplanes and octane gas did not in any way weaken the Japanese war effort. But the legal prohibitions on exports to Japan beginning in July 1940 were more serious, they cut off, successively, supplies of American iron and steel scrap, iron ore and pig iron, copper and finally all petroleum products. Nevertheless, Japanese trade was not vitally affected until July 25, 1941, when their assets in the USA were frozen, and parallel action was taken by the British Empire and by the Dutch East Indies. Japan, pushed back to the resources of the

yen-bloc area, found it almost impossible to procure from outside essential materials such as aluminium, copper, lead, zinc and scrap iron. Raw material shortages were sharply aggravated, and all business and industrial activity in the Empire was disrupted. "Japan," said a *New York Times* editorial on December 4, 1941, three days before the attack on Pearl Harbor, "is facing international economic siege and she is very vulnerable. . . ." Ironically it took all of four years of a bloody and exhausting war (which included the use of nuclear weapons) and caused over 25 million civilian and military casualties before economic and industrial life collapsed in Japan.

The Curious Case of Cuba

The United States embargo against Cuba is a commercial, financial and economic ban. It began on 19 October 1960 (almost two years after the Batista regime was deposed by the) when the US prohibited exports to Cuba. On 7 February 1962 this was extended to include almost all imports. Currently, the US embargo is enforced through six statutory US instruments: the Trading with the Enemy Act of 1917, the Foreign Assistance Act of 1961, the Cuba Assets Control Regulations of 1963, the Cuban Democracy Act of 1992, the Helms–Burton Act of 1996, and the Trade Sanctions Reform and Export Act of 2000.⁸ The Cuban Democracy Act was signed into law in 1992. This was significant for its opprobrium, for not only did it degrade the idea of choice of self governance but was also intriguing in rationale. The Law stands in direct opposition to the right of self determination, a cardinal principle of International Law, which has been sanctified by United Nations General Assembly Resolution 1514 (XV). The Cuban Democracy Act' stated purpose is to maintain sanctions on Cuba so long as the Cuban government refuses to move towards "democratization and respect for human rights". Quite

clearly the law was expected to be defied and Cuba was condemned to a slow economic haemorrhage.

To understand the magnitude of the embargo certain macro economic figures make the enormity clear. In 1958 US investments in Cuba amounted to near \$ 2 billion, which was more than 25% of all US investment in Latin and South America; Cuba's GDP at that time was \$ 20 billion and per capita GDP was \$3170 (approximately the same as Japan in that period).⁹ The economic blood loss becomes clear.

Despite the Cuban government referring to the embargo by the Spanish term *bloqueo* (blockade) which by international law is an act of war there was neither a formal declaration nor public censure. The embargo includes foreign countries that trade with Cuba who could be held liable and penalised by the U.S. However Cuba has and continues to conduct international trade with many third-party countries. The awkward irony is that Cuba has been a member of the World Trade Organization (WTO) since 1995.

To date, US-Cuba relations remain frozen and the latter also remains designated as a State Sponsor of Terrorism by the United States Department of State. The UN has with ineffective monotony, passed a resolution every year since 1992 condemning the ongoing impact of the embargo and declaring it to be in violation of the Charter of the United Nations and international law. Human rights groups have also been critical of the embargo as too harsh, citing the fact that violations can result in 10 years in prison. In an absurd reversal, some critics bemoan the economic price on the United States itself, as 10 different agencies are in charge of overseeing the embargo resulting in further government bureaucracy and debt. Despite the massive effort the U.S. puts into the embargo, Cuba still benefits from trade and tourism from all other major countries, making the embargo a pointless egoistic labour. Still others say

that the embargo places an unnecessary stress on Caribbean politics, and that the U.S.'s resources would be better served through re-establishing relations with Cuba. In short economic warfare waged against Cuba has been an utter failure on all counts despite having been imposed by the global 'policeman'.

The Cuban case suggests to any prospective instigator of economic warfare six critical considerations:

- In a globalised and networked world, economic warfare does not work when stretched over protracted periods (half a century in Cuba's case) even when a vast differential in power and influence exists between protagonists.
- Economic sanctions and embargoes must relate to a strategic environment and must be linked to time and effects if they are to produce a desired outcome.
- There must also be a Plan B that defines conditions when a back down becomes the best option.
- Protracted embargoes can be frustrated by increased trade between defiant nations unwilling to cooperate. In the absence of objectivity and resolve, economic warfare loses meaning, promotes sanction busting, has a reverse deleterious effect and degenerates to ineptness on the part of the instigator of the embargo. Both Cuba and Iran are studies in point. In a multi-polar world the situation gets further vitiated.
- Although economic warfare is often considered a relatively inexpensive complement or alternative to military engagement, it imposes costs on the initiating country by denying it access to economic exchange with the targeted country.

- The brunt of the impact of economic sanctions is unfortunately and ultimately borne by the civilian populace.

Military Power a Necessary Adjunct to the Invisible Hand

Relying just on the invisible hand of the market rather than integrating it with the Iron fist of military power in the hope that the target dispensation will crumble and alter its political and economic orientation, is a forlorn expectation. Far from breaking the country apart the crisis becomes an opportunity to push political centralization further and a rallying point that polarises international opinion as in Cuba's case.

Under certain circumstances, introducing military power deliberately combined with an embargo may offer rapid results, provided its entry is marked with a focussed aim that targets the oppositions centre of gravity.¹⁰ The effectiveness of economic warfare is also limited by the ability of the adversary's government to redistribute sufficient domestic wealth toward the military or other institutions to compensate for reductions in capability caused by the loss of the restricted goods. In the 1990s, for example, economic warfare against Iraq and North Korea did not substantially reduce the military threat posed by those countries because both were able to direct their limited economic resources toward their militaries. Critics of economic warfare have argued that it often imposes greater costs on the general population of the adversary e.g., through starvation, the spread of disease, or the denial of basic humanitarian goods, as it did in Iraq, than it does on its political or military leaders. At which time military power may be the more appropriate instrument to bring about political reorientation.

Conclusion

A resurgence of the concept of Political Economics puts into stark relief the contemporary state of global order and the stresses that competing interests place on it. The reluctance of nations to willingly subordinate their regional concerns to stability, well and truly, hammers the last nail into the coffin of a universal system that is defined by a renunciation of arms and an acceptance of the mercantile spirit as a strategic arbitrator of conflicts. The foundational weakness with all 'open-access' nations to this day is that Markets do not work well unless governments got out of them, at the same time Markets do not work at all unless governments got into them using power to stabilise. Herein lies the inseparable linkage between Markets and Power, both are joined at the hip and any system that seeks to operate one without the other or recognises one for the other is destined to crash.

Military power and its application has not quite reached that point of culmination when it is good for nothing; at the same time economic power does not have the gravitas to bring about perpetual peace, at least not quite as yet. In the circumstance prudence will suggest that the interest of stability would best be served if the Invisible Hand of economic power be tempered by the Visible Iron Fist.



Vice Admiral (Retd.) Vijay Shankar PVSM, AVSM, holds an MSc in Defence Studies and is a graduate of the Naval War College, Newport, Rhode Island, USA, Naval Higher Command College and the Defence Services Staff College India. He is the former Commander-in-Chief of the Andaman & Nicobar Command, Commander-in-Chief of the Strategic Forces Command and Flag Officer Commanding Western Fleet. His Command and operational experience are comprehensive and include Command of INS Viraat the aircraft carrier, active service during the 1971 war, Operation Pawan (the IPKF operations in Sri Lanka) and Operations to vacate the Kargil intrusion. The Admiral retired on 30 September 2009, after nearly 45 years in uniform. He is today settled with his wife in the Nilgiris and passes down his operational and strategic experience through articles and participation in seminars that deal with his primary areas of expertise. He has contributed to various professional journals and anthologies. He Lectured at the Staff College, Higher Command College, National Defence College, the United Services Institute and the National Maritime Foundation, Atlantic Council Washington, the MIT, University of Tennessee, The Howard Baker Centre and the Lawrence Livermore open Campus. He is an adjunct faculty at the National Institute of Advanced Studies where his papers

have been the prime mover for several seminars & workshops, a Distinguished Fellow and columnist at the Institute of Peace and Conflict Studies New Delhi, a member of the Forum for Strategic Initiative New Delhi, he has tenanted the Admiral Katari Chair of Excellence at the United Services Institute India. Internationally, his participation in the Track II Ottawa Dialogue, the Bellagio Carnegie Endowment discussions, the Indo-Sino-Pak trilateral dialogue, The GIBSA Dialogues and the Chaophraya Dialogue and the papers he has presented there seek to provide a new paradigm for maritime and nuclear security on the sub-continent.

End Notes

¹ Washington, George. Letter to Marquis de Chastellux, 25 April, 1788.

² Kant, Immanuel. *Perpetual Peace a Philosophical Sketch 1795*, translated by M Campbell Smith. George Allen and Unwin Ltd London, 1903, p 106-158.

³ Smith, Adam. *The Wealth of Nations*, W Strahan & T Cadell, London 1776, Book IV Chapter 2 Para IX.

⁴ Author's definition.

⁵ Clausewitz, Carl Von. *On War*, Princeton University Press, 1976, p 528.

⁶ Morris, Ian. *War* Profile Books, London 2014, p 9, 65-111 and 259-271.

⁷ *Ibid*, p 209.

⁸ Amnesty International. *The US embargo on Cuba its impact on economic and social rights*. Amnesty International Publications, 2009, UK.

⁹ Statistics extracted from UN, WHO and ILO figures for 1958. Other sources: Bank of Cuba, US Department of Commerce and *Investments in Cuba* by HC McClellan 1956.

¹⁰ Clausewitz, Carl Von, in his work *On War* develops the concept of Centre of Gravity of a State as the source of power that provides it moral or physical strength, freedom of action, or will to act.