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Strategy and Pitfalls of the EU Economic Sanctions

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HCSS Geo-economics

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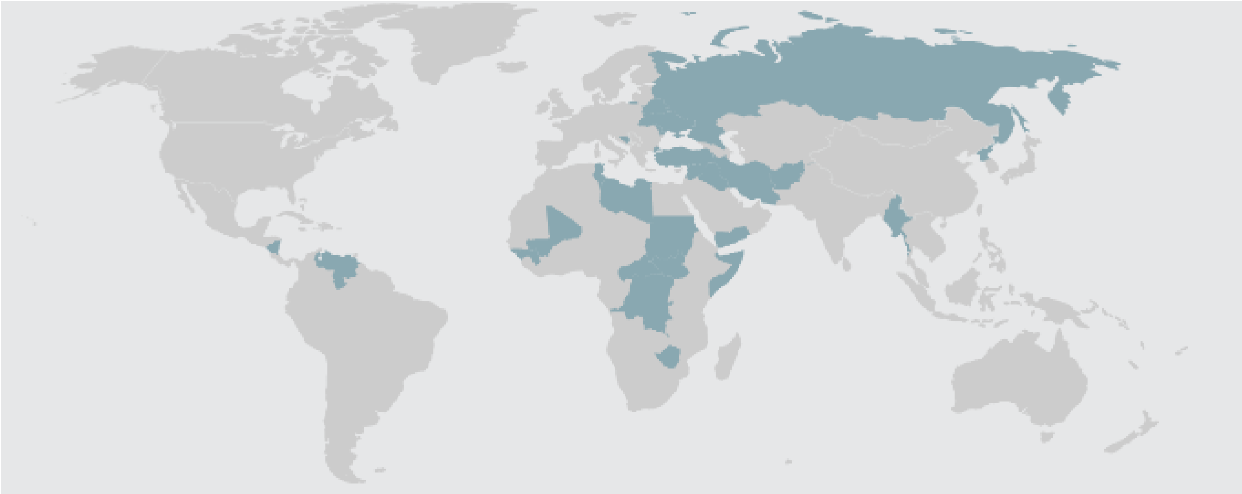
The pandemic has motivated states to move away from liberal trade policy and engage in advanced contracts or introduce legislation that prioritises the domestic market. It also made companies realise that they do not have a full grasp of their production chain – leaving many in sudden supply shortages, when a seemingly irrelevant market introduced a lockdown affecting the industrial output. The recent acceleration in political involvement in economic practices and rising awareness of long value chains is, however, part of a broader trend – only inflated by the pandemic and populism.

While liberalism was advancing, with the global trade growing twice as fast as the global economy, and formal obstacles to trade successfully disappearing, we have observed a parallel trend – an increasing use of economic sanctions.[1] The European Union, one of the most active players to promote a rules-based international trade system, has also been, paradoxically, among the most frequent users of economic coercion to advance its interests.[2] In fact, currently Brussels positions economic coercion as its primary tool to exercise power in international relations.[3] Nevertheless, despite the EUs continuous effort to make each sanction regimes "smart", for example through targeting only the assets of the leaders of the regime under EUs economic pressure, not all aspects of this foreign policy tool receive the necessary attention. Economic sanctions have distributional effects in the target state that undermine prospects for future open trade by empowering the protectionism-oriented sectors of the economy and fostering oligarchy. In addition, the EU neither takes full advantage of the bottlenecks it creates in the global economy, thanks to its unique position, nor is it EU aware to what kind of chokepoints it is exposed as a potential target of economic coercion.

[1] Kirilakha Aleksandra, Felbermayr Gabriel, Syropoulos Constantinos, Yalcin Erdal & Yotov Yoto, "The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency," *School of Economics Working Paper Series*, 2021-10 (2021).
[2] Francesco Giumelli, Fabian Hoffmann & Anna Książczaková, „The when, what, where and why of European Union sanctions", European Security, 30:1 (2021): 1-23, doi: 10.1080/09662839.2020.1797685.
[3] European Commission. Restrictive measures (sanctions). Available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/international-relations/restrictive-measures-sanctions_en.



Map of countries sanctioned by the EU; source: ***www.sanctionsmap.eu/***

1.1. Empowering protectionism

I see two areas that are core for the EU to further reflect on when designing its sanctions strategy. First, restrictions on trade may be easy to implement but are difficult to correct for once sanctions are lifted. While the aggregate economic effect of sanctions in most cases is negative, we also observe a distributional consequence of economic coercion – enriching some and impoverishing others, both in absolute and relative terms.[4] The increased economic inequality translates to a reconfiguring of political power in a state. For example, the Biden administration shows how tempting it is to keep the trade restriction with China, to the benefit of few in highly organised sectors, like the steel industry, and to the larger but more thinly spread cost to all American households. The same dynamic plays out in the target states of economic sanctions. Research shows that after sanctions are lifted, states themselves introduce tariffs and other measures that effectively mimic the sanctions regime.[5] This shows how much power does the inequality arising from sanctions put into the hands of those who benefit from reduced competition. In Europe we talk about returning to regular business with Russia at some point; yet, overlooking the power (and profits) of the by now oligopolistic Russian agricultural firms. Research suggests that they will likely dedicate their profits and connections to convince Kremlin to uphold the status quo through domestic legislation – despite it being costly to an average Russian. Thus, here trade wars and economic sanctions both create a threat to prosperity – risking prolonged high tariffs either domestically or abroad – despite the political tensions fading away. For a trade-orientated powerhouse like the EU this is a very dangerous dynamic; lifting of European sanctions ought to involve a roadmap to assure that the business does indeed return to normal.

>> **Lifting of European sanctions ought to involve a roadmap** to assure that the business does indeed return to normal. <<

[4] Sylvanus Kwaku Afesorgbor & Renuka Mahadevan, "The Impact of Economic Sanctions on Income Inequality of Target States," *World Development*, 83 (2016): 1-11, doi: 10.1016/j.worlddev.2016.03.015.

[5] Amy Pond, "Economic Sanctions and Demand for Protection," *Journal of Conflict Resolution*, 61:5 (2017): 1073–94, doi: 10.1177/0022002715596777.

1.2. The occasionally narrow passages of the global economy

Second, the prominence of complexity and diversification in the debate about trade liberalisation obscures the fact that parts of the global financial and trade infrastructure are subject to bottlenecks – regardless of the volume of economic exchange. The recent rising interest in these chokepoints shows that control over these bottlenecks offers a major leverage in the use of economic coercion and further incentivizes its employment.[6] Scholars highlight, for example, the role of the SWIFT payment system or gas pipelines – and recently the Suez Canal made us all acutely aware of the importance of the chokepoints.[7] The more complex and long supply chains are, the more damage can be done through the bottlenecks of the global economy – again, further making economic coercion more appealing for those who control these points on the economic map. In a paradoxical fashion, it seems that economic coercion is not only undermining the liberal order, as it also is a product of it. Yet, the bottlenecks in the global economy are not given sufficient attention in Europe. While the EU looks attempts to diversify supply chains and create behemoth companies to deal with the challenges that the US and China pose, it overlooks the fact that not all economic activity can be diversified or nearshored. For example, a potential threat is looming with the completion of Nord Stream 2, making several Member States vulnerable to changes in gas supply from Russia, as the current reverse supply prospects lack clarity. Identifying potential chokepoints for the European industry and offering transparent plans, independent of the current politics in Member States, on how to deal with disruption in these areas would truly contribute to European economic resilience and ought to be mapped out as the part of the on-going work of the Commission on the EU countermeasures to sanctions, that are currently discussed.[8] The obvious targets come to mind quickly, like gas supplies, but the list is increasingly larger – for example, encompassing rare-earth minerals critical for a successful green transformation of the EU economy.

>> Identifying potential chokepoints for the European industry and offering transparent plans on how to deal with disruption in these areas **would truly contribute to European economic resilience** <<

[6] Henry Farrell & Abraham L. Newman, „Weaponized Interdependence: How Global Economic Networks Shape State Coercion," *International Security*, 44:1 (2019): 42–79, doi: 10.1162/isec_a_00351.

[7] Henry Farrell & Abraham L. Newman, „Choke Points," *Harvard Business Review*, January-February (2020), Available at: https://hbr.org/2020/01/choke-points.

[8] European Commission. Strengthening the EU's autonomy – Commission seeks input on a new anti-coercion instrument. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1325.

1.3. Making Europe smarter at sanctions

Economic coercion seems to be a systemic feature of the liberal order. The latter enables the former to be of greater power and benefit to political leaders. In case of the EU, economic sanctions translate to an on-going effort to, among others, protect the rights of protesters and political prisoners in Belarus or the territorial integrity of Ukraine. Undeniably issues where the EU cannot overlook. When diplomacy fails, economic sanctions help the EU to project its principles abroad with the hope to improve the lives of many deprived of the power to seek for it themselves., this should make us even more alert about the prospect of trade wars and economic sanctions turning into long-term protectionism – either at home or abroad – undermining in the long run the ability of the EU to exercise power in international relations. We should also not be illusioned by the complexity of the global economy and the size of European companies, as neither solves the problem of chokepoints and effectively leaves Member States more – not less – vulnerable to the bottlenecks of the global exchange in goods and services. The EU should realise what the narrow passages of the world trade under its sway are, but also be aware of the chokepoints it is itself exposed to – and develop a plan of action, if a Member State is being pressured through such a channel to change its policy.

>> **When diplomacy fails, economic sanctions help the EU to project its principles abroad** with the hope to improve the lives of many deprived of the power to seek for it themselves <<

Dawid Walentek is a post-doctoral researcher at the University of Warsaw. He has a background in Political Economy and completed his PhD at the University of Amsterdam in 2020. Dawid's work looks at the processes underpinning the increasing popularity of economic sanctions, with focus on the role of democracy and international organisations