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Foreword

Air Marshal PP Reddy, VM

CISC & Chairman CENJOWS

Economic warfare has manifested itself in a number of forms during and after the cold war of the last century. But this form of warfare has a mixed history of successes and failures. Demise of the Soviet Empire is believed to be the result of deft economic warfare policies followed by the US in conjunction with other measures while Cuba and North Korea have successfully defied the economic warfare leashed by the US. There are several instances of the mixed results as well. Success of economic warfare depends on multiple factors, international cooperation being the mainstay.

The ability to withstand the effect of economic warfare depends upon the resilience of the country and its population. 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. In Its new avatar the Financial Warfare has more focused application with little collateral damage and reduced burden on the perpetrator. Countries with the more advanced financial infrastructure and clout riding on the modern ICT are likely to be more successful and effective in this warfare. In a globalised world the economic warfare is likely to find more and complex applications in conjunction with other form of warfare.

All round development, avoidance of single or limited sources of technology and trade, prudent connect with multiple trading blocs could help a nation to ensure its strategic autonomy and resilience against a potential economic warfare threat. China is already using economic / financial warfare in her own national interests. India needs to chalk out its own economic warfare policy, independently as also in conjunction with its strategic partners.

The theme "Economic Warfare in 21st Century" chosen for this Synergy issue is very apt and contemporary. Well researched articles in this issue would be of interest to policy makers and practitioners of defence and diplomacy.

(PP Reddy)
Air Mshl
CISC & Chairman CENJOWS

Director's Remarks

As the possibilities of large scale wars employing high caliber heavy weaponry are receding, incidence of sub conventional warfare and economic warfare are increasing especially during the last few years. The well accepted definition of the economic warfare makes it more potent in the emerging environment in which the cost and consequences of a conventional warfare are becoming prohibitive. Economic warfare is the use of, or the threat to use, economic means against a country in order to weaken its economy and thereby reduce its political and military power. Economic warfare also 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 trade embargoes, boycotts, sanctions, tariff discrimination, the freezing of capital assets, suspension of aid, the prohibition of investment and other capital flows, and expropriation.

The world is witnessing emergence of more trade blocks than the military blocks. Inter trading block rivalries with leaning on security issues are not uncommon. The ongoing Ukraine crisis could be termed as an example of this rivalry between European Union and Eurasian Economic Union. Sanctions imposed by the US and EU have adversely affected the economies of Russia and CARs. Nevertheless new members Armenia has joined the EEU on 2^{nd} Jan 15 and Kyrgyzstan's full membership is expected by May 15 undeterred by the impact of the ongoing sanctions.

India successfully faced the sanctions imposed on it after the Pokhran II even though certain high technological ventures like GSLV programme and LCA programme were delayed. Important lessons have been learnt and are manifesting in the developmental policies now.

In this issue of the Synergy, articles written by senior defence officers and scholars have been included. An article by Mr. Higgs of Mises institute of Austrian economics, Freedom and peace which appeared in “Mises daily” has been reproduced. All relevant aspects of the Economic Warfare have been addressed in these articles.

(KB Kapoor)
Maj Gen (Retd)
Director CENJOWS

Economic Warfare – Nuances in 21st Century

Lt Gen PC Katoch, PVSM, UYSM, AVSM, SC

[1]What caused President Vladimir Putin to exit the G20 Summit in Australia prematurely was not only Tony Abbott, the Australian Prime Minister, threatening to "shirt-front" him for his actions in Ukraine but more because David Cameron, the British Prime Minister, told Mr Putin: that he is at a "crossroads" and could face further sanctions; latter being a form of economic warfare. Presently, western sanctions against Russia are limited to the energy, defence and banking sectors, fallouts of which have been greater Russia-China proximity and the recent Russia-Pakistan defence pact. [2]Western scholars have been recommending further sanctions against Russia that may be both sectoral and subjecting increased number of individuals to sanctions. But then do sanctions by themselves comprise economic warfare, how effective are economic sanctions, how is economic warfare being waged in 21st century and what are its nuances?

Definition

There are many definitions of economic warfare. For some, economic warfare refers to a hostile relationship between two countries or more countries in which one country tries to damage another country's economy for economic, political or military purpose, and it is conducted through various collective measures such as: blockades; blacklisting; preclusive purchasing; rewards; capturing enemy assets, and; boycotts. As per [3]Encyclopedia Britannica, economic warfare is the use of, or the threat to use, economic means against a country in order to weaken its economy and thereby reduce its political and military power. Economic warfare also 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 trade embargoes, boycotts, sanctions, tariff discrimination, the freezing of capital assets, suspension of aid, the prohibition of investment and other capital flows, and expropriation.

Saga of Economic Sanctions

Akin to 'terrorism', the term 'economic warfare' may have become prominent in recent years but its application goes back thousands of years. [4]Pericles, a statesman in Athens in the 5th century BC ordered all trade banned between the Athenian Empire and Megra, a city-state that had sided with Sparta - Athens' enemy. He intended to send the message that, short of going to war, Athens would punish anyone who challenged her authority. These sanctions ultimately lead to a 30 year war. [5]Before World War I, the British Admiralty conceived a plan to win rapid victory in the event of war with Germany through economic warfare on an unprecedented scale, exploiting Britain's monopolies in banking, communications, and shipping to create controlled implosion of global economic system. Political leadership was advised that systematic disruption of global economy could bring about German military paralysis. However, after the outbreak of hostilities, the government shied away from full implementation realizing extent of likely collateral damage (political, social, economic and diplomatic) to both Britain and neutral countries. Hence, a less disruptive blockade to starve Germany was adopted. During World War II, Allied powers followed policies to deprive the Axis powers of resources critical to war effort. Conversely, Axis powers damaged Allied war effort through bombings, U2 rocket attacks and employing submarines.

[6]In June 1940, US Secretary of State Henry Stimson favored the use of economic sanctions to obstruct Japan's advance in Asia. US President Roosevelt hoped such sanctions would goad the Japanese into making a rash mistake by launching a war against the US, which would bring in Germany because Japan and Germany were allied. Therefore, the Roosevelt administration dismissed Japanese diplomatic overtures to harmonize relations, imposing a series of increasingly stringent economic sanctions on Japan. In 1939 the US had already terminated the 1911 commercial treaty with Japan. In July 1940, Roosevelt signed the Export Control Act, prohibiting export of essential defense materials

like aviation fuels and lubricants, high quality heavy melting iron and steel scrap. Next, Roosevelt slapped an embargo, on all exports of scrap iron and steel to destinations other than Britain and the nations of the Western Hemisphere. In July 1941, Roosevelt froze Japanese assets in the US and a week later embargoed commercial oil flow to Japan. British and Dutch followed suit. Roosevelt and his subordinates knew they were putting Japan in an untenable position and that the Japanese government might well try to escape the stranglehold by going to war. It has now emerged that having provoked Japan sufficiently, US cryptographers had broken the Japanese codes and were well aware of the intended Japanese attack on Pearl Harbour on November 25, but this critical information was held back from the commanders in Hawaii. For Roosevelt and his chieftains the impending attack constituted precisely what they had been seeking for a long time.

[7]With their hold on global institutions, the USA and the West have been prominent in playing with economic sanctions, examples being North Korea, Russian and Iran though all have not succeeded. To say that such regimes are impartial would be wholly untrue. Despite blatant nuclear proliferation by China, the West has hardly applied the type of economic sanctions that such international acts warrant. [8]The western model of the Coordinating Committee for Multilateral Export Controls (COCOM), which is the informal multilateral organization through which the United States and its allies coordinate national controls they apply over the export of strategic materials and technology to the outside world. It was originally conceived in postwar discussions between the US and France but by 1948, US had begun to enlist the cooperation of its West European allies for a coordinated embargo policy against the Communist bloc. Emergence of the People's Republic of China (PRC), the Berlin crisis, the Tito-Stalin split, and the explosion of the Soviet atomic bomb provided the impetus and as East-West tensions grew, the coordination of export controls took on increasing importance. COCOM embargoes were actually intended to weaken the Soviet Union and the communist bloc's military capabilities. Economic warfare must be viewed as a continuum of policies aiming to weaken the economic base of the adversary's power which axiomatically would include military power. [9]Then is the question of 'strategic embargo', which boils down to restrictions on export of strategic goods; conduct economic warfare or to control the export of predominantly weapon systems and other military items – items

that are not produced domestically by an adversary but required in accordance with its national strategy.

For most of the 20th century, economic sanctions were rarely used and during the Cold War they remained ineffective. In fact, the UN approved sanctions only against Rhodesia and South Africa prior to the fall of the Berlin Wall. However, later the UNSC approved sanctions against many countries like Afghanistan, Angola, Haiti, Iraq, Serbia, Somalia, Sudan etc. Post breakup of the Soviet Union, US emerged as the sole super power, and coupled with her economic sanctions went in for unilateral economic sanctions of her own accord. The EU and other nations too followed suit. There are many examples of successful economic sanction imposed by UNSC like: sanctions against Libya for bombing Pan Am Flight 103 disintegrated in the skies over Lockerbie, Scotland in December 1988 resulting in handing over of the bombers; against South Africa that helped bring its policies of apartheid to an overdue end; against Serbia that resulted in an international war tribunal for crimes against Bosnia and Kosovo, and extradition and trial of Slobodan Milosevic. [10]In the aftermath of Iran's seizure of US hostages in 1979, President Jimmy Carter ordered Iranian government bank accounts frozen in the US and the UK. Recently, the U.S. has acted to block North Korean bank accounts linked to illegal activities and the financing of its nuclear program. A US crackdown on Iran's Bank Sederat involved getting foreign banks including some of the world's largest banks (UBS and Credit Suisse of Switzerland and ABN Amro of the Netherlands) to agree not to conduct business with this bank or risk being cut off from the US.

Flipside of the Coin

According to Daniel Fisk, economic sanctions are a policy instrument with little, if any, chance of achieving much beyond making policy-makers feel good about having done something for a particular domestic community. Similarly, Louis Kreisberg suggests that sanctions can "widen the conflict, add to its destructiveness, and sometimes prolong it." Sanctions are usually destructive to the targeted societies. [11]A 1999 study suggests that post-Cold War sanctions may have contributed to more deaths than all weapons of mass destruction used throughout history. In Iraq, hundreds of thousands of children died between 1991 and 2001, in part as a result of sanctions and there were significant fluctuations in international support for the decade-long sanctions. The follow up to sanctions too is usually harsh causing more death and destruction, as being witnessed in Syria and Iraq. Additionally, if there is domestic support for the targeted leader (Syria?), outside pressure can also be used by leaders to ignore domestic troubles, placing the blame for economic instability on the outsider, and providing political cover to further repress domestic dissidents, while directing resentment toward those who impose the sanctions.

Success of economic warfare depends on multiple factors, international cooperation being the mainstay. The British blockade of Germany in early part of World War I proved largely ineffective because of the massive political influence of economic interests on national ambitions and the continued interdependencies of all countries upon the smooth functioning of the global trading system. Sanctions are more likely to have a positive influence if there is there is multilateral coordination, the targeted government faces domestic opposition, and sanctions are combined with incentives. Sanctions imposed on North Korea aimed at forcing her to give up her nuclear program have not succeeded since China has been helping North Korea on the pretext that North Korea would implode. Not only are number of Chinese companies operating inside North Korea, China has set up a large economic zone along her border with North Korea. China's interest is to keep the North Korean nuclear program alive as a nuclear proxy against US, Japan and other adversaries in Asia Pacific.

Financial Warfare

Akin to 'good' and 'bad ' Taliban, and 'violent' terrorism, economic warfare is being referred to as 'Financial Warfare' in the US. [12]US is increasingly using financial warfare to punish international actors, blocking the overseas bank accounts of North Korean, Iranian, and Russian companies involved in activities such as nuclear and conventional weapons proliferation. Attacking funding of terrorist groups is a core strategy. Some scholars feel financial warfare has greater targeting accuracy than classic economic warfare of trade sanctions, embargoes, and blockades. Economic warfare also has a deep connection with information operations and network-centric warfare, which points to a new type of conflict against computing and network infrastructures in the financial sector. When these networks are cut off or compromised, money stops flowing and operations cease. The ability to do this offensively and defensively has enormous political consequences.

Chinese Economic Warfare

[13]China has been using economic sanctions discreetly and indirectly though overtly showing opposition to such tactics. In 2013, China had a total trade surplus of $259.24 billion through exports and $3.5 trillion in its Forex reserve. China's economic might and its interlinking with US economy raises question who holds whose key to economic interdependence, and how it affects the policies and influence of these countries. Beijing has usually criticized US sanctions and even vetoed UN economic sanctions, like against Myanmar (2007), Zimbabwe (2008), and Syria (2011 and 2012) even though these were termed 'smart' sanctions targeting only the leadership. Since 1978, China has repeatedly used foreign policy tools to advance its economic interests. Now, Beijing is using its vast economic wealth to support foreign policy goals. Laos and Cambodia siding with China in ASEAN is one example. Beijing has usually criticized US sanctions and even vetoed UN economic sanctions, like against Myanmar (2007), Zimbabwe (2008), and Syria (2011 and 2012) even though these were termed 'smart' sanctions targeting only the leadership. China combines highly focused, short-term economic threats with diplomatic pressure on a country or company to resolve an issue of limited significance to the sanctions target. In theory, the target will value its economic relationship with China more highly than the issue of limited significance. The scale of China's economy gives it significant economic muscle, a muscle that China is flexing more and more frequently. China has used her financial muscle to reinforce her 'string of pearls around India.

Hybrid Economic Warfare – 21st Century

Kautilya had advocated three types of war: Open War, Concealed War and the Silent War. He did not make specific mention of economic warfare simple because economic warfare is all pervasive. In fact, it can be applied throughout the conflict spectrum (nuclear, conventional, sub-conventional, and cyberspace), just like asymmetric war. Economic warfare at times is described as the term for economic policies followed as part of military operations and covert operations during wartime. Wikipedia says the concept of economic warfare is most applicable to conflict between nation states, especially in times of total war. But 'wartime' is generally attributed to conventional war, which has regressed in recent years. Asymmetric wars are the order of the day. Population explosion, resource crunch, geopolitical rivalries and quest for power, energy and territory have made application of sub-conventional and economic warfare one continuous affair. Economic warfare is therefore being used in hybrid form; mixed with other forms including the asymmetric and sub-conventional. The effectiveness of economic sanctions by themselves is questionable in the 21st Century. Partially effective sanctions against North Korea are just one example, and how effective would they be against Russia too is questionable. More harm sanctions have on their target the more likely they are to influence the target's behavior. The human costs of such sanctions are often unacceptable and make international support difficult. Then you have the typical case of Pakistan who should have been forced to give up her policy of sponsoring terrorism with heavy economic sanctions but is protected because of individual national interests of the US, China and Saudi Arabia. [14]The brief interlude of Pressler Amendment at best can be dubbed as 'dumb' economic sanctions.

A major problem in denying funding to terrorist groups are that the amount of money transacted is likely broken in small numbers and networks used are mass market in character. Terrorist cells are unlikely to use large international networks for international funds transfer. The LTTE used on-line eBay and PayPal accounts for money laundering. Of critical importance is timing of financial attack on terrorist organizations, which requires worldwide coordination since seizures must come down nearly simultaneously. Then is the million dollar question of own national interests which dictates all forms of warfare including economic warfare. Witness the massive US led coalition amassed against the ISIS in Iraq-Syria and the declaration to wipe out this cancer. But despite the total air, sea and information superiority, the ease with which the ISIS is able to smuggle out and sell millions of dollar worth of oil daily average leaves little to guesswork.

[15]Adam Roberts, professor at Oxford University says, "There are very few cases where you can definitely identify sanctions as having had a success, except sometimes in combination with other factors." But economic warfare will continue to be applicable in 21st century. Blocking bank accounts of key groups and individuals puts the spotlight on them and thereby increases the risks to any company or government doing business with them. Economic sanctions legitimize additional actions, both economic and others, which can ratchet up more pressure. This is where financial warfare and military strategy converge.

Economic warfare also complements information operations. When combined with advances in social network mapping, it can give a highly detailed picture of a communication and financial structure that can be used for targeting. Communication and software tools now exist to analyze connections in vast networks of heterogeneous information, such as economic transactions, mobile telephone calls, e-mail, air travel etc. This gigantic information pool can be a source of knowledge about a nation's elite, where they stash their money, who they talk to, and their position in a social hierarchy. The key to doing this lies in constructing overlays of these datasets to visualize the various connections. Spoofing or sending false signals of increased military and financial pressure can be used to map out the crisis response patterns of a nation's elite, who they call, and where they send their money. Economic warfare also encompass attacking financial institutions which continues to be a major concern even in the US. Financial hubs need hardening that may never be enough. Besides, attack on a prominent financial hub can have cascading effect on economies elsewhere in the globalized world.

Conclusion

Economic warfare is an expanding arena of conflict and will continue to play an important role in the 21st century in hybrid form. It is important to distinguish between financial and economic systems. This distinction is central to understanding the growing opportunities for financial / economic warfare. The economic system deals with the hard and soft outputs of the economy; goods and services. The financial system deals with money and credit. In the modern financial system these can be very complicated. Bank credit, money transfers, stocks, bonds, and derivatives are the stuff of the financial system. It is a system built on confidence. There is trust that loans will be paid, that money transferred to an account will actually get there, and that money once placed in an account will not suddenly disappear. The difficult question is the relationship between these two systems. Understanding financial vulnerabilities requires thinking across departments that have not historically been well coordinated like the defence, finance and the intelligence community. Since money in the modern era can be instantly moved electronically, even the appearance of a threat to accounts can lead to large outflows into safer banks in safer countries. China is already using economic / financial warfare in her own national interests. India needs to chalk out its own economic warfare policy, independently as also in conjunction its strategic partners. This will also help retrieve the black money from abroad in line with the Prime Minister's vision.

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Economic Warfare: Keeping Visible the Iron Fist

Vice Admiral Vijay Shankar (Retd)

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.

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 Sates 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 indispensible 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 Smiths 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) 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 Enhancement 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 per cent 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 five 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.

Military Power a Necessary Adjunct to the Invisible Hand

The question then arises would there have been a different conclusion had the 'Iron Fist' of the military been made more visible at some stage to enforce the embargo and actively bring about perestroika in the Cuban political structure? While the Bay of Pigs incident (1961) and the Cuban missile crisis (1962) did witness aggressive military deployments, nevertheless, these operations failed to follow through to either 'democratize' or wean Cuban policy makers away from 'Marxian' ideology. 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. 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.

Endnotes

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21^{st} Century Warfare – Economic or Financial

Air Mshl Dhiraj Kukreja (Retd)

Introduction

Throughout history, war has been an important subject of analysis. In the latter part of the 20th century, in the aftermath of two World Wars and in the shadow of a nuclear, biological, and chemical holocaust, much has been written on the subject than ever before. It is of great importance to understand the nature of war, to put together some theory of its causes, conduct, and prevention, for it is theory that shapes human expectations and determines human behaviour. The analysis of war can be divided into several categories; philosophical, political, economic, technological, legal, sociological, and psychological approaches are well known. These distinctions indicate the varying focuses of interest and the different analytical categories employed by the scholar, but most of the actual theories are mixed because war is an extremely complex social phenomenon that cannot be explained by any single factor or through any single approach.

Over centuries, theories of war have passed through several phases, reflecting changes that continue to evolve in the international system. After the ending of the wars of religion, in about the middle of the 17th century, wars were fought for the interests of individual sovereigns and were limited both in their objectives and in their scope. WW I, which was a total war in character, as it resulted in the mobilisation of entire populations and economies of nations, for a prolonged period, and did not fit into the pattern of a limited conflict as described by Clausewitz.

WW II and the subsequent evolution of weapons of mass destruction (WMD) made the task of understanding the nature of war even more urgent. On the one hand, war had become an inflexible social phenomenon, the elimination of which seemed to be an essential precondition for the survival of humankind. On the other hand, the use of war, as an instrument of policy, was calculated in an unprecedented manner by the then nuclear superpowers, the United States and the Soviet Union. War also remained a harsh, and, at times, a rational course of action, in certain other limited conflicts. Thinking about war, consequently, became increasingly more differentiated because it had to answer questions related to very different types of conflict.

Clausewitz, in his epic “On War” (p27), lucidly defines war as a rational instrument of foreign policy: “an act of violence intended to compel our opponent to fulfil our will.” Modern definitions of war, such as “armed conflict between political units,” generally disregard the narrow, legalistic definitions characteristic of the 19th century, which limited the concept to a formally declared war between States. Such a definition includes civil wars, but at the same time excludes such phenomena as insurrections, banditry, or piracy. Finally, war as is generally understood, takes in to account only armed conflicts of a somewhat large scale, usually excluding conflicts in which fewer than 50,000 combatants are involved.

The rapid pace of change seen since the last decade of the 20th century is extraordinary. The end of the Cold War and the subsequent disintegration of the Soviet Union removed the greatest conventional military threat to the Western world. The new world order that emerged had the analysts, strategists, state and non-state actors, think of new means of waging war. A new term, “geo-economics”, as suggested by some schools of thought, emerged, and is tending to replace geo-politics as the expression of describing the evolving world order. In an age of growing economic interdependence and globalisation, in which billions of dollars can be transferred half-way across the globe in the blink of an eye, multi-national corporations that question traditional concepts of nationality, the strength and resilience of economies of nations will continue to have an increasing influence on international decision-making. The world has entered a new era of tensions in both international economic and politico-military relations.

Economic Warfare

George Shambaugh, as quoted in the *Concept Paper of CENJOWS* on the subject, has defined economic warfare "as the use of, or the threat of use of economic means against a nation, in order to weaken its economy and thereby reduce its political and military warfare capability". Economic warfare is not just the use of economic means between two nations, but also includes the use the tools of economic warfare to compel an adversary to change its policies or behaviour, or to undermine its ability to conduct normal relations with other nations. Some common tools of economic warfare are trade embargoes, boycotts, sanctions, tariff discrimination, freezing of capital assets, suspension of aid, restriction of investment and other capital flows, and expropriation.

Nations engaging in economic warfare seek to weaken an adversary's economy by denying it access to physical, financial, and technological resources or by otherwise impeding its ability to benefit from trade, financial, and technological exchanges with other nations. The concept of economic warfare is probably as old as the concept of warfare itself. Interception of contraband and blockades, among belligerents, was practiced even before the Peloponnesian War (431–404 BC) in ancient Greece. In modern times, the use of such means has broadened to include putting pressure on neutral nations, from which the adversary nations could obtain equipment and stores, and denying potential adversaries goods that might contribute to their war-waging capability. One of the primary types of economic warfare employed in the 20th century was the embargo, sometimes total and sometimes restricted to strategic goods (i.e. those that are essential for military purposes). During the Cold War, for example, the United States and its allies attempted to deny the Soviet Union and its allies, access to computers, telecommunications equipment, and other technologies of high economic and military value.

The effectiveness of economic warfare depends on a number of factors, including the capacity of the adversary to produce the restricted goods internally or to acquire them from other nations. For example, efforts by the United States of America (USA) to oust Fidel Castro from power in Cuba, by maintaining a decades-long embargo, were frustrated by increased trade between Cuba and Mexico, Canada, and Western Europe, notwithstanding that these nations were friendly towards USA. Although economic warfare is often considered as a relatively inexpensive complement or alternative to military engagement, it imposes costs on the initiating country too, by denying it access to economic exchange with the targeted country. For example, consumers in USA paid higher costs for goods from Cuba or Iran or other targeted countries; Pakistan too had to face sanctions after the nuclear tests, but the sanctions hurt USA as well, as wheat export to Pakistan was restricted, resulting in surpluses with the farmers in USA, which had no market demand in other nations. USA, therefore, had to lift the sanctions on wheat export to Pakistan.

The ability of the adversary to redistribute sufficient domestic wealth towards its military or other strategic institutions, to compensate for reductions in capability caused by the loss of the restricted goods, limits the effectiveness of economic warfare. In the 1990s, for example, sanctions and embargos against Iraq and North Korea did not substantially reduce the military capabilities of these nations since both were able to direct their limited economic resources towards their respective militaries. Multilateral sanctions or embargoes require collective cooperation and are most likely to be effective only when all participating nations have the capacity to abide by the restrictions and do not undermine them. The ability of a targeted country to acquire embargoed goods from a third party is also likely to reduce its effectiveness. Examples of Iran and North Korea again come to mind; both the nations were assisted by USSR and China to build their war-waging capabilities, when placed on sanctions by the United Nations. Critics of economic warfare have often argued that economic warfare imposes severely on the general population of the adversary, through the non-availability or restricted supplies of food items, medical supplies or the denial of basic consumer goods, rather than affect the political or military leaders.

Financial Warfare

National power once meant control of natural resources, factories, and ports; controlling or denying the use of these was a major objective of military strategy. Economic warfare, in the form of strategic embargos, blockades, or the pre-emptive purchase of scarce resources to deny them to the enemy, was designed to deny access to critical resources, or to disrupt their conversion into war goods. During the Cold War, the economic independence of the Soviet Union and its block of nations made it difficult for USA and its allies to practise the classic form of economic warfare. On the other hand, the subsequent, tremendous economic and financial growth of the Western nations made them apprehensive of the Soviet Union, whether it could trigger a financial panic or create an another kind of economic dislocation.

Financial warfare has greater targeting accuracy than the classic tools of economic warfare, which have an exceedingly subtle impact on the entire population of the affected nation. For this reason, its use is likely to increase, just as precision-weapon military strikes replaced carpet-bombing, to minimise collateral damage. In addition, financial warfare has a deep connection with information operations and network-centric warfare, an indicator to an emerging conflict style against computing and network infrastructures in the financial sector. When these networks are disrupted or compromised, money stops flowing and operations cease; the ability to achieve this, offensively and defensively, has enormous political consequences.

It is important to distinguish between the financial and economic systems. This distinction is central to understanding the growing opportunities for financial warfare, as distinct from classic economic warfare. The economic system deals with the hard and soft outputs of the economy, that is, goods and services. The financial system, on the other hand, deals with money and credit. In the modern financial system, these can be very complicated. Bank credit, money transfers, stocks, bonds, and derivatives are the prime substance of a financial system. It is a system built on confidence and mutual trust; there is trust that loans will be repaid, that money transferred to an account will actually get there, and that money once placed in an account will not suddenly disappear. The difficult question is the relationship between these two systems.

Other distinguishing features of the two systems are also important to understand the nuances of financial warfare. Financial shocks tend to be immediate and concentrated in time (precision attacks). They can also be more focussed towards affecting particular groups and are usually more concentrated (avoiding collateral damage), for example, when Enron collapsed in 2000, those most affected were not the ordinary citizens, or even the average stockholder; the employees and shareowners were the ones who disproportionately suffered loss. In contrast, economic shocks usually affect broad segments of the population (carpet-bombing), when unemployment becomes rampant, or goods are in short supply.

Financial warfare, in comparison to economic warfare, is an expanding arena of conflict. Therefore, understanding financial vulnerabilities requires thinking across departments that, historically, have not been well coordinated; for example, the departments of Defence, Finance, and the Intelligence community, do not normally plan any coordinated actions. Since money in the modern day can be instantly moved electronically, even the appearance of a threat to accounts can lead to large outflows into safer banks, in safer nations. There are many examples from recent history when financial pressures were resorted to, even amongst allies, or preventive measures adopted between adversary nations to avoid coming under a 'financial' threat.

Prior to embarking on a financial (mis)adventure, a nation, however, must look inwards and check its own defences to withstand a financial attack. Is its system hardened enough to hold out an attack? Does the system have enough back-up to endure the cascading effects of failures that they do not spread to other markets? One reason that the Wall Street recovered so quickly after 9/11 was that planning had been undertaken in an earlier exercise, as far back as 1997. The war game focussed on key nodes, like computer clearing houses and telephone switching centres; the terrorist scenario of the game was nothing like what actually transpired on 9/11. Similarly, the 26/11 attack on Mumbai, India's financial hub recovered almost immediately after the attack had been neutralised, just because the assault was initially concentrated on the hotels and other population intensive areas and not on any vital ingredient of the financial system *per se*. Nevertheless, interdependencies within the structure and other complementing systems remain; the electrical grid and the telephone network, in particular, are essential for the smooth functioning of the financial arrangement.

Financial Warfare as a Strategy

Most people think of financial warfare as a substitute for military action, which it is, up to a point; after a point, however, it becomes a complement rather than a substitute. It is hence, necessary to put financial warfare in a strategic context.

The most persuasive and forceful categories of financial warfare, such as blocking all monetary transactions and money flow, to and from a country and its citizens, may only make sense under conditions of war. There is, indeed, a large spectrum of intermediate cases between small financial sanctions, which substitute for kinetic attacks, and absolute financial warfare, which complements the military attack. This spectrum gives the key insight that financial warfare, as a strategy, can be used as a 'strategic weapon' in an escalation framework. It has two separate effects.

- The first setback is to the individuals and companies whose accounts are blocked or confiscated.
- The second impact comes from its place as a follow-up action, which is considered as a reasonable and justifiable action.

Placing financial warfare in an escalation framework has several important features. Since it is more focused than the traditional economic warfare, financial warfare is, therefore, more likely to be considered acceptable in a political sense.

Freezing bank accounts and disrupting money flow are pointed actions that directly affect those who are in power, as compared to conventional economic warfare; the embargos of 1991-2003 on Iraq, affected the general population more than it affected Saddam Hussain. Another aspect of placing financial warfare in an escalation framework is that it is not just a strategic action that is to be used only once; correct and timely use of it can reshape the future course of the conflict. Viewed as a "next step" in an operational escalation, financial warfare may be much more effective in building pressure than is commonly believed; therefore, the imperative for understanding it thoroughly as a dynamic process, before application.

Financial warfare complements not just military operations, but information operations as well. When combined with advances in social network mapping, it can provide a highly detailed picture of a nation's communication and financial structure that can be used for selective targeting. Communication and software tools are now available, to analyse connections in vast networks of heterogeneous information, such as financial transactions, mobile telephone calls, e-mail, and air travel. This gigantic information pool can be a source of knowledge about where a nation's influential leaders and other prominent individuals stockpile their money, who they talk to, and their position in the social hierarchy. The key to achieving this lies in constructing overlays of these datasets to visualize the various connections.

Monitoring the pattern of money flow out of a country in a crisis presents important indications of the hierarchy in the government of a nation, and out of it, and who is, at least fully or partially responsible for national decisions. This information, carried to the next step, can be combined with precise military attacks to target the adversary nation's elite through tracking of mobile telephone calls, following the financial transactions of their bank accounts to reveal where they keep their money and who has access to their accounts. This creates the conditions for potentially ruinous attacks with far-reaching social implications on adversary's leadership. New developments in technology, intelligence, and finance are helping these streams to converge, thus creating increasingly favourable conditions for financial warfare; a systematic thought, hence, should be directed to this important subject.

As for any strategic weapon of war, the weapon of denying access to financial assets of an adversary, also needs careful planning and, hence, proper command and control. Financial warfare is at the cusp of civil and military spheres of conflict; it, therefore, necessitates cooperation between those handling military, finance, foreign relations and intelligence. Organisational issues of authority and tasking may prove to be difficult to provide an unambiguous framework. While there may be challenges in accepting financial warfare as an effective weapon, solutions to the challenges should be sought. Appropriately designed war-games could assist in identifying the challenges in command and control and diluting the tensions and stresses arising from them.

Concluding Thoughts

Several studies and conferences held in the 1970s, during the peak of the Cold War, by the Western nations on their economic vulnerabilities, concluded that modern capitalist economies were highly resilient; it was difficult to upset them for long. Disrupting key nodes is much more difficult than it first appears, as the activity automatically transfers to other nodes or sectors. Thereafter, the 1980s saw a shift in Western thinking and the vulnerabilities of the Soviet Union were studied. The results were similar and no immediate collapse of the Soviet economy was foreseen. The 2000s saw the attention shifting yet again, this time to the financial vulnerabilities as against the economic aspects; it was observed that the flow of money dwarfs trade by a huge margin. Likewise, it was perceived that geopolitics and local politics can have far-reaching implications in the financial world. It, therefore, became important to differentiate between the two the structures: economic warfare and financial warfare.

The intersection of powerful, long-term trends in technology, networking systems, and finance has placed financial warfare as an ever more probable form of warfare. The precise targeting feature of financial warfare, relative to conventional economic warfare, marks a significant change in the nature of conflict. This topic calls out for more thought about what is likely to be a growing use of an approach that calls for a strategic framework to understand it.

The 21st Century Oil Glut & India

Col Amar Ramdasani, YSM

"America's new energy posture allows USA to engage from a position of greater strength".

- Tom Donilon, Former US National Security Adviser

Energy is not only an economic commodity; it is a strategic tool to secure geopolitical interests. A few examples from not too distant past signify the employment of energy as a geopolitical tool. Gawdat Bahgat, in his incise-full article "The Economic And Strategic Implications Of Low Oil Prices" has brought out that shortly after the 1973 Arab-Israeli war, Arab oil producing countries cut production and imposed an oil embargo on the United States and a few other countries in retaliation for their support of Israel. This led to a rapid surge in oil prices that came to be known as the first 'oil shock.[1]There are many who believe that relations of the West with the Middle East are largely driven by the 'oil for security' bargain.[2]

It is also not a coincidence that while in 1981, when the crude oil price was at $35 a barrel, in the decade that followed, it nosedived by almost 45 per cent to nearly $ 20 a barrel in 1991. It was in 1991 that the erstwhile USSR disintegrated. The USSR economy dependent largely on crude oil exports probably couldn't take the impact of a decade of low oil revenues and this only hastened the disintegration of USSR. This was probably the first *Oil Induced Geopolitical Shock*!! Many believe that Americans brought down a superpower without firing a single bullet.

Come 2014,we are amidst an *Oil Glut of unprecedented proportions* that has the potential to deliver another geopolitical shock!! It is interesting to note that while in 2008 oil prices reached their peak, around $147 per barrel and stayed above $100 per barrel in subsequent years, the last few months, however, have witnessed a steady decline in oil prices. In early November 2014, a barrel of oil sold for a little more than $80 per barrel.[3] By end Nov 2014, when the OPEC meeting ended in Vienna, the Oil was around $ 72 per barrel a decline by almost 50 per cent from the 2008 price per barrel. The oil prices are going down primarily due to US Energy Independence. The U.S. crude output rose from 5.7 million barrels per day in 2011 to 8.4 million barrels in the second quarter of 2014, a remarkable 47 per cent gain. And this is to be no flash in the pan. It is predicted that US domestic output will rise to some 9.6 million barrels per day in 2020, putting the U.S. back in the top league of global producers.[4] The US energy independence, a slowdown in Chinese economy and the decision OPEC countries to not to cut back oil production has led to is abundance of Oil in market. This can be termed as the 21st Century Oil Glut. While it may be too premature to accurately conclude the exact geo-political ramifications that this21st Century Oil Glut may produce, an attempt is being made to visualise the likely impact of the 21st Century Oil Glut in some major regions of the world.

African Subcontinent: Nigeria

Nigeria is amongst the largest oil exporting economy in the African subcontinent. Robert Windrem, an investigative reporter with NBC News, argues that with growing US Energy Independence, Nigeria's economy has tanked. Nigeria, which used to supply nearly 40 million barrels of crude to the US until seven years back, supplied only 4.5 million barrels by April 2014, and by July 2014, not a single drop of Nigerian oil arrived in US oil refineries!! Nigeria which generates nearly 70 per cent of its budget from oil sales has not only lost its biggest customer, the decline in oil prices if persists far too long, could well may bankrupt Nigerian economy.

This 21st Century Oil Glut has the potential to induce not only an economic upheaval of vast proportions but may trigger social unrest in Nigeria. With radical terrorist groups like Boko Haram waging a war against the Nigerian state, a weakening economy owing to declining oil revenues, may plunge the Nigerian State facing may land into a civil war as the state would be forced to restrict spending on social welfare. This chaos may spread into neighbouring countries.

South America (Brazil, Mexico & Venezuela)

In the South American subcontinent, countries like Brazil, Mexico and Venezuela are deeply impacted by the declining oil prices. For every $ 1 drop in oil prices, Brazil loses around $900 million. Similarly in case of Mexico every $ 1 drop in oil prices, it loses nearly $ 300 million in revenues. Mexico, Venezuela and Nigeria are struggling to pay off foreign debts, balance and fund their public budgets and stabilize their currencies.

Venezuela, the world's ninth-largest oil exporter and holder of the biggest proven oil reserves, needs oil prices at around $120 a barrel – or 50 per cent higher than today – to keep its economy afloat, according to the International Monetary Fund (IMF). Venezuela where oil exports constitute nearly 95 per cent of total export revenues is probably to be hit hardest by falling oil price because of its troubled economy. The country had a budget deficit worth nearly 17 per cent of its gross domestic product last year worse than the deficits in Greece and Spain at the height of the Eurozone debt crisis. For every dollar off the price of oil, the Government loses as much as $700 million in estimated revenues per year, according to PVDSA, the state-owned oil producer.[5] **Faced with limited options to revive her economy, Venezuela may be forced to cut back the subsidised oil that it provides to her allies in South America and the Caribbean including Bolivia, Cuba & Nicaragua. This could have significant geopolitical ramifications in the South American geopolitical order.**

Middle East (Iraq Iran)

Iraq is burning at both ends. Already a war ravaged economy, Iraq is fighting a bloody battle with perhaps the most radical terrorist group of present times, the ISIS. Iraq remains heavily dependent on oil exports which contribute nearly 95 per cent of its foreign exchange revenues. **The sharp decline in oil prices is proving to be costly to Iraq economy which faces a projected deficit of nearly 30 per cent to its national revenues. This obviously would severely constrain Iraq's capacity to bankroll her military to fight the ISIS.** The implications are bound to be disastrous should the Iraqi military fail to checkmate ISIS owing to an oil glut induced resource crunch.

Iran is yet another major oil export dependent economy in the Middle – East wherein nearly 80 per cent of her total export revenues come from oil sales. For Iran, the oil glut couldn't have come at a worse time. Already seething under Western sanctions, due to her nuclear programme, Iranian economy may go into a free fall if the declining oil prices continue to persist. It is reported that Iran's economy needs oil to be priced at around$ 136 per barrel to finance its spending. This is nearly 70 per cent above the oil prices trending presently.

It has been reported that Iran's income from oil exports is estimated to have fallen from $118 billion in 2011-2012 to $56 billion in 2013-2014 due to sanctions from the west.[6] The declining oil prices only add more lacerations to an already badly bruised economy. With apparently no viable plan for bringing in more revenues, Iran too may be in for cataclysmic changes. A domestically unstable Iran would have far reaching regional security implications and obviously not in Indian interests.

The Energy Giant: Russia

Now let us deliberate on Russia, where energy exports account for nearly 45 per cent of her total revenues. Russian economy, already under pressure due to sanctions of the West owing to Ukrainian crisis is taking another considerable blow owing to declining oil prices leading to a steep decline in revenues. The Russian Finance Minister Anton Siluanov has been reported to have recently stated that **Russia loses about 40 billion U.S. dollars due to sanctions and another 90-100 billion U.S. dollars due to the 30-percent drop of oil price. It is estimated that Russian economy would lose about 130 billion U.S. dollars this year.**[7]

Russia has been India's long-time friend and a strategic partner and the current situation wher in Russia finds herself, has major geopolitical ramifications for India & the region. The Oil Glut &the EU sanctions have probably led the Russians to explore alternatives to fund their economy. The recently concluded 30 year & $400 billion Sino-Russia Gas deal is perhaps an indicator. The Russian gas exports will now be lapped by energy thirsty China to fuel its economic engine. Furthermore, the Russian arms exports to China have also significantly increased in recent past. 11.5 per cent of Russia's total arms exports in 2012 went to China. **These developments impact India directly, as India's geopolitical**

leverage with Russia is fast shrinking vis-à-vis China. It would be too naïve to assume that Russians would openly & directly favour India in a future Sino- Indian Conflict owing to their growing economic dependence on China.

Asia (China & India)

With regards to China, the falling oil prices are a boon for China. It is reported that China which surpassed the US in September 2013 as the world's largest net oil importer, falling oil prices have brought enormous benefits to the development of the country's economy.[8] Based on 2013 figures, every $1 drop in the oil price saves it an annual $2.1 billion. **China could save some US$20 billion yearly on an average in imports every time the price of international crude oil drops by US$10.** The recent fall, if sustained over three years, lowers China's import bill by $60 billion, or 3 per cent.**This would obviously add more liquidity to China's economy and the benefit would accrue to her military modernisation juggernaut too**. Dropping global crude prices also provide a good opportunity for China to achieve its goal of filling its strategic oil reserves. **China aims to boost its strategic oil reserves to 600 million barrels by 2020 from 140 million barrels at the end of 2013**.[9]Based on data compiled by industry and consulting sources, **China now has nearly 30 days of stocks to cover crude imports, far ahead of its official schedule showing 15 days. In the next few years, China's cover could reach 90 days of Strategic Petroleum Reserves (SPR),** if prices stay weak.[10]

This targeted 90 days Strategic Reserve Capacity as and when achieved by China, could nullify the impact of India's much hyped Maritime Riposte Strategy on China's critical Sea Lines Of Communications in the Indian Ocean.The corollary is India needs to put her Continental, Airspace Defence modernisation in top gear to avoid any setback/reverses in a future Sino-Indian Conflict.

An expanding Chinese economy fired up by declining oil prices, cheaper Russian energy imports allows China adequate fiscal space to continue with her military modernisation. As a result**, India and likewise China's other neighbours are likely to witness Chinese aggressiveness More Now than Ever Before.**

India

From a limited economic perspective, the decline in the oil prices has augurs well for a large oil importing country like India. Oil comprises 31 per cent of our total imports and net oil imports are at 4 per cent of the GDP. India imports roughly 900 million barrels of Crude oil annually and thus a decline in the oil price by $1, would lead to savings of $900 million (Annually Rs 5600 Cr Approximately) for the exchequer.[11] **If the oil price per barrel averages to around $ 90 per barrel, the savings would be around Rs 56000 Cr Annually.**

The oil traded at $64 a barrel on 01 Dec 2014.Assuming that with a reasonable price correction in short term, the oil price per barrel averages to around $ 80 per barrel in the short-term (over 2015 & 2016), the savings to India's economy would be nearlyRs2,24000 Cr($ 36.12 Billion) which equals nearly 1.78 per cent of the GDP / the Defence Budget(BE) for 2014 !!

In its latest report, Deutsche Bank says that "India's FY15 fuel subsidy is estimated at Rs 1 trillion ($16.6bn) at Deutsche Bank's Brent oil price forecast of $111/bbl. We estimate that every $10/bbl fall in oil price reduces India's annualized oil import bill by $10 billion and fuel subsidy by $5.6 billion."[12] **There is a flip side too. India is world's sixth largest exporter of petroleum products (Paints, dyes etc) earning nearly $60 Billion annually. The decline in oil prices would mean consequent reduction in export prices of petroleum product exports**. Also a decline in oil prices more often than not is followed by decline in commodities prices particularly of minerals and agricultural products and India remains a major exporter of these[13]. Notwithstanding, on the whole, a declining crude oil scenario would be a major positive for India as it would lead to lower current account deficit, lower fiscal deficit and lower inflationary expectations.

There also exists an opportunity for India to boost her Strategic Petroleum Reserves from 15 days to at least 60 days, to hedge herself from future oil shocks. A part of the savings in domestic fuel subsidy (estimated at 56000 Cr annually) can also be utilised to jumpstart defence modernisation programme that is partially hamstrung due to resource availability.

Conclusion

Anyone thinking of sending a big land army into Asia, the Middle East or Africa 'should have his head examined'. Robert Gates, Former US Secretary of Defense

The world is perhaps already witnessing an attitudinal change in the US with regards to the level of US involvement in military crisis management in trouble spots like Ukraine/Syria/Libya/Iraq/Afghanistan. There has been reluctance over sending troops into combat in faraway places. **This is simply, owing to the Energy Shift to the US and the resultant 21st Century Oil Glut.**

China is already financing Gulf & the African economies by financing their energy & infrastructure sector. China also holds significant levels of US Treasury Bonds, $ 1.3 Trillion approx, which is nearly 10 per cent of America's public debt. Russian economy too is getting increasingly dependent on energy and arms imports to China. It can be argued that both the US as well as Russia are likely to remain a mere spectator in a future Sino- Indian conflagration.

With nearly 70 per cent of arms import and nearly 85 per cent of oil imports, India remains a "Net Importer of Security". This situation in the light of the highlighted prevailing geopolitical- energy dynamics leaves India in a precarious situation.

Endnotes

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How U.S. Economic Warfare Provoked Japan's Attack on Pearl Harbor

Robert Higgs

Many people are misled by formalities. They assume, for example, that the United States went to war against Germany and Japan only after its declarations of war against these nations in December 1941. In truth, the United States had been at war for a long time before making these declarations. Its war making took a variety of forms. For example, the U.S. navy conducted "shoot [Germans] on sight" convoys - convoys that might include British ships — in the North Atlantic along the greater part the shipping route from the United States to Great Britain, even though German U-boats had orders to refrain (and did refrain) from initiating attacks on U.S. shipping. The United States and Great Britain entered into arrangements to pool intelligence, combine weapons development, test military equipment jointly, and undertake other forms of war-related cooperation. The U.S. military actively cooperated with the British military in combat operations against the Germans, for example, by alerting the British navy of aerial or marine sightings of German submarines, which the British then attacked. The U.S. government undertook in countless ways to provide military and other supplies and assistance to the British, the French, and the Soviets, who were fighting the Germans. The U.S. government also provided military and other supplies and assistance, including warplanes and pilots, to the Chinese, who were at war with Japan.[1] The U.S. military actively engaged in planning with the British, the British Commonwealth countries, and the Dutch East Indies for future combined combat operations against Japan. Most important, the U.S. government engaged in a series of increasingly stringent economic warfare measures that pushed the Japanese into a predicament that U.S. authorities well understood would probably provoke them to attack U.S. territories and forces in the Pacific region in a quest to secure essential raw materials that the Americans, British, and Dutch (government in exile) had embargoed.[2]

Consider these summary statements by George Victor, by no means a Roosevelt basher, in his well documented book The Pearl Harbor Myth. Roosevelt had already led the United States into war with Germany in the spring of 1941—into a shooting war on a small scale. From then on, he gradually increased U.S. military participation. Japan's attack on December 7 enabled him to increase it further and to obtain a war declaration. Pearl Harbor is more fully accounted for as the end of a long chain of events, with the U.S. contribution reflecting a strategy formulated after France fell... In the eyes of Roosevelt and his advisers, the measures taken early in 1941 justified a German declaration of war on the United States—a declaration that did not come, to their disappointment. ...Roosevelt told his ambassador to France, William Bullitt, that U.S. entry into war against Germany was certain but must wait for an "incident," which he was "confident that the Germans would give us." ...Establishing a record in which the enemy fired the first shot was a theme that ran through Roosevelt's tactics... He seems [eventually] to have concluded—correctly as it turned out—that Japan would be easier to provoke into a major attack on the Unites States than Germany would be.[3] The claim that Japan attacked the United States without provocation was... typical rhetoric. It worked because the public did not know that the administration had expected Japan to respond with war to anti-Japanese measures it had taken in July 1941... Expecting to lose a war with the United States—and lose it disastrously—Japan's leaders had tried with growing desperation to negotiate. On this point, most historians have long agreed. Meanwhile, evidence has come out that Roosevelt and Hull persistently refused to negotiate... Japan... offered compromises and concessions, which the United States countered with increasing demands... It was after learning of Japan's decision to go to war with the United States if the talks "break down" that Roosevelt decided to break them off... According to Attorney General Francis Biddle, Roosevelt said he hoped for an "incident" in the Pacific to bring the United States into the European war.[4]

These facts and numerous others that point in the same direction are for the most part anything but new; many of them have been available to the public since the 1940s. As early as 1953, anyone might have read a collection of heavily documented essays on various aspects of U.S. foreign policy in the late 1930s and early 1940s, edited by Harry Elmer Barnes, that showed the numerous ways in which the U.S. government bore responsibility for the country's eventual engagement in World War II—showed, in short, that the Roosevelt administration wanted to get the country into the war and worked craftily along various avenues to ensure that, sooner or later, it would get in, preferably in a way that would unite public opinion behind the war by making the United States appear to have been the victim of an aggressor's unprovoked attack.[5] As Secretary of War Henry Stimson testified after the war, "we needed the Japanese to commit the first overt act."[6]

At present, however, seventy years after these events, probably not one American in 1,000—nay, not one in 10,000—has an inkling of any of this history. So effective has been the pro-Roosevelt, pro-American, pro-World War II faction that in this country it has utterly dominated teaching and popular writing about U.S. engagement in the "Good War."

In the late nineteenth century, Japan's economy began to grow and to industrialize rapidly. Because Japan has few natural resources, many of its burgeoning industries had to rely on imported raw materials, such as coal, iron ore or steel scrap, tin, copper, bauxite, rubber, and petroleum. Without access to such imports, many of which came from the United States or from European colonies in Southeast Asia, Japan's industrial economy would have ground to a halt. By engaging in international trade, however, the Japanese had built a moderately advanced industrial economy by 1941.

At the same time, they also built a military-industrial complex to support an increasingly powerful army and navy. These armed forces allowed Japan to project its power into various places in the Pacific and East Asia, including Korea and northern China, much as the United States used its growing industrial might to equip armed forces that projected U.S. power into the Caribbean, Latin America, and even as far away as the Philippine Islands.

When Franklin D. Roosevelt became president in 1933, the U.S. government fell under the control of a man who disliked the Japanese and harbored a romantic affection for the Chinese because, some writers have speculated, Roosevelt's ancestors had made money in the China trade.[7] Roosevelt also disliked the Germans in general and Adolf Hitler in particular and he tended to favor the British in his personal relations and in world affairs. He did not pay much attention to foreign policy, however, until his New Deal began to peter out in 1937. Thereafter he relied heavily on foreign policy to fulfill his political ambitions, including his desire for reelection to an unprecedented third term.

When Germany began to rearm and to seek Lebensraum aggressively in the late 1930s, the Roosevelt administration cooperated closely with the British and the French in measures to oppose German expansion. After World War II commenced in 1939, this U.S. assistance grew ever greater and included such measures as the so-called destroyer deal and the deceptively named Lend-Lease program. In anticipation of U.S. entry into the war, British and U.S. military staffs secretly formulated plans for joint operations. U.S. forces sought to create a war-justifying incident by cooperating with the British navy in attacks on German U-boats in the northern Atlantic, but Hitler refused to take the bait, thus denying Roosevelt the pretext he craved for making the United States a full-fledged, declared belligerent—a belligerence that the great majority of Americans opposed.

In June 1940, Henry L. Stimson, who had been secretary of war under William Howard Taft and secretary of state under Herbert Hoover, became secretary of war again. Stimson was a lion of the Anglophile, northeastern upper crust and no friend of the Japanese. In support of the so-called Open Door Policy for China, Stimson favored the use of economic sanctions to obstruct Japan's advance in Asia. Treasury Secretary Henry Morgenthau and Interior Secretary Harold Ickes vigorously endorsed this policy. Roosevelt hoped that such sanctions would goad the Japanese into making a rash mistake by launching a war against the United States, which would bring in Germany because Japan and Germany were allied.

The Roosevelt administration, while curtly dismissing Japanese diplomatic overtures to harmonize relations, accordingly imposed a series of increasingly stringent economic sanctions on Japan. In 1939, the United States terminated the 1911 commercial treaty with Japan. "On July 2, 1940, Roosevelt signed the Export Control Act, authorizing the President to license or prohibit the export of essential defense materials." Under this authority, exports of aviation motor fuels and lubricants and No. 1 heavy melting iron and steel scrap were restricted." Next, in a move aimed at Japan, Roosevelt slapped an embargo, effective

October 16, "on all exports of scrap iron and steel to destinations other than Britain and the nations of the Western Hemisphere." Finally, on July 26, 1941, Roosevelt "froze Japanese assets in the United States, thus bringing commercial relations between the nations to an effective end. One week later Roosevelt embargoed the export of such grades of oil as still were in commercial flow to Japan."[8] The British and the Dutch followed suit, embargoing exports to Japan from their colonies in Southeast Asia.

Roosevelt and his subordinates knew they were putting Japan in an untenable position and that the Japanese government might well try to escape the stranglehold by going to war. Having broken the Japanese diplomatic code, the American leaders knew, among many other things, what Foreign Minister Teijiro Toyoda had communicated to Ambassador Kichisaburo Nomura on July 31: "Commercial and economic relations between Japan and third countries, led by England and the United States, are gradually becoming so horribly strained that we cannot endure it much longer. Consequently, our Empire, to save its very life, must take measures to secure the raw materials of the South Seas."[9]

Because American cryptographers had also broken the Japanese naval code, the leaders in Washington also knew that Japan's "measures" would include an attack on Pearl Harbor.[10] Yet they withheld this critical information from the commanders in Hawaii, who might have headed off the attack or prepared themselves to defend against it. That Roosevelt and his chieftains did not ring the tocsin makes perfect sense: after all, the impending attack constituted precisely what they had been seeking for a long time. As Stimson confided to his diary after a meeting of the War Cabinet on November 25, "The question was how we should maneuver them [the Japanese] into firing the first shot without allowing too much danger to ourselves." After the attack, Stimson confessed that "my first feeling was of relief . . . that a crisis had come in a way which would unite all our people."[11]

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What India must do to thwart any Economic Challenge at the World Stage

Syed Nooruzzaman

Whenever there is a discussion on using economic clout to bring an adversary or an enemy country to its knees, a reference to the US is unavoidable. In fact, the US has been fighting economic wars more than conventional wars using its armed forces, but it has hardly been successful in bringing a targeted country to its knees. The most interesting case is that of the US attempt, lasting for years, to force Iran to abandon its controversial nuclear weapons programme. The Iranian efforts to acquire nuclear weapons manufacturing capability were a clear violation of the Nuclear Non-Proliferation Treaty (NPT) to which Iran is a signatory. But it used its close economic relations with Russia, China and some other countries to set up nuclear power plants for making the ultimate weapon though it tried to project its nuclear energy programme as being meant for peaceful purposes.

The initial Iranian conduct in this regard strengthened the world's suspicion that Iran was on the way to making nuclear weapons, which would upset the balance of power in the West Asia-Persian Gulf region. To prevent Iran from going ahead with its dangerous programme or to protect its interests in that region, the US launched a kind of economic war against Teheran. The US, which considered Iran an enemy country, could not allow the latter to go nuclear because of its own strategic interests. A nuclear Iran was a major threat to the very existence of Israel as a nation-state. The seriousness of the problem could be understood from the fact that Iranian leaders had been openly threatening Israel to eliminate it from the face of earth. Allowing Iran to acquire nuclear weapon manufacturing capability would completely upset the American applecart in the Middle-East. The closest US ally in that region after Israel, Saudi Arabia, can be the second major target for Iran once Teheran acquires nuclear weapons. The US succeeded to a considerable extent in weakening its adversary economically. The reason was Iran's overwhelming dependence on its petroleum exports for sustaining itself as a nation-state. A nation which sustains itself mainly by exporting its goods or services is vulnerable to be overwhelmed with the use of the economic weapon. Iran has somehow saved its nuclear programme so far mainly because of certain weaknesses of the US as well as Teheran's economic ties with Russia and China.

However, the US could not succeed in causing much loss to India though the super power tried the same economic weapon to punish New Delhi when it declared its status as a nuclear weapon-state through the 1998 nuclear tests called Pokhran-II. The US used sanctions as a weapon to deny India access to advanced nuclear power technology for peaceful purposes because New Delhi did not bother about the questionable American stand on nuclear non-proliferation and went ahead with its plan of acquiring advanced nuclear weapon technology, essential in view of the emerging reality in the South Asian and East Asian region. India, however, declared its adherence to the policy of No First Use and using nuclear technology for peaceful purposes.

There were several plus points with India. Its viewpoint was justified by many countries as India had no obligation to act in accordance with the questionable Nuclear Non-Proliferation Treaty (NPT). It emerged on the global stage as a nuclear weapon nation without ignoring any international obligations. India refused to sign the NPT arguing that it was a discriminatory arrangement to prevent the spread of nuclear weapon manufacturing technology, which could endanger global peace; in fact, the very existence of the world. India openly made it clear in various ways and at many forums that the NPT was intended to protect the nuclear weapon-power status of the five permanent UN Security Council members --- the US, Britain, France, Russia and China --- unacceptable in view of today's global reality.

India maintained that the world could be saved from the danger of being annihilated with the use of nuclear weapons, as part of a design or accidentally, only if a treaty was signed for the total elimination of these ultimate weapons. So, India took a principled stand beginning with its 1974 nuclear tests to arrive at the global nuclear stage and consistently followed a policy of nuclear non-proliferation. However, India had to face criticism from various quarters, influenced by the US-inspired Western approach to the faulty idea of nuclear non-proliferation. World powers came together to justify their unfair approach by constituting a grouping called the Nuclear Suppliers Group (NSG) in 1992. The primary objective of the NSG was to prevent any kind of nuclear exports to India with a view to depriving India's nuclear programme of latest technology and essential material. This would mean causing slow death of India's nuclear facilities, thus inflicting a kind of defeat through economic warfare. But that was not to be.

The US and Canada initially reacted very strongly in view of the fact that the plutonium used to conduct the test came from a reactor supplied by Canada and the heavy water came from the US. In their view, India should not have gone for the 1974 nuclear tests, codenamed Smiling Budha, because of the fact that negotiations over the NPT were on. But India had its own solid and undeniable reasons for it as it had a major threat emerging from China, which had humiliated New Delhi in the 1962 war and had acquired nuclear weapon capability. Canada expressed the view that India had violated an understanding reached between the two countries in 1971 and imposed a ban on nuclear energy assistance for the two heavy water reactors under construction at that time. The United States, owing its own compulsions, concluded that the test did not violate any agreement and proceeded with a June 1974 shipment of enriched uranium for the Tarapur reactor. The US reaction was interpreted to have been guided by the emerging reality in Asia where India with nuclear power could serve as a counterweight to contain China as well as the then Soviet Union during those Cold War years. Instead of trying to harm the interests of India, the US helped New Delhi by providing latest nuclear technology under the Atom for Peace programme. Thus, the US changed its initial postures when it wanted to punish India for its search for the ultimate weapon without declaring it in so many words.

There was a vast difference in the global and regional scenarios that existed in May 1974 --- when India conducted its first nuclear tests codenamed Smiling Buddha or Pokhran-I --- and at the time of Pokhran II in 1998. The US and other world powers, which had taken a little tolerant view of India's nuclear tests in 1974, imposed sanctions on India when it went in for Pokhran II to announce to the world that here was another and deserving country capable of manufacturing nuclear weapons, though in principle it stood for using nuclear power for peaceful purposes. The US brought into force its 1994 anti-nuclear proliferation law and announced the imposition of economic sanctions. Many Indian entities, mostly in the public sector, were put on the US list of entities untouchable for nuclear export purposes.

Of course, many countries refused to go along with the US on the issue of India's nuclear programme as Pakistan too declared that it was capable of making nuclear weapons with nuclear tests. However, the US and its camp followers could not harm much to India as its exports and imports together constituted only 4 per cent of its GDP. The US trade volume vis-a-vis India was only 10 per cent of this total. The major advantage with India was that its economy was not driven by exports and, therefore, unchallengeable by any country, including the surviving super power.

The robust economy of India was able to not only sustain itself but also to grow impressively despite the US sanctions. The country's imports and exports were definitely affected by the US sanctions to some extent, but not much. The message was clear. Even the super power could not succeed in bringing India to its knees because of the Indian economy being overwhelmingly dependent on the country's domestic market.

As George Shambaugh says, "The effectiveness of economic warfare depends on a number of factors, including the capacity of the adversary to produce the restricted goods internally or to acquire them from other countries. For example, efforts by the United States to oust Fidel Castro from power in Cuba by maintaining a decades-long embargo were frustrated by increased trade between Cuba and Mexico, Canada, and Western Europe. Although economic warfare is often considered a relatively inexpensive alternative to military engagement, it imposes costs on the initiating country by denying it access to economic exchange with the targeted country. For example, consumers in the United States paid higher costs for goods that could have been imported more cheaply from Cuba or other targeted countries, such as Iran, and American businesses were denied access to their goods and markets.

"The effectiveness of economic warfare is also limited by the ability of the adversary's government to redistribute sufficient domestic wealth towards 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 towards their militaries. Critics of economic warfare have argued that it often imposes greater costs on the general population of the adversary — through starvation, the spread of disease, or the denial of basic consumer goods — than it does on its political or military leaders."

The changing global reality ultimately forced the US to abandon the path of advanced nuclear technology denial for India leading to the signing of the India-US Civilian Nuclear Agreement in 2008. The then US President, George W. Bush, prevailed upon the international community to exempt India from the international sanctions regime in view of its impeccable record as a nuclear weapon state. Ultimately, India was allowed by the NSG to conduct nuclear business with any country. The sanctions imposed on India became a thing of the past. It was a clear victory for India after a long economic battle to carry on its nuclear programme. But India got the 2008 nuclear deal as **the US** wanted India to buy three or four US reactors in return for the American gesture of ending India's status as an untouchable so far as nuclear business was concerned.

Says Yogesh Joshi in an article in The Diplomat, "The 2008 Indo-US Civilian Nuclear Agreement was supposed to mark a watershed moment for India-US relations, ending the two democracies' long-standing estrangement and ushering in a new era where New Delhi and Washington would be 'indispensable partners'. But four years after the deal came into effect, much of the initial enthusiasm that it engendered dissipated. Especially in American foreign policy circles, many feel that the nuclear agreement has failed to meet expectations.

"From India's perspective, nuclear cooperation was a *sine qua non* for any meaningful growth in India-US ties in other areas. That being said, there was also a genuine expectation in the US that assimilating India into the nuclear mainstream would reap enormous economic, political and strategic dividends for the country. However, many of the deal's strongest proponents at the time of its signing now claim that these gains failed to materialise.

"Economically, the US was attracted to the vast potential India's large and growing nuclear energy market had for domestic nuclear firms. This viewpoint failed to take into account India's domestic nuclear liability law, which obliges nuclear suppliers to be liable for damages their equipment results in. Many US companies have balked at this requirement, and the economic gains of the deal have failed to materialise accordingly.

"For many in Washington, the nuclear deal similarly failed to tie India closer to the US-led global non-proliferation and arms control architecture. India has defied American expectations by making no concerted effort to sign the Comprehensive Test Ban Treaty (CTBT), and has shown no interest in voluntarily halting its production of fissile materials (enriched uranium or plutonium). More troubling for many in Washington is India's continued refusal to parrot the American line regarding Iran's nuclear programme."

India did appear to have obliged the US when it voted at a meeting of the International Atomic Energy Agency at Vienna opposing the Iranian controversial nuclear programme. However, it cannot be described as a decision to appease the US. India has been of the view that a nuclear weapon-capable Iran may cause a chain reaction in the sensitive West Asian region where Saudi Arabia would quote the example of Iran to acquire nuclear weapon manufacturing capability. Some other countries in the region might also launch a clandestine drive to acquire the technology to produce nuclear weapons. But India continued to stick to its own policy of allowing diplomacy to persuade Iran to satisfy the international opinion on its nuclear programme. India argued that if the international community really wanted Teheran to scrap its nuclear weapon programme, the objective should not be achieved by using military might or coercive means like crippling economic sanctions, which mainly hit the hapless masses.

What is significant here is that the US along with its West European allies has succeeded considerably in weakening Iran's economy. Iran is exporting its petroleum products with great difficulty because of the payments problem. Its exports through the Turkish banking system have also been blocked. As a result, the economic crisis in Iran has deepened to such an extent that a large number of people there want the nuclear power idea to be kept aside so that the barriers erected for the Iranian exports are removed.

The US success in squeezing Iran to the extent Teheran might have never thought was achieved not only because the Iranian oil and gas exports constituted its lifeline. The success was also possible because Washington's European allies could manage without Iranian petroleum supplies. This could not be possible in the case of Russia, which too was economically targeted in the wake of the Ukraine crisis following Moscow's involvement in that country on the pretext of protecting the lives and property of the ethnic Russians in Ukraine.

The European Union governments and the US tightened the sanctions regime against Russia following Russia's annexation of Crimea and what the West described as attempts to destabilise Ukraine by backing pro-Russian separatists with troops and arms.

The US scheme of things included imposing sanctions on Sberbank, Russia's largest bank, and to limit other Russian banks' access to US capital. Thus, making the American and European banking system out of bounds for the Russian banking system would mean a disastrous situation for the Russian economy.

But European capitals began to shiver when Russia's Foreign Ministry said the approval of the EU penalties showed the European Union had "made its choice against the road-map for peace" aimed at ending the worst confrontation between Moscow and the West since the Cold War ended. Russia threatened to retaliate by stopping its gas exports to the EU countries for which the US had no answer. The US could not fulfil the European energy needs to make Russian gas supplies to Europe irrelevant. This meant the economic campaign launched against Russia to punish it for its destabilising role in Ukraine could not be taken to its desired conclusion.

India, of course, cannot be Russia because it cannot make any country shiver. But it has certain advantages which can serve as a weapon to fight for its economic and other interests. The US agreed to go in for a peaceful nuclear cooperation agreement with India, dismantling all the barriers once put up by Washington itself against India mainly because of the unique character of the Indian economy. The purchasing power of nearly 20 per cent of the Indian population is growing fast. This portion of the population constitutes a huge market for multinational and other companies of the US and its Western allies. The Westinghouse Company of the US was one of those forcing the then US administration to provide them access to the vast Indian economy. The offer of advanced nuclear reactors to India by Westinghouse after the signing of the 2008 India-US civilian nuclear deal provided proof that Washington basically wanted to help its sluggish nuclear technology industry to acquire fresh strength. Therefore, the conclusion that can be drawn is that India must do all it can to increase the purchasing power of its population so that no country, irrespective of its huge military or economic strength, can ever think of initiating an economic fight with it.

The second major advantage with India is its geographical location. The US, in particular, will be ruining its own interests if it endangers its relations with India through any kind of activity. Washington can never be successful in fully containing China without India's cooperation. India cannot pose a threat to the US global leadership because of many factors, including its infrastructural and other kinds of economic shortcomings. So, Washington does not have to fear New Delhi so far as the US global role is concerned. The size of the Indian economy is too small if compared with that of the US economy. But China is definitely placed in a situation to challenge the US global supremacy in the coming few years.

China has already surpassed the US in terms of the GDP calculated on the basis of purchasing power parity (PPP), growing into the largest economy in the world, according to the International Monetary Fund. China reached the level of $17.6 trillion or 16.48 per cent of the world's purchasing-power-adjusted GDP in 2014 whereas the US share was 16.28 per cent or $17.4 trillion. PPP-based calculations are considered more reliable and acceptable than the earlier system of using exchange rates for this purpose. Thus, China has already acquired the status of the world's biggest economy. The days of the US economic supremacy are going to be over. The US has been the reigning economic deity since 1872, when it left the UK far behind, but that will soon become history.

In 2015, the size of the Chinese economy will be bigger than that of the US by $1 trillion --- $19.23 trillion against $18.286 trillion respectively. The situation may change by 2020 in real GDP terms too, though at present the US economy's size is $16.8 trillion against China's $10.4 trillion.

The US economy has also become very shaky if one looks at the national debt figures. America's debt comes to over $17 trillion whereas China's debt stands at $1.3 trillion.

The US can easily be overwhelmed in terms of economy if India, China and Russia come together, which is not impossible. They are already drawing closer through the BRICS (Brazil, Russia, India, China and South Africa) system.

The Other Kashmir – Society, Culture and Politics in the Karakoram Himalayas*

Col MD Upadhyay**

The Other Kashmir – Society, Culture and Politics in the Karakoram Himalayas, is a collection of essays by eminent personalities which have compiled by Dr K Warikoo. The author is Professor of Central Asian Studies, School of International Studies, Jawaharlal Nehru University, New Delhi. He has specialized in Trans-Himalayan region and Central Asia and has published 18 books on the subject.

Karakoram Himalayas have a distinctive geo-political and geo-strategic importance as the boundaries of South and Central Asian countries converge here. The region has been an important element of India's trans-Himalayan communication network in the continent and beyond. This region is the cradle from where ancient Indian culture including Buddhism spread to Central Asia, East Asia and South East Asia. It has been a melting pot of different cultures, faiths and has been a subject of study by geologists, scientists, geographers and anthropologists. The area is rich in ancient rock carvings and inscriptions which are being studied and documented since 1980s. The inhabitants of the region have their unique culture which has been endangered by the demographic changes instituted by Pakistan. Pakistan has deliberately segregated this strategic area from the POK which has led to dissatisfaction amongst the locals.

The book is structured into 19 essays dealing with the historical, cultural, geopolitical, strategic, socio-economic and political perspectives of the entire

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* **The Other Kashmir – Society, Culture and Politics in the Karakoram Himalayas**, Dr K Warikoo (ed.) (New Delhi: Pentagon Press, 2014), pp. , Price Rs. 1495.00, ISBN: 978-81-8274-797-5

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region. These essays have been written by area specialists and analysts who are experts in their respective fields. The first essay deals with the ancient and pre Islamic history of Gilgit - Baltistan. The second essay is written by Dr Warikoo exploring the links between the region and Central Asia in the pre – Islamic period. The third chapter brings out the personal experiences of the writer during his visit to the region and high lights the rich culture and spiritual significance of the region. Fourth chapter covers the culture, heritage and language of Mirpur, an important communication centre in POK. Fifth essay brings out the dynamics of cultural and indent politics in Baltistan in present times. Dr Warikoo has authored the sixth chapter which is a historical and political study of relationship between the Dogra State of J & K with Gilgit- Baltistan from 1846 to 1947. The other essays deal with the geo strategic importance of the Karakoram Himalayan region, political situation in the Gilgit – Baltistan, Pakistan's policies and the causes of the resultant sectarian violence in the region.

The essays have been written in simple language with connected photographs and maps. The contents are exhaustive and detailed. It makes an engrossing reading. The book has been published by Pentagon Press and the quality of publication is satisfactory.

Interaction : Bangladesh NDC Delegation to India with CENJOWS

Col Amit Sinha

Bangladesh NDC delegation visited CENJOWS on 09 Sep 2014 at Purple Bay. The delegation comprised of 30 officers and was led by Air Marshal M Sanaul Huq, NDC, Psc, GUP, GD(P), Senior Directiong Staff of the Bangladesh National Defence College. The delegation comprised of officers from India, Nigeria and Kuwait, besides officers from Bangladesh.

At the outset the delegation was welcomed to CENJOWS by Lt Gen AS Kalkat, SYSM, PVSM, AVSM, VSM (Retd), Director Emeritus, CENJOWS. This was followed by a brief presentation by Maj Gen K B Kapoor, VSM (Retd), Director CENJOWS. The Director briefed the delegation on the role as well the objectives of CENJOWS as a think tank.

The above was followed by a 20 minutes presentation by Col Amit Sinha, Senior Fellow at Cenjows on "***Indo Bangladesh Relations Towards Greater Participation***". The presentation covered the following issues:-

(a) Events leading upto the present state of relations.

(b) Areas of Cooperation.

(c) Areas of potential concerns / unresolved issues.

(d) Initiatives taken to resolve outstanding issues by both countries.

(e) Way ahead for greater participation.

Thereafter discussion and question answer session commenced. Following questions were raised by the officers from the delegation:-

(a) **Brig Gen M Abul Hashem, Psc, Bangladesh Army**. The officer commented that their creation was due to defaulted history where religion plays a spoil sport in development. He brought out that with Mr Narendra Modi now as PM of India and that India is placed well in the global sphere, how would the same impact on the quality of life of the people and towards industrial development mutually benefitting both countries. The officer was informed that the increase in per capita income would see an upward trend as the new government is likely to stress on Information technology, education, skill development as well as manufacturing, besides other development oriented programs.

(b) **Gp Capt Mohammad Lawan Sini, Nigeria**. The officer drew attention to the brief on CENJOWS, wherein while discussing specic areas of focus of CENJOWS, it was stated about Dimensions of Conflict. The officer expressed concerns that there was a perception that there was an increased possibility of conflict in South Asia. He wanted to know how would India deal with this perception. The officer was informed that our PM in the time for which he has been in office has aptly displayed in his foreign policy of addressing the neighbours with a view to consolidate relations with South Asian countries.

(c) **Brig Gen Abu Wohab Md Hafizul Huq, Psc, Bangladesh Army**. The officer stated that as India has cordial relations with both Bangladesh as well as Myanmar , how could India help to stop the illegal immigration of Rongiya Muslims pushed by Myanmar. He also wanted to know, how does India view Bangladesh as a Democracy. The officer was informed that though we do have cordial relations with Myanmar, the issue of resolving the illegal migration of Rongiya Muslims into Bangladesh was exclusively a bilateral issue between Bangladesh and Myanmar. With regards to democracy in Bangladesh, he brought out that we in India always respected and supported it. Bangladesh has come a long way since independence, and has matured as a responsible democratic nation.

(d) **Brig Gen Md Rejuanul Haque Chowdhury, afwc, Psc, Bangladesh Army**. The officer brought out that Nepal had a huge potential of untpped hydro electric power. He wanted to know, how does India plan to tap the same as also share with Bangladesh. The officer was informed that a constitutional approval was required between India and Nepal for cooperation in this sector. In view that the constitution of Nepal was yet to be framed, the issue would therefore take its due course and time.

(e) **Cdre Mohammad Abidur Rehman, (ND), Psc, Bangladesh Navy**. The officer brought that that it would be appropriate to constitute a River Commission of all countries in the region to resolve the water issues. The officer was informed that the aspect of International River Commission was not applicable in our case i.e. India and Bangladesh as bilateral issues do not merit international intervention.

(f) **Brig Gen A T M Anisuz Zaman, BP, Psc, Bangladesh Army**. The officer brought out that terrorism is no longer confined to the geographical boundaries of a country and that it has become transnational. He brought out that both India and Bangladesh were adverely affeted by terrorism. In this regard he proposed a feasability of establishing a Joint Force Mechanism to deal with terrorism. The officer was informed that while what was being projected was a NATO concept, the same infringes on the soverignity of nations. It would rather be fruitful, instead to have an Intelligence mechanism to share information of such activities.

There being no other questions/discussion points, the leader of the delegation Air Marshal M Sanaul Huq, NDC, Psc, GUP, GD(P), requestes a NDC delegation member to propose a vote of thanks to CENJOWS. The interaction thereafter was concluded.

Articles For Synergy Journal

Articles, Research Papers, Book Reviews pertaining to issues related to defence, national security, international relation and other matters professionale; in original may be forwarded to the Editor SYNERGY, Centre for Joint Warfare Studies (CENJOWS), Kashmir House, Rajaji Marg, New Delhi - 110 011 as per following guidelines:-

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- Abbreviations may please be avoided
- No classified content should form part of the article
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