

## НАУЧНАЯ ДИСКУССИЯ: ЗА И ПРОТИВ

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## Peace as a natural effect of trade: A potentia ad actum

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Initial idea to focus a plenary panel of 19<sup>th</sup> International Conference “Evolution of International Trading System: Prospects and Challenges” held in St. Petersburg State University on March 17<sup>th</sup>–19<sup>th</sup> 2022 on the issue of interaction between political and trade dimensions of international cooperation came to the organizers as early as mid-2021. Substantial escalation of the geopolitical tension by Spring 2022, on the one hand, made the selected topic much more relevant, on the other hand additionally limited the list of potential discussants. Nevertheless, despite of this obstacle programme committee managed to arrange the international team of experts giving their answers to the questions asked by moderators. The questions included necessity and possibility for the radical reassessment of the perception traditionally prevailing among social scientists. According to this perception expansion of trade has the positive impact on political relations between trading partners. Another topical issue deals with possible repercussions of economic sanctions actively imposed by some members of international community. The experts also discussed the motives behind decisions made by many foreign companies to exit from the Russian market. At the final stage of the panel its participants expressed their views on the prospects of the global governance system reforming.

*Keywords:* international trading system, trade policy, peace, sanctions, global governance.

## Opening discussion

The interconnection between peace and trade was studied over centuries by many scientists: economists, political scientists, philosophers. The French philosopher, writer, and legal expert Charles Louis de Montesquieu pointed out that two nations, which become more dependent due to their trade links would try to avoid the confrontation between each other (Montesquieu, 2002). His idea was that the more you trade, the greater connections between nations are and the less interest in conflicts they have. At the same 18<sup>th</sup> century, Adam Smith in his *Wealth of Nations* (1776) also argued that free trade leads to the union and friendship. But here he stressed that precisely free trade established the basis for the peace, while commerce from the perspective of mercantilism “has become the most fertile source of discord and animosity” (Smith, 2000).

After the century John Stuart Mill in his book “*Principles of Political Economy with Some of their Applications to Social Philosophy*” (1848) confirmed that “the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress...” (Mill, 1909). This attitude to positive effect of trade on peace started to play the dominant role in the social science.

Again, another century passed and after the Second World War the Bretton Woods system of global governance was built in order to avoid the repeat of economic situation with trade blocks violently confronting each other and generating tragic consequences. So, GATT was founded in order in particular to keep the peace while preventing protectionism<sup>1</sup>. The level of tariff barriers started to decrease. The rise of globalization in the end of 20<sup>th</sup> century enhanced the global trade openness. The majority of researchers argued that globalization promoted peace through increased interconnections between states.

However, some scholars had certain doubts about this positive globalization effect. For instance, P. Martin, T. Mayer and M. Thoenig in their paper “*Make trade not War?*” examined the issue. They concluded that during centuries the more open trade hasn’t always meant less conflicts between states. The results of their empirical econometric model demonstrated that “an increase in trade between two countries pacifies relations between those but increases the probability of conflict with third countries” (Martin, Mayer and Thoenig, 2008).

The 21<sup>st</sup> century gave more reasons and evidences for the discussion. Initially, Great Recession of 2008–2009 resulted in a new wave of protectionism and economic confrontation between countries deeply involved in international commerce. Afterwards, the trade war between the US and China seemed to disprove the idea that the strong trade links between states contributed to good relations between them. Finally, the pandemic of COVID-19 provoked even higher economic tension between the states and escalation of additional trade barriers. Nowadays the geopolitical goals, security considerations, and territorial disputes seem to play much more significant role in defining current patterns of the global interplay in comparison with economic and trade considerations. Shouldn’t we under the circumstances suggest a new perception of the peace and trade relationship?

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<sup>1</sup> The debate on liberalization and protectionism in the global economic governance is one of the prominent issues raised by both academic community and policy-makers, which we had already discussed during the previous forum (Koval et al., 2022). Its relevance and importance substantially increase in connections with the trade and peace discourse.

Meanwhile, previous as well as recent experience clearly demonstrates that in many instances certain members of international community apply trade restricting sanctions — at least as they officially declare — in order to reduce the risks of military conflicts and to promote peace and global security. One could substantiate this attitude by the argument similar to one presented by James Pattison in his book on the alternatives to war published in Oxford University Press. In particular, he claims that if we choose between sanctions and war, we will definitely prefer sanctions and non-violence (Pattison, 2018).

At the same time, in a very large number of the studies their authors conclude that in most of the cases the desired effect of sanctions is not achieved, they quite rarely help to solve the conflicts. The vivid example is sanctions imposed on Russia by “collective West” in 2014 and afterwards. They didn’t mitigate the tension between Russia and Ukraine, rather escalating the confrontation. Sanctions also encouraged Russian pivot to the East (Sutyryn, Trofimenko and Koval, 2019). In addition to that, in one of the reports of the Russian International Affairs Council Ivan Timofeev sensibly argued that “sanctions can often lead to the consolidation of the political system and society against external challenges” (Timofeev, 2018).

Already for a relatively long period a phenomenon called by Daniel Drezner “sanctions paradox” (Drezner, 2019) attracts experts’ attention. The point is that, on the one hand, academic community mostly denies utility and effectiveness of sanctions, on the other hand, policy-makers continue to use them (Baldwin, 1999). More than that, Maarten Smeets claims that governments see sanctions a priori as powerful instruments and no matter the costs (Smeets, 2019).

Traditionally the decision to terminate economic links with a certain country was made by the state authorities, by respective national regulator. Recently a growing number of business entities started to express openly their positions on various types of events happening all around the globe. For example, many companies participate in so called “fair trade” practices, upholding equitable standards of international labor, environmental and social regulation. Providers of social networks block accounts of the users for publications that contradict companies’ values and preferences. In particular in January 2021 USA acting President Donald Trump was locked out of his account on Twitter 12 hours after he called the people who attacked the US Capitol “patriots”.

Currently due to geopolitical tension many foreign and transnational business entities announced their plans to withdraw from the Russian market in a more or less radical form (immediate and quick exit, “carefully controlled exit”, temporary suspension of commercial operations, etc.). In principle, at the level of private firms, the decisions to exit from a particular national market should largely result from rational economic considerations. In certain cases, the companies that are leaving Russia could sacrifice their revenues inside the country hoping to compensate the damage at the alternative national markets. At the same time Crozet and Hinz (Crozet and Hinz, 2016) found the French firms affected by the sanctions were not able to recover their losses by shifting exports to other destinations. Does above-mentioned mean that today the scope of factors defining business decisions expanded?

In general, for the last couple of decades one could observe how the global balance of power has gradually changed in favor of the non-Western countries. Economic growth rates in the US and the EU have long been on average lower than those of China, India and some other emerging market economies. It is not a surprise that these countries would

like to play a more significant role in institutions regulating international relations in general, and international economic relations in particular. Under the circumstances we see widely shared understanding of the urgent need to reform the United Nations as well as other intergovernmental organizations that currently cannot provide any adequate solutions to a variety of the new challenges. At the same time, views regarding specific patterns of the future reforms differ substantially if not dramatically.

The plenary panel of the 19<sup>th</sup> International Conference “Evolution of International Trading System: Prospects and Challenges” held in St. Petersburg State University on March 17<sup>th</sup>–19<sup>th</sup> 2022, focused on the issues mentioned above. The title of the panel was “Peace as a natural effect of trade: a potentia ad actum”. Each of internationally renowned experts-panelists contributed to the discussion by answering four relevant questions.

*Alexandra G. Koval, Sergei F. Sutyurin, Olga Y. Trofimenko*

**Question 1.** Charles Louis de Montesquieu in his famous book “The Spirit of Laws” published in 1748 stated that “Peace is the natural effect of trade. Two nations who traffic with each other become reciprocally dependent... their union is founded on their mutual necessities”. How would you assess the interconnection between trade and peace today?

*Nikita A. Lomagin*

There are quite a lot of academic publications on economic interdependence and war. Liberals argue that the benefits of trade give states incentive to stay peaceful while realists contend that trade compels states to struggle for raw materials, markets and moreover for security. But I wanted to draw your attention to works by Dale Copeland who basically challenges opinions expressed by those distinguished scholars who support both liberal and realist paradigms. In his *Economic Interdependence and War* (Copeland, 2015) Copeland argues that it does not matter whether past and current levels of trade and investment have been low as long as leaders have strongly positive expectations for the future. Basically, trade and investments might be quite low at a given moment but the countries might be at peace or they might be not prone to war at all because leaders think about benefits in the future. Likewise, it does not matter whether past and current levels of commerce have been high if leaders believe they are going to be cut off tomorrow or in the near future. So, his theory incorporates the impact of future variables, and how leaders estimate and assess future possibilities and probabilities. Contrary, if leaders are pessimistic about the future it will probably drive them to consider hardline measures and even war to safeguard the long-term security of the state. Indeed, if we have a situation when a leader views the future of relations with the key trade partner as stagnation and the latter makes it clear that he wants to minimize economic interdependence in key areas of trade including energy, technology transfer, etc., and even is ready to put on hold some expensive infrastructure projects or to stop financial transaction, etc., this leader will act according to the logic of negative expectations. EU-Russia trade relations for the last ten or so years illustrate this point very good. Till recently, the EU was the largest Russia's trade partner but the future was getting quite gloomy since 2013. How to apply this theory? Since we are talking about large-scale military conflicts and wars, and those situations are rather rare events in the world history, we cannot apply quantitative methods just to look, for instance, for the correlation between trade, investments, and overall level of economic interdependence between states on one hand, and frequency of

large-scale military conflicts, hostilities and wars between them, on another hand. To put it simply, there are just few positive cases to be explained with measures of coefficients and statistical significance. In fact, for every conflict, for every war there is a specific set of circumstances, specific set of factors that come together and reinforce each other. Thus, for every war there is a particular set of conditions and preconditions. And Copeland is talking about what is well-known to political scientists. The major propelling factor for acting might be the fear of the future security architecture. And there might be facilitating factors that fuel willingness of a leader for action. For instance, domestic support can be based on the assumption that the country or compatriots are discriminated against and the state should fight against those unjust treatment, etc. Also, there might be reinforcing factors if we see the role of third actors that can fuel existing tensions. And all those factors combined can lead to a certain solution. Copeland studied forty major military conflicts which occurred from the French Revolution up to the collapse of the Soviet Union with special focus on the role of the trade expectations logic. Those cases give us direct insight into the relative importance of systemic versus domestic-level factors for international politics (see, Copeland, 2015, p. 79). When we look at, let say, the Russia-US relationship from the death of Stalin till the end of the USSR we see several periods which highlight positive trade expectations as the main game changer in the behavior of states. Findings by Copeland demonstrate for instance the key role of trade expectation in de-escalation of hostility between Washington and Moscow from the Cuban missile crisis till the end of Cold war. For instance, in 1963–1974, the US decision to lower trade restrictions and offer credits in exchange for better Soviet behavior led to decrease in superpower tension and risk of war via détente process. In 1985–1991, US willingness to promise lower trade restrictions in response to more cooperative Soviet behavior fostered decrease in superpower tension and the ultimate end of the Cold War altogether. In 1975–1984, destruction of the trade-based détente due to congressional politics in the aftermath of Watergate scandal stimulated renewal of superpower tension and risk of war (the coming of “the Second Cold War”). Finally, in 1999–2022, US concern that trade with the EU would help Russian relative power and destruction of the trade-based Russia-EU partnership due to congressional politics especially in aftermath of Trump elections alongside with plans to expand NATO eastward reinforced Russia’s fear of a first strike, increasing perceived need to establish a strong strategic position in post-Soviet space, ended up in a proxy war in Ukraine despite initial Russian efforts to forge trade-based interdependence with the West through membership in global international economic institutions, including WTO. Let me conclude by saying that when leaders have positive expectations of the future trade environment, they want to remain in peace in order to secure economic benefits. Contrary, when those expectations turn negative leaders are likely to fear loss of access to raw materials, markets, etc., and they might be inclined to be more assertive. Thus, Copeland gives us another angle to look at the peace and trade nexus. Thank you.

*Miroslav N. Jovanović*

I’ll keep my comments on the economic side of these issues. First of all, I’d like to stay in general in agreement with Montesquieu. Another says that trade helps in smoothing out various relations between countries. A great example of this is the relation between France and Germany. Historically these countries had a lot of confrontations and under the US occupation and through integration and trade they started to be some of the great

friends at least up until now. That's a great achievement for the past 70 years as they are not fighting each other.

However, I would like to give a few different examples how trade relations can annihilate the independence of states or how these contacts are not enough to keep good relations between countries. The first example is the American annexation of Hawaii. It all started with sugar, very sweetly. Hawaii was exporting sugar to the United States to California in particular as early 1827 and they continued to expand this export so they initiated reciprocal trade agreement with the US. In 1848 the treaty was signed, but the US Senate did not ratify it. In 1875 a new treaty was signed and approved by the US Senate, it granted reciprocal duty-free trade agreement between Hawaii and the United States. Exports of sugar had been expanding but the US passed a tariff bill in 1890 which removed all duties on sugar from all countries. So, this was a disaster for Hawaii. This created economic and political trouble in the country and by virtue of the unilateral resolution of the US Congress in 1898 Hawaii became a part of the United States. So, this is an example of how trade can oust the independence of the country. Another example is the former Yugoslavia: no matter how integrated they were through a common currency, trade or investment. That was not enough to keep this country together because there was a very strong quest for freedom.

Brexit could be also an example. The British wanted to organize their life in the way they want and they don't want anyone to command them how and why to organize life including economics and trade. Switzerland is the very heart of Europe and this country didn't join the European Union even if the country had close trade and economic relationship. So, it is Quest for Freedom, which is much stronger in the case of Yugoslavia, Britain and other countries than the established economic relations.

Trade relations do matter, but that is not enough. And the final example here is Bulgaria's accession to the EU. It was a great step for the country. From the economic perspective, when Bulgaria joined the European Union its foreign debt was 10 billion euros and today it increased to 40 billion euros. When Bulgaria joined the European Union, the country had 9 million inhabitants. Now it has 6.9 million. Bulgaria lost a couple of million people and majority of them are young, educated and more creative. So, there are good and there are other impacts of trade.

### *Wang Guanghua*

I would like to make three points. The first is that trade takes place if there are net benefits from trade. I mean gains for both parties. But peace is different. Peace is a function of national interests, not just economic benefits. In addition to economic gains, national interests include geopolitical and security considerations, sentiments, domestic consensus as well as values.

The proposition that trade helps to peace requires the pre-condition that nothing else changes except trade development. If other determinants of peace change, it could offset or reinforce the impact of trade on peace. For example, border dispute could easily outweigh benefits from trade. And ideological divisions could lead to confrontations even between two heavily traded nations. This is why many confrontations or conflicts occur despite good trade relationships.

The second point is of course trade must be fair. Unfair trade will harm peace. For instance, the Opium Wars started exactly because the UK and France believed that their

trade with China was not fair. Another example is the ongoing trade war between China and the United States. According to Donald Trump the war broke up because US trade with China was unfair or US had a huge trade deficit with China. I disagree with Trump but it is the perceived unfairness in trade which led to the worsening relationship between China and the US.

The third point is that economists can measure costs and benefits of trade with certain confidence. However, when we talk about geopolitics, security or public opinions, it's pretty difficult to measure or quantify the costs and benefits of different decisions of state leaders. In this case, calculations will have to become speculations. And speculations could be terribly wrong, especially when the speculated probability of wining potential confrontations is high. For example, we are still debating on the benefits and costs of the Korean war, 70 years later.

### *Fyodor A. Lukyanov*

The statement by Montesquieu, which was given at the beginning “Peace is the natural effect of trade” is of course true, but today is more relevant for us to reverse it into “Trade is the natural effect of peace”. As long as there is no peace, trade will not make any impact. And it seems to me that this is the most important lesson not only because of the current events that we are witnessing. It is also demonstrated by the development that the humanity has gone through over the past few decades, not only after the Cold War, but even before. What I mean is, at least in the period that is commonly called liberal globalization, which began around the end of the eighties and is now going through or has already gone through probably the final phase, it was taken for granted that mutual dependence, which includes primarily trade and systematic economic, is a pledge/guarantee of the peaceful development of relations between states. Even between those who are antagonists.

It seems that these days we are witnessing an amazing phenomenon. The Russian special military operation continues and, at the same time, the gas pipeline through which Russian natural resources enter Europe is filled to the maximum and supplies are increasing. I think that in previous historical epochs it was impossible to imagine such a thing. The first thing a resisting country would try to do is to blow up or destroy this gas pipeline in order to cause damage to the enemy, who uses it to achieve some of his goals, at least material ones. This is not happening. But the most important thing is that this situation in general does not cause any surprise. This is taken for granted, conflict is conflict, but the system of mutual dependence on which the relationship is based remains. And this is certainly the legacy of the previous era. The legacy of the era when this very interdependence was really considered a highly stabilizing factor in international relations.

And this is not a period of globalization, but just an earlier period, because, as we all remember, the connection between the Soviet Union and Western European markets began to appear in the sixties. Gas from the USSR went, if I'm not mistaken, starting from 1970 or 1971. And it was an advanced period of the Cold War with a systemic, deeply grounded and sometimes extremely acute confrontation between the political East and the political West (the USSR and the USA and its allies). The system of interconnection in the field of energy, which was laid down at that times, provided for about half a century such a safeguard for relations between our country and Europe (first Western, then United

Europe) and certainly played a very important stabilizing role. But this role primarily referred to the period of the Cold War.

We all remember the circumstances that accompanied the implementation of the gas project, the struggle of the United States, especially at the stage of expanding supplies. Think back to the late 1970s and early 1980s, when political relations plummeted after the Soviet invasion of Afghanistan and the Reagan administration tried to ban Western European countries from cooperating with the Soviet Union. Washington managed to convince Europe then that it was necessary and did not pose a threat to the Western Alliance. In many ways, the situation, at least until recently, resembled everything that we have seen now in the history of Nord Stream and Nord Stream 2. Be that as it may, this whole system has started working and has worked very successfully. This is the argument that was very often cited by both Gazprom on our part and its partners on the European side. That even in the most difficult times of the Cold War, the agreed contracted gas supplies to Europe were not interrupted for a second, and so on. This is true, but it seems to me that it is precisely this circumstance that needs to be emphasized here — the most difficult moments of the Cold War, because the Cold War was a war that went according to clear rules between very clear opponents who, at least after the Cuban Missile Crisis of the early sixties, understood well that rules are needed. And within the framework of these rules, relations can be arbitrarily bad, but they should not go beyond the agreed chapel. And within the framework of these rules, economic interdependence and increased trade, to the extent that it was then possible, given that the world was not united, was certainly a very important stabilizing and strengthening relationship (mutual trust) factor.

Today, we see, jumping from that seemingly blessed time of the Cold War to today, that mutual dependence is perceived as a terrible threat that must be eliminated at almost any cost. Literally, when we are discussing this topic here, the news comes that the Polish government decides to de-Russify the Polish economy, that is, the complete rejection of Russian fuel as soon as possible, regardless of the costs that this will incur for the economy. And this is probably the most important thing that we need to understand when we discuss the relationship between trade and peace. Trade strengthens peace when peace is already there, when it is created, and when it is based on a fairly clear set of ideas about how to maintain it. If we talk about completely old categories, which until recently we did not like, but now it looks like we will have to return to them, this is what was called the balance of power, the balance of interests. And now, when this balance is achieved, economic relations — trade, investment and everything else become a very reliable glue that fixes everything. But when this is not the case, when due to various reasons, due to major geostrategic shifts on the world stage, the balance disappears, what we are seeing today happens, the balance has disappeared radically. Interdependence turns out to be not just a burden, but, as we now see and we will see to an even greater extent, a source of conflicts.

The Foreign Affairs website has just recently published an article by a famous political economist Adam Posen, who pointed out that: “a democratic world response to Moscow is right both ethically and national security grounds this is more important than economic efficiency” (Posen, 2022). We may argue with assessments of Russian actions, but this is the credo that economy, economic benefit is secondary, safety and security is primary. It is true by looking at how calmness and confidence in the stability of relations can sharply turn into exactly the opposite.



And the last thing on this topic, for obvious reasons we are worried more by the context of relations between Russia and Europe, but naturally we are now witnessing a second phenomenon of the same kind — this is the relationship between the United States and China. And here the example is in a sense even more illustrative and so crystallized. There has never been an economic relationship that would bring such enormous benefits to the parties as the relationship between China and the United States since the 1980s. This is an absolute phenomenon of this very win-win situation, when both of them gained incredible economic, political, social benefits precisely due to the closest economic interconnection, one might even say economic symbiosis. And of course, it seemed that this symbiosis could not collapse, because it would be completely suicidal for the level of economic and social development. It has not yet been destroyed as we can see, but at the same time it is already obvious that it has not become a defense against the most acute strategic competition, which is growing literally in front of our eyes, and it did not start yesterday, and not even under Donald Trump, symptoms were clearly seen at the very beginning of the 2010s, already under President Obama. Now it has reached a level where the United States is essentially forcing China to make a choice because of the whole situation with Ukraine. Moreover, they do this not by promising some new benefits, new privileges, but by threats. They say if you do not take the right side of history, then what you are now seeing is happening to Russia may begin to happen to you. I do not presume to judge the Chinese reaction. It seems to me that this approach does not work with China and will not act as such a threatening umbrella, but this shows us that economic interdependence doesn't protect against strategic competition.

Moreover, the moment inevitably comes when it begins to be perceived by both countries as a burden and as a brake on further development, if not economic, then definitely geopolitical and global. Therefore, the first conclusion is that we are in a monstrous zone of turbulence, and we should not expect now, unfortunately, that any trade considerations or economic considerations will help us to pass this turbulence zone easier and faster, maybe even vice versa. And secondly, in order for trade to start playing its pacifying role again, some new political consensus on the world stage, a new balance of interests, is needed. It is impossible to say what it will be, because we are in an incredibly complex multi-factorial, multi-polar, multi-level system, where a simple balance cannot arise. And it is generally not clear what might arise. But here, unfortunately, until some contours become clear, we do not have to rely on the economy either. Moreover, if everything goes as it is now, I think that we should expect a fairly rapid collapse of the world economic system, at least into zones of influence. They will interact somehow with each other, of course, a complete isolation is impossible, but this will no longer be the globalization to which we are used to.

**Question 2.** Modern development clearly demonstrates that at least some countries tend to perceive trade restricting sanctions as a peace-enforcing instrument. How do you assess the sanctions effects?

*Miroslav N. Jovanović*

Sanctions is the word, which is going to be very high on the agenda this year and beyond, but basically it is bad old wine in new bottles. The question is who may introduce sanctions. There are two international bodies: the UN Security Council and

the WTO organization. In general, trade restrictions are forbidden, but they are two articles XX and XXI which permit exceptions. The problem is that these exceptions may be used as protective measures. Now the criteria for the introduction of sanctions are rather loose. There are low level wars such as the ones in Gaza or in between China and India, or fully blown wars in Yemen or Syria that are flying below the sanctions radar or the human rights (Saudi Arabia or Myanmar). There are also hideous double standards: Turkey occupies one third of an EU country and the European Union discusses enlargement with Turkey. Or after the first end sanctions against Russia in 2014 the following year the European Commission gave a green light to commercial deal between two defense contractors: Daimler in Germany and Kamaz in Russia to produce military vehicles.

Sanctions also create opportunities. After the First World War Germany was not able to obtain resources for normal trade. So what Germany did was to use what it had: its coal, salt and talents, and they created the alternatives artificial materials. There are gadgets that go with that such as pumps and a super precision measuring instrument.

Russia was for a long-time exporting oil, gas and raw materials and importing everything else. Sanctions gave a strong antidote to this situation and gave a great push to Russia to transform its economy. The unintended consequences of these sanctions were to turn Russia from a significant global importer of food into a significant global exporter of food. Food, after oil and gas, is the biggest foreign exchange earner.

When the ruble initially fell on the exchange market, that made Russian exports cheaper, imports more expensive. Big investment Banks like JPMorgan and Goldman Sachs buy Russian assets in Railways and elsewhere in the economy hoping that the situation may change and that they would profit from this change.

McDonald's, Starbuck's, Coca-Cola and Pepsi are leaving Russia and the globalists are happy: "we are hitting Russia and Russian economy". Anti-globalists are also very happy: as they say "Leave Russia with your junk food, drinks or liquids and this will create room for the local producers and services such as 'Yolki-Palki'". Accounting firms are about to leave, but it takes them up to a year to do that, if situation changes they would stay. The Deutsche Bank has approximately 1,500 IT specialist in Moscow and Saint Petersburg, they tap into the Russian pool of knowledge of the mathematics and in the computer programming. Of course, The Deutsche Bank does not keep financial data in Russia, but rather maintenance of the IT services. Approximately one-third of the Deutsche Bank Services is in Russia, so it may also be a big problem for the Deutsche Bank IT department if the Bank leaves Russia fast.

If we look at the sanctions map right now, we can see that there are big parts of the world: Latin America, Africa, Asia, which are not applying sanctions on Russia. This is offering a big room for sanctions busting. 90 % of the world's population does neither accept, nor fear dictate from the West.

What we also should keep in mind, that the sanctions did not crush rulers in Cuba, Iran, North Korea, Syria, Venezuela and elsewhere to yield the pressure. So what experience shows is that modest sanctions are more effective than excessive sanctions. Excessive sanctions are just pulling people together with the country's leader, while modest sanctions have a more effective impact on the target country. Russia is the country that was under perpetual sanctions for more than one century and economically. A stint without sanctions during 1990s was an economic disaster for the country. Russia is used to sanc-

tions and may withstand them better than others. It would be interesting to see how much time can the EU stand without energy from Russia.

Sanctions are an excellent excuse to the rulers all around the world to shift emphasis from real problems. These are climate change, income gap, demography, debt, inflation, immigration, behavior of corporations. In this situation I may say that we are witnessing a new and big globalization phase in the world economy: a new international finance system Bretton Woods version 3.0 is slowly being created.

Russia is excluded from the SWIFT and what are the alternatives? Well, just as was the case in Germany after the First World War, it creates something new. The current holdings and transactions are being controlled principally by the United States. The Western confiscations of legally earned Russian funds provide a wakeup call to others: Who is next? Reserves of gold and hard currency of Afghanistan, Libya, Russia, Venezuela were confiscated. Many countries are looking for alternatives. Similar confiscations took place right in front of our eyes in the European Union when they confiscated  $\frac{1}{3}$  of deposits over hundred thousand euros in Cyprus in 2013. So, the Russians have SPFS and the Chinese have CIPS system, but the problem with them is that they are small right now. However, they are growing, and necessity is the mother for inventions. So, one has to keep all this in mind and to convert trouble and sanctions into opportunities and profit just as Germany did after WWI and Russia after 2014. I would close with the words by Winston Churchill, who said: "Never let a good crisis to go to waste".

#### *Fyodor A. Lukyanov*

From a formal point of view, in international legal practice, sanctions are only those introduced by the decision of the UN Security Council. This is what international sanctions are. Everything else — what individual countries or groups of countries impose, cannot be called sanctions, this is incorrect. However, in everyday life, we always talk about sanctions, maybe even understanding incomplete correctness, but it seems to me that the events that we are seeing today force us to distinguish between the concept of sanctions and something else.

Many theories relate to sanctions activities, but if we try to simplify them, then in my opinion sanctions are what are designed to restrain. Sanctions against Iran are designed to prevent Iran from developing a nuclear program, sanctions against Yugoslavia had their own goals, and so on. What we see now in Russia should not be called sanctions, since politicians at the highest level officially declare not the task of containment, but the task of economic undermining, weakening, and the destruction of the Russian economy. It is done in order to force Russia to change its policy, but in fact it already remains somewhere beyond the scope. In Russia we say that an actual economic war is being waged, and in the West, it is sometimes called the same, but more often somehow differently. But I repeat once again, in my opinion, it is necessary to understand very clearly here that there are different goal-setting.

How do sanctions work? In terms of policy change, in terms of deterring certain actions, the experience that we can remember in the 20<sup>th</sup> and 21<sup>st</sup> centuries rather speaks of the low effectiveness of sanctions. Moreover, in a number of cases, whether it was Yugoslavia, or Iraq, or Libya, sanctions led to wars, because the object of sanctions did not respond to the measures taken and they had to be tightened. You cannot reduce the pressure until you have achieved the result. And in the end, when it did not work, military force had to be used. And

in this sense, the question here is how effective it is. Probably, the sanctions against Iran can be considered a more positive example, since a few years ago they generally led to a kind of compromise agreement, which, however, was very quickly violated, and not by the Iranians, and as a result, we are now, in general, again at the preliminary stage, it is not very clear how it will end. But if we are talking about the relation to Russia today, then this is of course completely different. Here the task of maximum weakening is valuable in itself. And when the hostilities stop, I think there is no reason to expect that these sanctions will be lifted. In any case, nothing of the essential that was introduced will be canceled, and from the experience of the previous decades, we know that, for example, American sanctions adopted by Congress are not actually canceled. Even if there is some political will this cannot be done.

And last but not least, about the reaction to the sanctions of the society of those countries that are under pressure. Here, in the case of Russia, it seems to me that a unique historical experiment is being set up. Firstly, such a scale of economic restrictions, which are now taken against Russia, probably has not been taken in history. We have significantly surpassed Iran in terms of sanctions, despite the fact that Iran sanctions had been imposed for about 40 years, and in Russia they were introduced fully just in 2 weeks. And in this sense, of course, we have not yet assessed the blow that is taken on the way of life and on the well-being of society, we still have to understand that we'll feel it in 2–3 months. The question is how this will affect the state of society, because in general, no one hides that the task is to undermine the support of the authorities, to achieve socio-economic discontent, which, according to the plan of the organizers of the sanctions, should lead to a change in the political authority. This is a very interesting question, because on the one hand, since we do not know the real effect, we cannot yet judge what the socio-economic consequences will be and whether they will cause some kind of violent manifestations, but, judging at the moment, this is my purely everyday observation, which may be completely unscientific, but it seems to me that this sanction strike has so far produced the opposite effect. Because it is no secret that the operation in Ukraine has caused different attitudes in our society and there are a sufficient number of people who do not consider it right, but when in response to certain actions of our government there is a completely “carpet” tsunami, that is, not targeted, but “carpet” in terms of the destruction of the economy and lifestyle, even those people who are not exactly delighted, to put it mildly, with what is happening, they begin to perceive it differently. They already perceive this as an attack on themselves, not a response to something, but rather an attack. Well, we know from the Russian history that when people and Russian society feel something like this, they react not quite the way those who organized it expected. Therefore, I do not claim that this will be the case, because we really do not yet understand and do not know how this will develop further, but I repeat for the researcher this is an incredibly interesting moment in order to test all our theoretical constructions.

### *Nikita A. Lomagin*

When we think about peace, a precondition to peace, if leaders do not see a positive future we cannot expect a system that would be stable and we cannot expect lasting peace. So, and this is a huge dilemma, of course I would agree that we might see a fragmented global economy and global order, and basically, we witness the end of the era of globalization. But, again, you know Russia will remain the neighbor of Europe. You cannot build a huge Berlin wall from Baltic Sea to Black Sea, it is impossible, and this economic interde-

pendence will remain and of course I will support your points about pipelines which still sort of physical embodiment of economic interdependence. So, my take on sanctions in general is that it's again a dynamic process. For instance, if Special Operation would take not 22 days but 3 days, I am sure that we would witness a different scenario. The longer the crisis goes on, the more we can expect in the end. But what we do see today, I am sure you know basically the arsenal of those who impose sanctions is almost exhausted. So, practically this is the end. What we see, we see that those countries which look at the current situation they learn lessons for how to survive and they might feel themselves quite uncomfortable, they might fall victim to the next round of sanctions and again I would agree with the point that US-China relationship comes to our mind. And again, talking about sanctions escalation, I would just maybe finally make two points: the first one, sanctions are made sometimes for domestic symbolism. You cannot wage war against a nuclear state, you should do something, you should react, you should demonstrate that you do your best. You cut economic ties, cultural ties; you are basically building a new iron curtain around this country. So, you have to respond to what's happening and especially in this particular case when we are talking about the crisis in Europe, it is not only about economics, it is about refugees, and those waves of refugees make the difference. It is not something which is very distant in Iran. Who cares about Iran? Israel, but for others it is not a big deal. As a sanction's regime is concerned, I would agree with you, sanctions as a term has very special legal meaning. Only the UN Security Council can impose sanctions. Others — other measures to be used as restrictions, which goes against Public International Law or WTO Law at the minimum.

### *Wang Guanghua*

We must remember that most sanctions hurt both parties, possibly to different degrees. Also, the effect of sanction depends on whether the other party retaliates. And that's uncertain. If it doesn't retaliate, of course, trade sanctions will work and possibly help to nurture peace. That is what happened with sanctions on Iran. Another example relates to the Sino-Philippine dispute over the island in the South China Sea. Philippines took China to the Court. And China started to restrict imports of bananas from the Philippines and the latter did not retaliate. Here the trade sanction actually worked.

However, the China-US trade war is different. The US started to impose tariffs and if China did not respond, that would work, but unfortunately it did not work that way. The trade war is still going on and it expands to other areas such as finance and technology transfers. In this case trade sanctions did not work, but actually caused the opposite, possibly leading to something quite serious.

Finally, I want to reiterate that we really need to manage national sentiments during confrontations. It does not matter what kind of societies or political systems prevails, state must manage national sentiments so that trade sanctions will not lead to confrontations and serious consequences.

**Question 3.** Currently a certain number of Western companies decide to leave the Russian market regardless of resulting economic losses. What are the reasons behind these decisions? How do these decisions correspond with corporate social responsibility as Russian consumers and employees are de-facto made responsible for the policies of the Federal authorities?

### *Miroslav N. Jovanović*

Whenever I hear about corporate social responsibility, I have concerns. Firstly, because firms exist to make profit. They do not exist to be socially responsible. It is the state that forces them to abide by law and to be responsible. In the spirit of each firm is to make profit and to reduce all other expenses. Whenever they say that they are socially responsible or so they are lying. For example, some years ago Coca-Cola gave a donation to the Library of Congress. That was announced at various media. Every hour, every half an hour there was a clip of some 18 seconds or so that Coca-Cola gave donations to the Library of Congress. It is a very important and interesting socially responsible deed. However, if one takes the amount of money which they pay for 18 seconds of direct advertisement it is significantly less than the donation to the Congress. So, they got free advertisements. Every time when they do something as socially responsible companies they always, and rightly so, expect something in return: lower taxation, more government contracts, lower customs duties and alike. Coca-Cola may be sponsoring various football tournaments, they give T-shirts, free drinks, small souvenirs, etc. The problem is that local producers of healthy juices of pineapple, or apple, or other fruits do not have these types of means to influence and advertising to the young.

Our life was controlled by the armies, then by the church, then by the state and now by corporations. You cannot have your own opinion, public, personal relations, financial relations, purchases or so without being in the system of a corporation. They have these data. If you buy a book about art, tomorrow you will receive many similar offers. Your privacy is becoming a private good. Now if you gain something such as international communication, you also sell a part of your privacy, and corporations are controlling this data. The problem is what they are going to do with that. Looking back, the Dutch in Holland had excellent statistics of the population. When the Nazis entered Holland, they went into these statistics and found the Jews, which were sent to Auschwitz. Tomorrow you, I, others are buying one type of books, one type of food, voting for one type of party and the like, these data are being stored somewhere and the day after some of 'them' would come and say, that you have done this, that and the other and they can catch you and be after you in one way or another.

Before it was the government that privatized corporations, now the situation is that the corporations are privatizing the government. What to do about this excessive power of these corporations? They can and they control your personal relations. One should take back power from corporations and give it to the elected democratic government. These corporations and banks can privatize the government by giving identical donations to parties on the one side or another, so they do not care who wins. Whoever wins owes them something: easier taxation, less control and alike. So, the democracy should be reinstalled.

### *Nikita A. Lomagin*

Just a few points. Of course, we should distinguish those companies, which decided to leave the market if we are talking about Russia and the current situation. There are those companies, which have to do it by law, established by their government, so they have no choice, they should leave and the second issue relates to a potential losses and cost benefit analysis, which was already mentioned by our Chinese colleague. So, if Russia is not a premium market, they have to think about the reputation they would like to keep, and the market share in other regions. And this is a huge issue for most of them. For this

reason, those companies, which still regard Russia as an import market, suspend their activity, they basically try to buy time before they make the final decision, so this is a very important thing. And, of course, point number three is that it is an emotional decision. Even rational people in business sometimes make stupid decisions, it is a groupthink mentality so if you know maybe this will bring it back down tomorrow and collateral damage by introducing sanctions will be felt in Europe maybe in a month or two months from now. It cannot be felt immediately. As companies are concerned, those who do not want to lose markets elsewhere in the West, they go. Those who regard Russia as an important market, will try to stay.

*Fyodor A. Lukyanov*

This is a fantastic experiment when the well-known cancel culture, which has been spread in the western societies, in particular, in the United States and Europe in last two-three years is applied to the whole country, a huge country which is the biggest in the world. This is the case when entire country is becoming a subject to the cancel culture exercise. That means that of course for many companies this is damaging for their business elsewhere to stay here. We will see how it will work in this global environment.

*Wang Guanghua*

There is no doubt that firms are looking for benefits and profits. Even in China since 2018 there are many people doing surveys of foreign companies. Of course, firms want to stay in China to make profits. However, the USA and Japan have a political system where firms do not have to listen to the governments, but they must obey laws and making or changing laws is a lengthy, slow and complex process in the USA or Japan. That is why I have been saying that the real impacts of the worsening foreign relations will surface in the future.

Another point is that firms consider long-run, rather than short-run prospects. For example, many investors moved to Vietnam or India, not because they do not make profits in China. They are concerned about the long-term situation.

**Question 4.** The overwhelming majority of stakeholders agree that the existing system of global governance in general, international trading system in particular do not work properly. How could they look in ten years from now? What might be the feasible patterns of transformation?

*Wang Guanghua*

My argument is very simple. Economic power will prevail in the end, nothing else. Since the Second World War the world has been governed more or less by Europe and America because they have been economically powerful. Economic power generates political and military powers (this is also true in the case of Russia where declining economic power undermines its political and military powers).

It is important to point out that the economic power and political/military powers do not go hand in hand simultaneously. There are lags between these two. Asia has been rising since the Second World War particularly since late 1970s when China, and early 1990s when India started to take off. But it takes time for Asia or China or India to have the comprehensive power.

What I could see is that China will be one of the largest economies, and India is likely to be the third-largest economy in the not too distant future. In the last 15–20 years I have been arguing for paying serious attention to India. Unfortunately, nobody listened, and nobody cared, until a few years ago.

The future world is going to be divided or fragmented. In the end, whoever has the largest economic power will define the world order.

*Miroslav N. Jovanović*

Crisis creates opportunities and opportunities need to be converted into innovation and profit. In my view, there will be various types of innovations. I expect that China would give a very big push as it is the most dynamic economy in the world over the past 20 years and this will continue. No matter how hard it is right now I see that there are going to be new opportunities, innovations on either side of the world and that one needs to be positive.

*Fyodor A. Lukyanov*

I do not want to sound gloomy, but I'm afraid that the whole institutional system which we largely inherited from the second half of the 20<sup>th</sup> century and which was then adapted or at least tries to adapt to the circumstances of globalization in 21<sup>st</sup> century, so the whole system is approaching its end, it's disruption. Couple of weeks ago I would still believe that the United Nations system for example will survive, because this is a system which served well despite all transformations in the world. But now looking at the recent development I would not be that sure, that United Nations in a form as it was created after the Second World War will survive this stage of international development, not necessarily this stage with the conflict in Ukraine, but it will have a lot of consequences as well. I think that the structure of the world will change profoundly and irreversibly, which means that we will need a new institutional design. Of course, this is a big challenge to all of us: politicians on the one hand but scholars on the other hand to developed this design because normally as it happened with the UN system as well such systems did emerge after big wars. The biggest challenge now is how to skip the war but to arrive to the point when we can agree on the new balance of interest in the world and institutional framework, which could suit it. But I am afraid that the world as we knew in terms of institutions created in 20<sup>th</sup> century is almost over.

*Nikita A. Lomagin*

Yeah, rather gloomy predictions, I would agree that we witness a further fragmentation of world order, the end of US hegemony as a leader. Two things, of course I absolutely agree that world order by and large is a product of great wars. When you see a winning side, when you see a losing side. Today it is not clear whether we will reach such a stage, hopefully not. At the same time, the international system basically is a function of overall response to global challenges. One of those challenges is still peace, another challenge is hunger, potential hunger as a result of this crisis. You know, I can give other examples. I am sure that sober people will be interested in keeping the remnants of the old system at least to handle some degree of efficiency with fine issues of today's life. The key variable in all this equation about the future is China. So, Fyodor already mentioned that China is facing the key choice to make, whether to agree with the United States or to go alone and



to become a leader in fast growing regions, Transpacific or Asia. And this is the big issue. Which way Chinese leadership takes will define the tempo in the structure of this system. But what is for sure that as a result of the ongoing crisis Russia will be closer to China, Russia will be closer to other countries in Asia and other regions and again two things to do: why do we need global governance? To handle global challenges. And if we fully destroyed this system, the ability to adequately find proper responses would be minimal.

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## Стремление к миру как следствие развития торговли: теория и реальность

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Первоначальный замысел посвятить пленарное заседание XIX Международной конференции «Международная торговая система: проблемы и перспективы», прошедшей в СПбГУ 17–19 марта 2022 г., обсуждению взаимосвязи политического и торгового аспектов международного взаимодействия созрел у организаторов еще в середине 2021 г. Существенное обострение геополитической ситуации к весне 2022 г., с одной стороны, придало выбранной теме дополнительную актуальность, с другой — ограничило число потенциальных участников дискуссии. Несмотря на последнее обстоятельство, программный комитет смог сформировать международную команду экспертов, каждый из которых предложил свои ответы на поставленные модераторами вопросы. Эти вопросы касались как необходимости и возможности принципиальной переоценки традиционно существовавшего у большинства представителей общественных наук мнения о положительном влиянии развития внешнеторговых связей на состояние политических отношений стран-партнеров, так и возможных последствий все более активно применяемых рядом членов международного сообщества экономических санкций. Предметом отдельного обсуждения стала мотивация принимаемых многими представителями зарубежных бизнес-структур решений об уходе с российского рынка. В завершающей части дискуссии участники предложили свое видение перспектив трансформации всей системы глобального управления.

**Ключевые слова:** международная торговая система, торговая политика, мир, санкции, глобальное управление.

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