https://asce-uok.edu.pk/journal
DOI: https://doi.org/10.56384/jes.v42i2.443

Power, Sanctions, Politics of Interdependence as Policy Instruments and the EU

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Abstract

The advancement of the global order has called into question the traditional beliefs regarding the mutually beneficial character of economic interdependence. This paper explores the way the European Union (EU), which has traditionally been viewed as a normative and regulatory institution, has been increasingly adopting coercive economic policies using interdependence. Based on the theoretical framework by Farrell and Newman, it examines the use of the central position in global financial and trade networks to leverage geopolitical influence by the EU. It is attempted to answer, how has the European Union employed economic interdependence as a form of statecraft to achieve its foreign policy objectives? and what are the mechanisms, scope, and implications of this strategy with the focus on EU's sanctions against Russia, which took place after the Russia-Ukraine stand-off since after 2014.

The results imply that the EU application of financial sanctions, trade restrictions, and energy decoupling is a significant change of normative power to geo-economic statecraft. Although the measures have strengthened the EU as a geopolitical player, they have also helped to divide globalization, create rival economic blocs, and have led to the rise of a mistrust in Western-led institutions, especially among the Global South countries such as Pakistan. The interdependence is effective in the short run. However, objectives using this policy are achievable but at the cost of long-term stability and legitimacy of the liberal international order because it encourages the creation of alternative systems and diminishes systemic interdependence. Placing the developing strategy of the EU into the wider

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discussions on International Relations, this qualitative study helps to comprehend how the economic power is being re-positioned in the context of geopolitical rivalry, strategic independence, and global disunity.

Keywords: European Union, Geopolitics, Interdependence, Russia-Ukraine War, Sanctions, Normative Theory, Power

Introduction

The current international system is experiencing a fundamental change marked by the undermining of liberal multilateralism, the worsening of geopolitical tensions, and the securitization of economic interactions. In the better part of the post - cold war era, globalization was supported by the liberal belief that interdependence in economic activities would encourage cooperation, decrease conflict, and entrench states into a stable, rules-based international system. Theoretically based on liberal institutionalism, theorists like Robert Keohane and Joseph Nye believed that intricate interdependence would restrict the actions of state and create mutual advantages[1]. But recent history has shown the weakness of this assumption, and that interdependence could be used as the basis of not only cooperation, but also coercion.

The idea of interdependence has become an important analytical tool in the context of strategic manipulation of global economic networks in this changing environment. This concept, proposed by Farrell and Newman, emphasizes the role of states having a central position in international financial, technological, and trade networks, which can abuse these networks to exercise power over others. The present moment is an indication of the shift of globalization into a more politicized and conflicted space, as opposed to marking the end of globalization. Asymmetries in global networks (the SWIFT financial system, global supply chains, and digital infrastructures) allow dominant participants to regulate flows of information, capital and goods. Such asymmetries enable the exercise of coercion, surveillance, and exclusion, and turn interdependence into a tool of geopolitical strategy.[2]

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1 Robert O. Keohane and Joseph S. Nye. *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown and Company, 1977).

2 Henry Farrell and Abraham L. Newman. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion." *International Security* 44, no. 1 (2019): 42–79.

The European Union (EU) provides a very important case in this changing global environment. The EU, traditionally regarded as a normative and civilian power, has consistently stood out in the club of other world players due to its priority on multilateralism, legal frameworks, and cooperative governance. The idea of Normative Power Europe highlights how the EU can influence the global norms and values by persuasion rather than coercion[3]. Likewise, the concept of Market Power Europe emphasizes the ability of the EU to externalize its regulatory norms in the world because of the scale and appeal of its single market. These structures have helped the EU to be viewed as a unique player in international politics, one that is able to act through norms, rules, and economic integration, but not as hard power[4].

But this description is gradually undermined by the changing external policy of the EU. The EU has become increasingly assertive and strategic in its economic relations in reaction to a succession of overlapping crises, such as the global financial crisis, Brexit, the pandemic, and recently, the Russia-Ukraine War. Imposing the heavy number of sanctions on Russia, such as financial limitations, trade embargo, and decoupling of energy, are sweeping change in the application of economic tools by the EU. Such moves are indicative of increased readiness on the part of the EU to readjust its structural status in the global networks as a factor in fulfilling geopolitical ends[5]. This step towards economic coercion is part of a wider trend where economic instruments are becoming part of the strategic repertoires of states. According to Baldwin, economic statecraft has been an ignored aspect of international relations, but it is currently becoming prominent in an era of geopolitical competition. The use of sanctions and other restrictive actions by the EU is how economic interdependence can be turned into leverage[6]. The EU can impose great costs on its opponents with minimal military involvement by disrupting the most important nodes in financial and trade networks.

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3 Ian Manners. "Normative Power Europe: A Contradiction in Terms?" *Journal of Common Market Studies* 40, no. 2 (2002): 235–258.

4 Chad Damro. "Market Power Europe." *Journal of European Public Policy* 19, no. 5 (2012): 682–699.

5 European Commission. "EU Sanctions against Russia Following the Invasion of Ukraine." (2022).

6 David A. Baldwin. *Economic Statecraft* (Princeton: Princeton University Press, 1985).

This type of power is especially applicable in a situation whereby conventional military alternatives are either unwelcome or not viable. However, the adoption of interdependence by the EU begs critical questions both theoretically and normatively. On the one hand, it will improve the ability of the EU to become a geopolitical actor, providing it with the chance to more effectively react to external threats and to pursue its interests in a competitive international environment. Conversely, it questions the self-identity of the EU as normative power and jeopardizes its credibility as an advocate of the rules-based global governance. Sanctions and other forms of coercion may be viewed as discriminatory and politically driven, especially by Global South countries, thus adding to the accumulation of a trust crisis in Western-led institutions[7]. Besides, the systemic consequences of the interdependence go beyond the immediate context of the EU-Russia relations. The growing application of economic coercion by great powers is adding to the disintegration of the world economic order and the rise of a more multipolar world. An example illustrating this is the shutting down of the Russian banks in the international financial system and freezing of the foreign reserves that has made other states rethink their vulnerability in the current economic systems. This has boosted the push to diversify, regionalize, and create alternative financial instruments, such as de-dollarization initiatives[8].

In this regard, the activities of the EU are not merely reactive in nature, but they are also constituent of larger structural modifications in the international system. These developments have far reached consequences on countries in the Global South, including Pakistan. The interdependence creates new types of vulnerabilities because even those states that are not directly involved in the geopolitical disputes can be impacted by the sanction regimes, supply chain interruptions, and financial instabilities. Simultaneously, it poses some important questions regarding the inclusivity and equity of the world order. When economic networks are more dominated by power politics as opposed to universal rules, then, the future of fair participation and development become more and more doubtful[9]. It is against this backdrop this article aims to critically discuss how the

[7] Sven Biscop. *European Strategy in the 21st Century: New Future for Old Power* (London: Routledge, 2020).

[8] "*The Economic Consequences of the War in Ukraine*." T*he Economist*, Feb 26, 2022.

[9] Andrew Hurrell. *On Global Order: Power, Values, and the Constitution of International Society* (Oxford: Oxford University Press, 2007).

European Union has used interdependence and what it means to the changing of the modern international system. It claims that there is a major change that the EU is experiencing towards becoming more of a geo-economic power rather than as a normative and regulatory actor. This change is motivated by external factors as well as internal forces such as responding to security threats and strategic independence in a global arena getting ever more competitive. Nevertheless, it also creates tensions and contradictions that will have far reaching consequences with regard to global governance, legitimacy, and stability of the system.

Problem Statement

Despite being historically grounded in principles of economic interdependence, multilateralism, and normative engagement, the European Union is increasingly utilizing interdependence as a tool of coercion through sanctions and economic restrictions. This creates a fundamental paradox: the EU's reliance on interdependence challenges its identity as a normative power while simultaneously contributing to the fragmentation of the liberal international order. Although existing scholarship has examined EU sanctions and economic statecraft, there remains a critical gap in understanding how these practices, when conceptualized through the framework of interdependence, are reshaping global power dynamics, particularly in terms of trust, legitimacy, and systemic transformation.

Research Objectives

In light of these developments, the study is guided by the following aims and objectives by employing a qualitative research method:

- Examine the EU' policy of interdependence as an instrument of economic statecraft.
- Analyse the EU's punitive actions against Russia in the response of its aggression towards Ukraine.
- Evaluate the EU's transforming stage from its normative and free market power to a geopolitical actor through economic coercion.
- Assess the contributing role of interdependence in reshaping the contemporary global order.

The emphasis is on the mechanisms through which the EU leverages its position within global economic networks, its sanctions regime following the 2022 Russia - Ukraine war. Furthermore, the broader consequences of these practices for the evolving structure of the international system.

Literature Review

Theoretical Backgrounds: Power and Interdependence

The realist-liberal divide has been the conventional approach in the study of power in International Relations. The conceptualizations of power by realist scholars are centred on material and military aspects of power focusing on coercion, competition, and state survival. In this sense, economic relations are secondary to issues of security and interdependence is frequently seen as a form of vulnerability as opposed to cooperation[10]. Liberal institutionalist approaches, especially those developed by Keohane and Nye on the other hand, believe that economic interdependence promotes cooperation because it creates mutual dependencies and raises the costs of war. According to their idea of complex interdependence, states are placed in thick webs of economic and institutional relationships, making the use of military force less useful and the use of economic and diplomatic instruments more significant. But current trends have revealed the shortcomings of liberal presumptions regarding harmless interdependence. Rather than being an element of stabilizing force, interdependence has turned out to be a source of strategic leverage. Baldwin argues that the economic instruments never left statecraft, but have gained tremendous importance particularly in the face of globalization. The increased integration of the global markets has not eradicated asymmetries of power; it has merely redesigned them. States, which hold structurally privileged positions in the world networks, e.g., financial centers or regulatory hubs, can have disproportionate influence over others. This change requires a reformulation of power that incorporates economic networks as primary locus of geopolitical struggle.

Interdependence Networks, Choke points, and Financial Power

The phenomenon of interdependence, coined by Farrell and Newman, offer a very important framework to the explanation of how the idea of globalization has been redeveloped into an instrument of coercion. Based on this model, global economic networks are described as hub-and-spoke types where some states, especially the United States and the European Union, are at the centre of these networks. These focal points allow them

[10] Kenneth N. Waltz. *Theory of International Politics* (New York: McGraw-Hill, 1979).

to dominate key flows of money, information, and trade and form, what Farrell and Newman refer to as choke points that may be used strategically. Practical implementation of this concept is shown in empirical evidence on recent sanctions regimes. An example is the financial messaging system SWIFT that is used globally and has become an important tool of economic statecraft. After the 2022 invasion of Ukraine, a number of Russian banks were disconnected from SWIFT, which severely affected the opportunity of Russia to perform international operations and access global markets. This exclusion imposed direct limitations on the ability of Russia to handle payments, causing currency volatility and decreasing inflows of capital. On a larger scale, financial infrastructures that were initially viewed as a neutral conduit to international trade have become more and more instruments of geopolitical policy[11].

These measures are of scale and scope never before witnessed. Since 2022, the European Union and its allies have imposed numerous sanctions on important sectors of the Russian economy, such as energy, finance, and technology. These sanctions have not only been limited to traditional trade restrictions but also asset freezes, export controls, and technological bans, which shows a thorough form of economic coercion. Interestingly, the EU has already frozen about €210 billion worth of Russian Central Bank assets, which proves that financial interdependence can be used as a strategic to a considerable extent. The trend among scholars is that these practices are leading to breaking up of the global economic order. The imposed sanctions, exporting restrictions, and financial restrictions have led to the faster formation of alternative systems and regional blocs as states attempt to decrease their reliance on Western-controlled systems. This involves attempts to come up with alternative payment systems, including the Cross-Border Interbank Payment System (CIPS) in China, and the need to explore the concept of digital currencies to avoid the conventional financial networks. This has led to an increase in the geopolitical segmentation of the global economy and its de-integration.

The European Union: Normative vs Market Power

The place of the European Union in the changing structure has been a largely discussed topic in the relevant literature. Conventionally, the EU has been theorized as a normative actor, whose principles are based on

[11] M. Cipriani, Linda S. Goldberg, Gabriele La Spada, and Joseph Wallen. "The International Role of the U.S. Dollar." *Federal Reserve Bank of New York Staff Reports*, no. 1049 (2023).

multilateralism, human rights, and the rule of law. The EU offers influence through norms and values instead of coercion, and this is the Normative Power of Europe. This view highlights the distinguishing character of the EU as a civilised power that focuses on diplomacy and institutional activities[12]. Meanwhile, researchers have pointed at the ability of the EU to exercise influence based on its economic weight. The concept of the Market Power Europe highlights the fact that the EU is capable of externalizing its regulatory standards in the world. The EU influences the world markets through various ways, for instance, through the so-called "Brussels Effect" when the EU determines the standards that multinationals have to follow in order to enter its vast internal market[13]. Nevertheless, the changing dynamics of the world politics emphasize that these structures are not adequate to define the changing role of the EU.

The EU is simultaneously converting into a political actor that incorporates aspects of economic statecraft that are closer to realist conceptions of power. Sanctions have risen to the forefront of EU foreign policy, and the Union has become one of the most prominent players in the area of sanctions across the world. Following the intensification of the Russia-Ukraine war, the EU has imposed more than a dozen sets of sanctions on more than 2,700 individuals, entities, and hundreds of vessels engaged in energy trade. These are indicators of a change of regulatory influence to coercive economic action. This shift has significant implications for the identity and legitimacy of the EU. Although sanctions increase the ability of the EU to achieve its goals as a geopolitical actor, it also casts doubt on its adherence to principles of normativity. Critics claim that the selective use of economic coercion diminishes credibility of the EU and adds to the perception of the duplicity especially in the Global South[14].

Interdependence

This paper follows the concept of interdependence as the major analytical tool to explore the issue of power exercised by the EU in the modern international system. This framework, created by Farrell and Newman disputes traditional liberal views of globalization by showing how

[12] Ian Manners. "Normative Power Europe: A Contradiction in Terms?"

[13] A. Bradford. *The Brussels Effect: How the European Union Rules the World* (NewYork: Oxford University Press, 2020).

[14] Robert D. Blackwill, and Jennifer M. Harris. *War by Other Means: Geoeconomics and Statecraft* (Cambridge: Harvard University Press, 2016).

interdependence, instead of being a naturally cooperative phenomenon, can be strategically employed by states that are placed in the strategic core of global networks. By doing this, it provides a critical point of contact between the liberal and realist traditions of International Relations with a reassessment of economic interdependence as both a source of mutually beneficial and coercive power. The theory of interdependence is based on the structural aspects of global networks. This framework, in contrast to the previous conceptions of interdependence which focused on the reciprocity, emphasizes the asymmetry of the networked systems. Global financial, technological, and trade networks are not uniformly distributed, but are structured around major nodes or hubs around which critical flows are mediated. States that hold these central nodes, like the United States and the European Union, have what Farrell and Newman refer to as network centrality, allowing them to surveil, censor, or interfere with relations within the system. Interdependence can be characterized by two major mechanisms: the panopticon effect and the choke point effect. The panopticon effect is the capacity of states to use their network location to collect information and have surveillance over other participants. This is especially true for the financial systems where access to transaction data would bring strategic benefits. The choke point effect, conversely, entails the ability to limit or block access to important nodes of global networks, and thus inflict economic burdens on targeted states. Collectively, the mechanisms demonstrate the ways structural power in networks may be converted into coercive tools[15].

The Geo-Economic Power

The theoretical importance of interdependence is that it is a departure of the liberal concept of complex interdependence. Although the liberal theory is based on the premise that interdependence lowers the levels of conflict through shared costs, interdependence demonstrates that there is not a uniform distribution of the costs[16]. Rather, asymmetrical interdependence opens the chances of dominant actors to externalizing costs to weaker states. This is more in line with realist knowledge about power asymmetry, but it pushes realism further with the inclusion of the aspect of global economic networks as prime locus of power struggle. The notion of geo-economics is especially applicable in this regard. Geo-

[15] Henry Farrell and Abraham L. Newman. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion".

[16] Blackwill and Harris. *War by Other Means: Geoeconomics and Statecraft.*

economics is the application of economic tools to attain geopolitical goals, e.g., trade, finance, and sanctions. The growing dependence of the EU on sanctions and regulatory policies is also indicative of a trend towards geo-economic statecraft in which economic instruments are used strategically to shape the actions of other actors[17]. In comparison to conventional military power, geo-economic instruments enable states to exert control without direct conflict which is particularly appealing in a time of limited military activity.

Interdependence coupled with geo-economics is an integrated approach that can be used to analyze the external behavior of the EU. It underscores the use of the structural strengths in global networks, especially finance, trade, and regulation, by the EU to project power. Simultaneously, it highlights the constraints and precarious nature of such an approach; the possibility of counteraction and systematic disintegration.

Network Power

The European Union can be thought of as a network power within this framework which draws its strength through its centrality in the world economic systems. The concept of power in the EU has been traditionally interpreted in the frames of Normative Power Europe[18] and Market Power Europe[19]. These strategies focused on why the EU can influence the international standards and norms in a non-coercive manner. interdependence theory however implies that these types of power are being increasingly complemented - and even replaced - by coercive economic practices. The centrality of the EU within financial and regulatory networks in the world gives it a strong bargaining power. One such example is the euro which is one of the most prominent reserve currencies in the world. The EU regulatory frameworks (e.g. data protection and competition policy) have an international scope. It has structural benefits helping the EU manipulate the global economies, yet this serves as the ground to coerce. The EU can impose huge costs on specific actors by limiting their access to its market or financial systems.

This has changed especially in the policy of sanctions by the EU which has developed to be one of the most prolific sanction-users, not only as an

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[17] Ibid.

[18] Manners. "Normative Power Europe: A Contradiction in Terms?"

[19] C. Damro. "Market Power Europe."

instrument of diplomacy but also as a means of strategic coercion[20]. The economic sanctions put up in relation to the Russia-Ukraine War explain how the EU has used the centrality of its networks to disconnect Russia to the world financial and trade regimes. Those measures prove the efficiency of interdependence as the EU uses its standing in the global networks to reach geopolitical goals.

Methodology

The current research takes the qualitative research design to explore the use of interdependence as a type of economic statecraft by the EU and to determine its consequences for the modern international system. The qualitative method is especially appropriate in this study because it allows studying the complicated political and economic dynamics that cannot be sufficiently described using a quantitative research approach alone. The study employs a case study design, which is highly accepted in the field of International Relations due to its efficiency in analyzing modern phenomena in real-life situations.

Analysis and Data

The research is based on secondary data sources, such as official documents of the EU policies, sanctions, and the words of major institutions, such as the European Commission and the European Central Bank. Moreover, the information provided by the international organizations, such as the International Monetary Fund (IMF) and the World Bank, is also employed to determine the economic effects of sanctions and their international consequences in general. The dataset is further supplemented by academic literature, policy reports, and expert analyses, to guarantee a triangulated and comprehensive approach to data collection.

Analysis is carried out with the help of qualitative content analysis, which aims at recognizing patterns, themes and mechanisms of interdependence operationalization. This involves the analysis of the application of financial limitations, trade barriers and regulatory measures as power tools. Combining theoretical knowledge and empirical data, the research will help to give a systematic and analytically sound explanation of how the role of the EU in the world order is changing.

[20] Henry Farrell and Abraham L. Newman. "Weaponized Interdependence: How Global Economic Networks Shape State Coercion".

EU Sanctions and Economic Statecraft

Evolution of EU Sanctions Policy

The policy of the sanctions of the European Union has gone through a major change in the last thirty years, turning into the core of its foreign and security policy more of a diplomatic tool. The first sanctions imposed by the EU were small in scale and mostly symbolic, aimed at sending a message of disapproval and assistance to multilateral actions by the United Nations. In the 1990s and the early 2000s, the EU's restrictive actions were generally small, focused, and well-coordinated with the wider international opinion[21]. Nevertheless, this strategy started to change in the wake of the Lisbon Treaty (2009), which reinforced the Common Foreign and Security Policy (CFSP) of the EU as well as enhancing the institutional coordination of action in the external sphere. The world economic crisis and the following geopolitical tensions only hastened this development and the EU took more aggressive economic steps.

In the 2010s, the sanction tool has become an established part of EU foreign policy, being implemented in situations such as Iran or Syria [22].The turning point, however, came with the Russia–Ukraine War. The invasion of Ukraine by Russia led to the application of a series of sanctions by the EU that were more than usual diplomatic signals. Such actions were not just punitive but rather strategically meant to bring about disruption in the economic and financial system of Russia. Consequently, EU sanctions policy has been transformed from a reactionary and normative to a proactive and strategic instrument of statecraft. This shift indicates a larger change of the EU into a more geopolitical stance, in which economic tools are used to attain tangible strategic aims[23].

Interdependence Tools

The modern system of sanctions imposed by the EU is an example of the practice of interdependence, which is the usage of a wide range of economic instruments. These instruments work by taking advantage of the centrality of the EU in the global financial and trade networks, and, thus the EU is able to practice coercive power on those actors of interest.

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[21] Clara Portela. *European Union Sanctions and Foreign Policy: When and Why Do They Work?* (London: Routledge, 2010).

[22] D. Esfandiary. "Assessing the European Union's Sanctions Policy: Iran as a Case Study" (2013). https://www.sipri.org/sites/default/files/EUNPC_no-34.pdf.

[23] Biscop. *European Strategy in the 21st Century.*

Trade restrictions and export controls

Another important aspect of the EU economic statecraft is trade restrictions. The EU also enforced widespread export restrictions on dual-use goods, advanced technologies, and industrial parts that are important to the Russian military and technological capacities. As of 2024, EU sanctions applied to almost half of the EU exports to Russia and limited imports in coal, steel and luxury goods[24]. These limitations have had an economic impact that can be measured. The availability of high-tech imports to Russia also reduced dramatically, which led to the disruption of its military system and production. However, Moscow has successfully rerouting its supplies to much more needed countries to compensate its trade deficit with Europe[25]. This shows how the EU has been able to use its position in the global supply chains to cause structural weaknesses in targeted economies.

Energy decoupling

The strategic break with Russian energy may be the most significant aspect of EU sanctions. Until 2022, Russia supplied about 40% of natural gas and 27% of oil that the EU imported[26]. Such dependence had early constrained the readiness of the EU to sanction energy. Nevertheless, after the invasion of Ukraine, the EU implemented a set of actions that would help decrease this dependence, such as the REPowerEU plan. Rapid diversification of energy sources has seen Russian gas imports into the EU decrease to less than 15% by 2023. Although this switch resulted in enormous short-term expenses to the economies of the European region, it also helped decrease the leverage of Russia against the EU.[27] Simultaneously, it demonstrates how interdependence can be reorganized to reduce weaknesses and increase strategic independence.

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[24] S. Paudel. "Sanctions as Policy Instruments: Case of EU Sanctions on Russia (2022-2025)." August 2025. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5885542.

[25] International Monetary Fund (IMF). "World Economic Outlook: A Rocky Recovery." 2023. https://www.imf.org/-/media/files/research/commodityprices/weospecialfeature/csfapril2023.pdf.

[26] Eurostat. "EU Imports of Energy Products - Recent Developments." 2021. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Energy_statistics_-_an_overview.

[27] European Commission, (2023). https://energy.ec.europa.eu/topics/energy-security/security-gas-supply_en.

Importance of Key Institutions

A complicated institutional framework with several actors makes the implementation of EU sanctions easier. The European Commission is at the center in formulating, coordinating, and implementing sanctions policies. It oversees compliance, suggests new measures, and maintains consistency among member states. The fact that the Commission can serve as a supranational authority promotes the strength of EU sanctions by minimizing the failure of coordination.

The European central bank is also instrumental especially in the financial arena. The ECB helps to enforce economic sanctions and stabilize the financial system of the EU by controlling financial institutions and managing monetary policy in the eurozone. Its activities make sure that the actions taken do not compromise internal economic stability thus making the EU to maintain a long economic pressure on the target states. Over 13 sanctions packages have been imposed on a broad spectrum of sectors since February 2022, such as finance, energy, defense, and technology.[28] These actions have been taken closely in liaison with major partners especially the NATO and the United States, which indicates a high level of transatlantic alignment.

Sanctions Packages and Co-ordination

The sanctions regime of the EU has been increasing steadily with a new package of sanctions. Over 2,400 individuals and entities were sanctioned by 2024, including political figures, military officials, and large corporations[29]. The cooperation with the United States has been especially considerable, as both actors have focused on the same areas and institutions, thus enhancing the effectiveness of sanctions. Such a coordinated measure has contributed to the effectiveness of economic coercion by reducing the possibilities of avoiding total economic pressure on Russia. It is also an indication of EU policy being incorporated in a bigger Western plan of isolating Russia both economically and politically.

Key Dynamics

Politics of energy and dependency

One of the key aspects of the conflict has been energy. Until 2022, Russia was a major energy supplier, which provided it with considerable leverage

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[28] https://www.ecb.europa.eu/ecb/sanctions/html/index.en.html.

[29] "EU Sanctions Data on Russia", *Reuters* (Compiled Reports), 2024.

over the EU. Nevertheless, the diversification of the energy sources in the EU has been so fast that this dependency has been minimized and has turned into a strategic resource. Meanwhile, this shift has caused higher prices of energy and inflation in Europe, which underscores the economic cost of sanctions[30].

Isolation of Russia

The monetary aspect of sanctions has been especially effective. The isolation of Russia by the world financial systems and the freezing of the foreign reserve have limited its options on how to stabilize its currency and fund its war effort. Though Russia has partially been able to adapt to other mechanisms, including more trading with China and India, its economy has been characterized by severe shrinking and unpredictability.

Effects on International Markets

There have also been far reaching global effects of the sanctions by the EU. Energy and food disruption has also led to the increase of prices and economic instability especially in the developing nations. For example, in 2022, the world wheat prices rose by more than 30% because of the export problems of Russia and Ukraine[31]. These impacts bring to light the interdependence of the global economy and the unforeseen effects of economic coercion.

The reaction of the EU to the war in Russia against Ukraine shows a core paradox of interdependence that opens up the vulnerabilities but also offers leverage opportunities. The early reliance on Russian energy constrained the policy choices of the EU, yet it was positioned centrally in both financial and trade networks, which allowed it to inflict substantial costs on Russia.

In this regard, the dependency has been turned into power. Nevertheless, this is an expensive plan. This economic coercion has increased the breakdown of the global order at a faster rate, promoted the growth of alternative systems, and cast doubt on the viability of the liberal economic

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[30] International Energy Agency (IEA). "Europe's Energy Crisis and Policy Responses." 2023. https://www.iea.org.

[31] "What explains high global wheat prices?" (June 2023). https://www.networkideas.org/2023/06/27/high-global-wheat-prices/.

system. Thus, not only do the actions of the EU indicate the current power relations, but they also lead to their change.

Global Order Implications

The growing dependence of the European Union on interdependence has far-reaching consequences to the form, conventions, and equilibrium of the modern international order. Although these steps have boosted the EU in its ability to become a geopolitical actor, they have also helped create a gradual change of the liberal international system, and its fragmentation.

Fragmentation of globalization

Fragmentation of globalization is one of the most important impacts of interdependence. The liberal international order was based on the historical principle of open market, free trade, and the depoliticization of the economic exchange. Nonetheless, the growing application of sanctions, export controls, and financial restrictions has erased the borderline between economic and security realms[32].

An example of this change is the sanctions by the EU against Russia. The EU has been able to politicize economic interdependence by limiting access to financial systems, trade networks, and even technological goods. This has predetermined a restructuring of the global economic relationships, whereby states attempt to minimize their susceptibility to coercive pressures. Because of that, globalization is not marked by smooth integration but selective decoupling and strategic re-alignment [33].

Emergence of rival economic blocks

The interdependence has enhanced the development of rival economic blocs in the international system. With the support of the United States, the EU has successfully built a Western economic bloc, and other players, especially China and Russia, are looking towards alternative models of collaboration. The dynamic is indicative of a wider shift to multipolarity, where the world economic governance is no longer monopolized by a particular group of institutions or norms. Rather, parallel systems are becoming a reality in the form of alternative payment systems, regional trade agreements, and diversified supply chains. As an example, the attempts of China to enlarge the Cross-Border Interbank Payment System

32 Farrell & Newman, "Weaponized Interdependence" (2019).
33 "The Economic Consequences of the War in Ukraine." (2022).

(CIPS) and to advance the globalization of the yuan indicate an attempt to diminish the use of Western-controlled financial systems.[34]

In this regard, economic coercion by the EU helps to build up geopolitical alignments, strengthening the division within the global system. Although these tactics can bring about strategic short-term gains, they are likely to cause structural fragmentation that is difficult to eradicate in the long run.

Global South and crisis of trust

The effects of interdependence are especially acute in relation to the Global South countries, such as Pakistan. These states are frequently collaterally impacted by sanctions regimes, supply chain disturbances, and financial unsteadiness, even when they are not an immediate part of geopolitical disputes.

The economic instability of developing nations due to the impact of the Russia-Ukraine war on global energy and food markets caused major economic changes in the form of increased inflation, currency devaluation, and food insecurity[35]. These spillovers indicate the asymmetric effects of economic coercion in which poorer economies have to pay the disproportionate price.

In addition, the use of selective sanctions has helped to create an increasing crisis of confidence in Western-dominated institutions. In the eyes of the Global South, the application of economic sanctions as geopolitical instruments poses the issue of double standards, exclusion, and politicization of the global governance[36]. This loss of trust compromises the legitimacy of the liberal international order and makes it harder to keep cooperating with other countries on a multilateral basis.

De-dollarization and systemic alternatives

The other important implication of interdependence is the move towards de-dollarization and the creation of alternative financial systems. The

[34] Paola Subacchi. *The Cost of Free Money:How Unleashed Central Banks are Undermining Capitalism* (Yale University Press, 2020).

[35] “What explains high global wheat prices?” (June 2023).

[36] C. Sabatini & L. Lysard. “Understanding and improving sanctions today” (July 2025). https://www.chathamhouse.org/2025/07/understanding-and-improving-sanctions-today/introduction-and-context-why-its-important.

freezing of Russian central bank reserves and the non-admission of the financial institutions to international networks have become a wake-up call to most states and the vulnerabilities of relying on the systems controlled by the West.[37]

Countries have responded by increasingly looking into ways of minimizing exposure to such vulnerabilities. They consist of bilateral currency accords, regional financial accords, and the implementation of digital currencies. Although such efforts still are not of large scale, it is an indicator of a wider shift of diversification and resilience against economic coercion. [38]

Altogether, these trends are indicative of the fact that the global financial system is increasingly decentralizing and disputed. Although this can lessen the usefulness of interdependence over the long-term, it is also creating new uncertainties and complications to the international order.

Discussion and Conclusion

The use of interdependence by the European Union brings up basic challenges to the sustainability, legitimacy, and the long-term implications of economic statecraft. Even though the steps taken by the EU have proven that it is able to perform the role of a geopolitical player, it also expose the underlying tensions and contradictions which questioned its conventional identity and its strategic cohesiveness. A key question is whether economic coercion can be employed simultaneously with the EU being a normative power, which is based on the universal principles of human right, democratic norms, shared values and inter-governmental institutional governance. EU states use hard power under the umbrella of NATO but coercion to influence is not the part of its foreign policy. Nevertheless, the growing dependence on sanctions and economic limits implies a transition in perceiving power in a more realist perspective where strategic interests are the main priority over normative commitments.[39]

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[37] Farrell & Newman, Weaponized Interdependence (2019).

[38] Tahir Abbas, Ghulam Kibria *et al*. "De-dollarization of the Global Economy: Implications for U.S. Hegemony." *Qlantic Journal of Social Sciences* 6, no. 1 (2025): 32-40. https://doi.org/10.55737/qjss.vi-i.25259.

[39] Tajudeen Olajide Ajao. "The European Union's Dilemma: Balancing Normative Power with Hard Power," *International Journal of Social Science Research and Review* 7, no.6 (2024): 248-259. https://doi.org/10.47814/ijssrr.v7i6.2093.

This change brings into question the credibility and legitimacy of the EU. The discriminatory nature of the use of sanctions, which are imposed on certain actors, while others are ignored, may be seen as inconsistent and politically-oriented. These perceptions are especially strong in the Global South, where past experiences of inequality and marginalization inform the attitude towards Western-dominated institutions[40]. Consequently, the moves made by the EU will threaten to de-legitimize its soft power and erode its norm-setter capabilities in world governance.

Interdependence as a strategy is another critical problem since it is not sustainable. Economic coercion may work in the short-run but when used repeatedly, the strategy may trigger unforeseen effects, such as the collapse of the same networks which make it possible. States might decrease the efficiency of sanctions and other coercive actions in the long run as they strive to decrease their reliance on centralized systems. Moreover, as the economic instruments are getting more incorporated in the geopolitical strategies, it brought up significant normative concerns regarding the future of world governance and mutual cooperation in the growing fragmented world.

This paper has presented the thesis that interdependence by the European Union is a major change in its position in the international system. The EU has been shifting towards economic statecraft as an instrument towards attaining geopolitical goals beyond its traditional role as a normative and regulative player. The EU has shown its ability to take advantage of its central role in the world economic systems through the strategic application of sanctions, financial limitations, and trade control especially following the Russia-Ukraine War.

Nevertheless, the modern international system has witnessed interdependence as an advantage to the EU in terms of its strategic capabilities, it is also a factor contributing to the disunity of globalization, the formation of rival economic blocs, and degradation of trust in global governance frameworks. These dynamics are a larger trend of a more conflictual and multipolar world, where economic interdependence is becoming more a matter of power politics than of competition principles.

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[40] C. Hasselbach. "Are Western double standards undermining the global order?" *DW*, September 21, 2024.

Finally, the changing approach of the EU underscores the contradiction of interdependence in the 21st century: the networks that help one to cooperate may also be utilized as a form of coercion. In this way, the future of the international order will rely on the way states will negotiate the tensions between power, interdependence, and legitimacy in the more complex global environment. Since the EU is aware of the shortcomings of interdependence as well, it must seek avenues of balancing economic security with openness. This involves diversification of supply chains without breaking vows to work together on a global basis.