

10.21



ISSUE BRIEF

The Calculus of International Economic Pressure: What Makes Sanctions Work?

Niha Satyaprakash



SPRF.IN

TABLE OF CONTENTS

1. ABSTRACT	03
2. WHAT ARE SANCTIONS?	04
3. SANCTIONS: A HISTORICAL OVERVIEW	05
• DIPLOMATIC RELATIONSHIP BETWEEN THE SANCTIONING COUNTRY AND THE TARGET COUNTRY	06
• NATURE OF GOVERNANCE WITHIN THE TARGET COUNTRY	07
• COOPERATION FROM OTHER COUNTRIES	07
• TYPE OF POLICY CHANGE PURSUED	08
• DESIGN OF THE SANCTION	08
4. CONCLUSION	09
5. BIBLIOGRAPHY	10

If you have any suggestions, or would like to contribute, please write to us at contact@sprf.in

© Social and Political Research Foundation™

October 2021

ISSUE BRIEF

The Calculus of International Economic Pressure: What Makes Sanctions Work?

Niha Satyaprakash

Through a historical analysis of the use of sanctions, this issue brief identifies the political variables that may promote the efficacy of sanctions.

ABSTRACT

The rising use of economic sanctions as a negotiation tool has shown a decline in military aggression and warfare between rival countries. However, the evidence regarding sanctions' effectiveness in obtaining political concessions is inconclusive since sanctions apply to vastly different political and economic situations. Through a historical analysis of the use of sanctions, this issue brief identifies the political variables that may promote the efficacy of sanctions. It further asserts that even the most effective sanctions, however, have devastating effects on the living standards of ordinary people. Hence, caution is necessary while applying sanctions.

WHAT ARE SANCTIONS?

Today, most countries store sanctions as a weapon in their foreign policy arsenal. Sanctions are best defined as the introduction of penalties employed against a state or other entity with the purpose of altering its behaviour (Haass 1998). As a lower-cost and lower-risk substitute to physical warfare, sanctions allow countries or multilateral institutions to coerce, deter, punish or shame entities that have violated international norms of behaviour, or simply aggravated the sanctioning party (Masters 2019).

Sanctions can take various forms, ranging from diplomatic embargos to sanctions on the environment¹. The most commonly used are economic sanctions (Masters 2019), which include measures such as arms and related materials embargo, asset freezes, export and import restrictions, financial prohibitions, technical assistance restrictions.

The efficacy of economic sanctions, hereafter referred to as simply 'sanctions', as a policy tool is widely debated. Critics argue that in today's globalised economy, sanctions prove highly costly for the country that imposes them (The Week Staff 2021; The Economist 2020). In the case of sanctions against large countries like Russia or China, countries lose access to thriving markets and bear the brunt of retaliative measures².

Many like Peksen (2019) argue that sanctions are often unsuccessful in changing the targeted country's leaders' behavior and instead negatively impacts civilians. Proponents of sanctions argue that this short term, misplaced deprivation is justified if the desired change is affected in the long term. However, authoritarian leaders who commit atrocious human rights violations are likely to resist and predict external pressure. Even if faced with anti-state protests from angered civilians, critics argue that authoritarian leaders are often able to use coercive state apparatus to crush dissent (Haass 1998). With inconclusive evidence, this debate is not likely to have a clear winner.

A large body of economic literature, through the help of rigorous quantitative tools, demonstrates that economic sanctions have dismal success rates (Hufbauer and Schott 1985). However, these studies do not account for cases where the threat of a sanction in itself was successful in obtaining concessions. Such a case seems to indicate that, in principle at least, sanctions have the potential of yielding desirable outcomes. The problem lies in implementation strategies (Drezner 2003).

This warrants an inquiry into the historical conditions leading to sanctions, their subsequent popularity, and consequences. A comprehensive analysis of this political context helps in identifying key features of successfully implemented sanctions.

¹ Sanctions that are placed on parties that break environmental law

² For example, China retaliated to clothing companies' boycotts of Xinjiang cotton with counter-measures against European politicians, diplomats, and a think-tank.

SANCTIONS: A HISTORICAL OVERVIEW

The use of economic or financial pressures to achieve political ends is likely to be as old as trade itself. The first recorded use of sanctions was in 432 BCE when the Athenian Empire banned traders from Megara, a rival city-state (The Economist 2021a). Despite being a long established political tool, Coates (2020) notes that modern concepts of international sanctions only became prominent in the 20th century. Sanctions are now a mechanism to enforce global order through a collective denial of economic access.

Initially, economic warfare was not a tool that prevented violence but rather one that intensified it. This perspective shifted as the world grew more economically interdependent and people realised how powerful sanctions are. After World War I, leaders worldwide agreed on using embargos as an economic weapon to punish aggressors. The League of Nations Covenant institutionalised this, mandating an automatic and collective sanction against any nation that started an aggressive war (Bottelier 2019).

Ethiopian leaders appealed to the League for assistance after Italy invaded the country in 1935. In response, the League imposed crippling sanctions on Italy, to no avail. Not only were Italian troops able to complete their conquest, but the sanctions also drove Italy into the orbit of Nazi Germany (Coates 2020). To that end, the League of Nations' affair with sanctions was far from successful.

Several other developments also occurred during this period. One of the more notable ones being the passing of the Trading with the Enemy Act [TWEA] by the United States of America during World War I. TWEA prevented trade with Germany and also authorised the seizure of German property in the USA. While this did keep a significant amount of money out of Germany's reach, it did not deter the Nazis from territorial conquest. American President, Franklin D Roosevelt, also invoked TWEA after Japan invaded Indonesia in 1941. The government seized all Japanese assets in the USA to coerce Japan into renouncing its territorial conquests. However, this economic aggression only invited retaliation from Japanese hardliners, who deployed military force in response (Coates 2018).

Despite such unsuccessful results, sanctions resumed in the 1960s as a tool to enforce global norms. In 1962, the United Nations [UN] General Assembly voted to recommend an embargo against South Africa, taking cognisance of its brutal apartheid regime. However, this call for sanctions remained voluntary since the United Kingdom and USA prevented the embargo from coming to a vote in the United Nations Security Council [UNSC]. Winning the vote was necessary to make a move against South Africa mandatory. The UK worried about the economic repercussions, in terms of lost trade, of a sanction against South Africa, while the USA's reasons were more political (The World Mind n.d.). Three years later, the UNSC proceeded to impose mandatory sanctions on the British colony of Southern Rhodesia. Although designed to push Ian Smith, the white supremacist Prime Minister, out of office, the sanctions ended up damaging the country's economy and ultimately could not oust Smith from power (ibid.).

Western enthusiasm around sanctions continued well after the 1960s. The years following the fall of the Soviet Union marked a dramatic increase in such coercive measures because the absence of the Soviet veto in the UNSC made it easier to use UN sanctions. In the 1990s, the UN imposed 12 sanctions, as opposed to just two in the previous decade. These included sanctions against Yugoslavia, Angola, Rwanda, Iraq, and others (The World Mind n.d.). This rise in sanctions also stirred proportionate critique about their efficacy, specifically on whether they justified the costs or not.

The 9/11 attacks in 2001 prompted a shift in gears. Sophisticated and powerful financial sanctions replaced comprehensive trade ones. The Treasury Department of the USA drew up increasingly lengthy lists of 'Specially Designated Nationals' [SDNs] and institutions of money laundering concern. Americans were banned, while foreign entities discouraged, from pursuing economic relationships with listed entities (Friedman 2012). Coates (2020) notes that being on one of these lists was an economic death sentence. These financial tools were also institutionalised in USA's domestic laws, allowing future presidents to rely on them as well.

The next notable phase of sanctions came after Donald Trump took office as the President of the United States. Mr Trump's first three years in the Treasury Department saw the addition of 1,070 names a year, on average, to its main sanctions list. In comparison, Barack Obama averaged 533 and George Bush did 435 (The Economist 2020). The sanctions relief expected under the Joe Biden administration did not arrive either. Since Biden took office, he has imposed sweeping sanctions on bigger fishes such as Russia and China (The Economist 2021a).

Even if getting political concessions was the only way to evaluate if sanctions work, their history does not point toward a definite answer. As with most economic tools, assessment of sanctions must occur considering the context of the political situations they are applied in. Several political variables seem to influence the efficacy of sanctions, as discussed below.

Diplomatic relationship between the sanctioning country and the target country

Research suggests that sanctions are more successful in obtaining concessions when the target country is an ally than a rival (Rowat 2014; Piksen 2019). In terms of lost trade and the risk of hampering strategic ties, the cost of not conceding magnifies for allies being penalised. Conversely, economically coercing a rival country is less likely to extract desired results.

This theorisation is best illustrated by comparing the effect of economic sanctions on Iraq and Israel. In 1990, the UNSC imposed multilateral and mandatory sanctions on Iraq following Saddam Hussein's invasion of Kuwait. Despite being subject to one of history's most severe economic sanctions, Iraq refused to surrender any Kuwaiti territory. Any concession it made was only in response to a direct military threat. Conversely, a year later, in 1991, the USA imposed

unilateral sanctions³ on Israel, a famous US ally. The Bush administration refused to grant \$10 billion in loan guarantees unless Israel stopped housing construction in occupied territories of West Bank and Gaza. In August 1992, the Israeli government conceded to the USA's economic pressure.

Drezner (2003) provides a theoretical explanation by arguing that, when threatened to make certain political compromises, non-ally target countries consider the possibility of future conflict while making their decision. In other words, the rival states worry about the long-term implications of conceding. This is because a concession can significantly alter the bargaining position of the countries and the 'sender' of the threat can exploit the material or reputation benefits in a future interaction. On the other hand, allies' expectations of future conflict are negligible, owing to their stable diplomatic relationship. The short-term costs of not conceding will outweigh any long-term concerns, making concession the more feasible outcome.

Nature of governance within the target country

Autocracies and dictatorships resist sanctions more fiercely than functional democracies. The reasoning behind this is intuitive. The institutional constraints placed on a leader influence their ability to resist sanctions. Institutional accountability mechanisms do not constrain an authoritarian leader, who can easily pass on the impact of the sanction to the general public (Allen 2008). Citizens within an autocratic country often have negligible influence on policy decisions and are often unable to exert pressure on their incumbent governments.

A recent report from the United Nations Economic and Social Commission for Western Asia (2020) highlighted the various channels through which the sanctions affect civilians in Syria. It observed that blanket economic sanctions negatively affect the country's economy, diminishing ordinary people's capacity to fulfil basic needs and meet urgent humanitarian concerns. For instance, USA's 'maximum-pressure' sanctions⁴ against Iran crippled ordinary Iranians' living standards while doing little to limit Iran's nuclear capabilities (Congressional Research Service 2021).

In democracies, on the other hand, institutional constraints such as judicial systems, regular elections, public discourse etc., necessitate an adequate response, often in the form of concessions (Allen 2008).

Cooperation from other countries

Unilateral sanctions often prove to be extremely costly for the sanctioning country. These costs are difficult to estimate because they also include opportunities forgone, in terms of lost business or investment due to the

³ Unilateral sanctions are imposed by only one country while multilateral sanctions imposed by one or more countries.

⁴ 'Maximum-pressure' sanctions are defined by sweeping unilateral sanctions. Between 2018 and 2021, the Trump administration imposed more than 1,500 sanctions on Iran or on foreign companies or individuals who did business with Iran.

government halting business with an entire country. This hesitation to invest is often out of fear that the abrupt introduction of sanctions might complicate normal commercial processes (Haass 1998).

For a country like USA, whose currency is central to global capital markets, abusing this privilege through excessive sanctions can, and may, damage its credibility. Consider the case of US sanctions against Iran. Major economies like Russia, China, and even the European Union bloc did not sign the penalties. Drezner (2003) points out that USA's frequent usage of unilateral sanctions could be a problem for the country down the line. Its actions may incentivise big players to find alternatives to the dollar, risking USA's leverage in the global economy.

This also shows that target countries are often able to find alternate sources of supply and financing. Such alternative trading partners cushion the impact of the sanction at best and defeat the purpose of the sanction at worst. It's worth noting that multilateral sanctions deny alternative economic partners to targets, thereby increasing the pressure on the target to concede to the senders' demands (Bapat and Morgan 2009). For civilians, however, this comes at a larger cost as they bear the trickled-down brunt of such economic targeting.

Type of Policy Change Pursued

An ambitious sanction is less likely to succeed. Ambitious sanctions often include destabilisation efforts, political upheaval etc. The success of a sanction depends on the 'transmission mechanism', which is the conversion of economic harm into political change.

A study of 174 sanctions in the 20th century found that they were partially successful in 34% of cases. When the type of policy change pursued is modest, such as a change in domestic legislation or release of a political prisoner, the success rate of sanctions jumps to 50% (Hufbauer et al., 2009). However, destabilisation efforts such as overthrowing a foreign government do not succeed as often.

Political leaders are willing to make significant political concessions only when the economic cost of the sanction is greater than the perceived benefit of political deviance. However, as aforementioned, when the sanction aims to obtain a reasonable concession, it is often more prudent to concede. However, when the sanctions demand a more fundamental change, the political costs outweigh the economic ones. This often leads to a stalemate.

Design of the Sanction

Sanctions that hit indiscriminately were observed to be ineffective. In Iraq's case specifically, the cost of USA and UN sanctions were estimated to be around 48% of GNP. The immense human suffering without any shift in stance from the incumbent political regime called for more focused measures of economic warfare (Brown and Gibson 2014). Academics, such as Cortright and Lopez (2002), have termed such focused economic measures 'smart sanctions'.

Smart sanctions are designed to increase the target regime's costs of noncompliance while avoiding the general suffering that comprehensive sanctions create. Such sanctions include asset freezes, travel bans, and arms embargoes (ibid.). In the 1990s, experts noted that smart sanctions had a much lower success rate than comprehensive trade bans. However, this was because states and international organisations lacked the experience and institutions to successfully implement these measures (Cortright and Lopez 2002).

One of the most notable usages of smart sanctions came after the 9/11 terrorist attacks. The United Nations mandated all 189 member states to freeze the assets and restrict the movement of designated terrorists and their supporters. Unlike traditional sanctions, which work by preventing the transit of goods and freezing accounts, financial sanctions also turn private actors into enforcers (Coates 2020). Then-President, George W. Bush, threatened to bar any foreign bank from doing business in the USA which refused to freeze terrorists' assets (Friedman 2012).

Smart sanctions have also proven to be effective in autocracies and dictatorships. In such countries, oligarchies and businesses often have an undue influence over policy decisions. Hence, smart sanctions are designed to hurt these businesses, which in turn negotiate with political leaders. Ironically, the rampant levels of domestic corruption necessitate the country to concede to external pressures (Beladi and Oladi 2015). The targeted nature of such sanctions also ensures that ordinary citizens do not face any economic suffering.

CONCLUSION

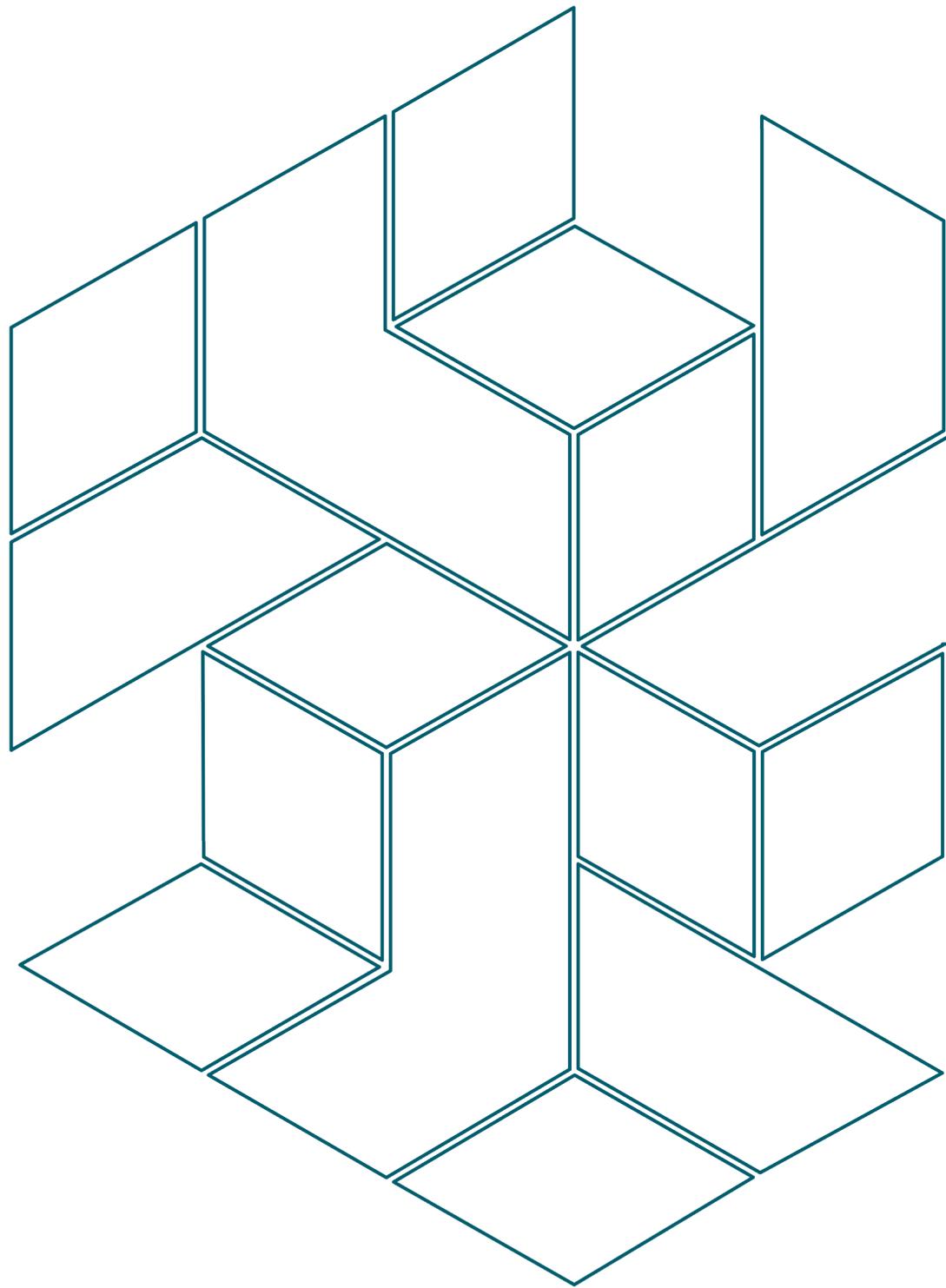
Sanctions have played a formative role in shaping today's global order. The increasing sophistication in the design of most modern sanctions has ensured that they are compatible with the hyper-globalised economy. In the absence of other equally effective tools for negotiation, sanctions are debatably the best alternative available.

However, former American treasury secretary Jack Lew warned that the overuse of sanctions could undermine its effectiveness (The Economist 2021b). A failed sanction may only mean an additional liability in political balance sheets to those at government offices. To millions of others, who have no culpability whatsoever, sanctions have devastating consequences. It then becomes more necessary than ever to exercise caution while issuing sanctions.

BIBLIOGRAPHY

- Allen, Susan Hannah. (2008). "Political Institutions and Constrained Response to Economic Sanctions". *Foreign Policy Analysis* 4(3): 255-274.
- Bapat, Navin A and T. Clifton Morgan Morgan. (2009). "Multilateral Versus Unilateral Sanctions Reconsidered: A Test Using New Data". *International Studies Quarterly* 53(4): 1075-1094.
- Beladi, Hamid and Reza Oladi. (2015). "On smart sanctions". *Economics Letters* 130: 24-27. Accessed 25 July 2021, <https://doi.org/10.1016/j.econlet.2015.02.026>.
- Bottelier, Thomas W. (2019). "The Versailles Treaty Fight". *Origins*, November 2019. Accessed October 2021, <https://origins.osu.edu/milestones/treaty-of-versailles-us-ratification-fight>.
- Brown, Mark Malloch and Harry Gibson. (2014). "Do Sanctions Work?" *Newsweek*, 22 December 2014. Accessed 25 July 2021, <https://www.newsweek.com/do-sanctions-work-293957>.
- Coates, Benjamin A. (2018). "The Secret Life of Statutes: A Century of the Trading with the Enemy Act". *Modern American History* 1(2): 151-172.
- Coates, Benjamin. (2020). "A Century of Sanctions". *Origins* 13(4). Accessed 25 July 2021, <https://origins.osu.edu/article/economic-sanctions-history-trump-global>.
- Congressional Research Service. (2021). *Iran Sanctions*. Washington, United States of America: Federation of American Scientists. Accessed 25 July 2021, <https://fas.org/sgp/crs/mideast/RS20871.pdf>.
- Cortright, David and George A. Lopez. (ed.). (2002). *Smart Sanctions: Targeting Economic Statecraft*. Plymouth, United Kingdom: Rowman & Littlefield Publishers.
- The Week Staff. (2021). "Do economic sanctions actually lead to change?". *The Week*, 2 February 2021. Accessed 3 August 2021, <https://www.theweek.co.uk/88349/fact-check-do-economic-sanctions-actually-work>.
- Drezner, Daniel W. (2003). "How Smart are Smart Sanctions?". *International Studies Review* 5(1): 107-110.
- Friedman, Uri. (2012). "Smart Sanctions: A Short History". *Foreign Policy*, 23 April 2012. Accessed 25 July 2021, <https://foreignpolicy.com/2012/04/23/smart-sanctions-a-short-history/>.
- Haass, Richard N. (1998). "Economic Sanctions". *Brookings*, 9 September 1998. Accessed 25 July 2021, <https://www.brookings.edu/testimonies/economic-sanctions/>.

- Hufbauer, Gary Clyde and Schott, Jeffrey J. (1985). "Economic Sanctions and U. S. Foreign Policy". *PS* 18(4): 727-735.
- Hufbauer, Gary Claude, Jeffrey Schott, Kimberly Ann Elliott, and Barbara Oegg. (2009). *Economic Sanctions Reconsidered*. Washington, United States of America: Peterson Institute for International Economics.
- Peksen, Dursun. (2019). "When Do Imposed Economic Sanctions Work? A Critical Review of the Sanctions Effectiveness Literature". *Defence and Peace Economics* 30(6): 635-647.
- The World Mind. (n.d.). "War By Another Name: The Failure of Economic Statecraft". Accessed 26 July 2021, <https://www.theworldmind.org/home/2020/12/18/war-by-another-name-the-failure-of-economic-statecraft>.
- Masters, Jonathan. (2019). "What Are Economic Sanctions?". *Council on Foreign Relations*, 12 August 2019. Accessed 25 July 2021, <https://www.cfr.org/backgrounder/what-are-economic-sanctions>.
- Rowat, Colin. (2014). "Explainer: do sanctions work?". *The Conversation*, 31 March 2014. Accessed 25 July 2021, <https://theconversation.com/explainer-do-sanctions-work-24431>.
- The Economist. (2020). "Donald Trump's sanctions in the Middle East have had little effect". *The Economist*, 26 November 2020. Accessed 3 August 2021, <https://www.economist.com/middle-east-and-africa/2020/11/26/donald-trumps-sanctions-in-the-middle-east-have-had-little-effect>.
- The Economist. (2021a). "Sanctions are now a central tool of governments' foreign policy". *The Economist*, 23 April 2021. Accessed 25 July 2021, <https://www.economist.com/finance-and-economics/2021/04/22/sanctions-are-now-a-central-tool-of-governments-foreign-policy>.
- The Economist. (2021b). "Joe Biden seeks to clobber Russia with new economic sanctions". *The Economist*, 22 April 2021. Accessed 25 July 2021, <https://www.economist.com/united-states/2021/04/15/joe-biden-seeks-to-clobber-russia-with-new-economic-sanctions>.
- United Nations Economic and Social Commission for Western Asia. (2020). *Syria At War*. Beirut, Lebanon: United Nations Economic and Social Commission for Western Asia. Accessed 25 July 2021, <https://publications.unescwa.org/projects/saw/sdgs/pdf/en/Syria-at-War-8-years-on-Report-Final.pdf>.



SPRF.IN