CHAPTER VI
THE COST-EFFECTIVENESS OF ECONOMIC SANCTIONS

The increasing interdependence of world economy and ever more costly nature of war, that the potential use of economic penalties as a weapon of statecraft has gained recognition as a serious alternative to the use of military force.

Asymmetries in economic power can affect the desirability of any threat strategy. If the target of a threat has no capacity to retaliate effectively, then the damage from an unsuccessful threat of sanctions cannot exceed the damage done by the sanction itself when imposed. On average, smaller countries are likely to have fewer options for meaningful retaliation, because their smaller market shares reduce their ability to influence the price of exports from other countries. Likewise, threats of retaliation by smaller countries are somewhat less likely to be credible, because the burden of trade restrictions will fall primarily on their domestic consumers rather than their foreign suppliers.

By the same reasoning, large countries are more likely
to influence the behaviour of other nations with threat strategies. Their larger market shares enable them to affect the export prices of their trading partners to a greater extent through new trade restrictions thus, they can impose greater damage on the target of sanctions. Indeed, when a large country employs trade sanctions, its economy, need not suffer at all, as an appropriate tariff can conceivably increase economic welfare, of course, if interest group politics determines the choice of the sanction rather than a thoughtful economic analysis, then the economic cost of the sanction to the large country can be increased considerably.

6.1 The Goals of Economic Sanctions

Despite the increased use of economic sanctions as a policy instrument, debate continues regarding the incapability of sanctions to achieve significant result within the time dimension associated with foreign policy crises or how far this policy instrument is successful in changing the behaviour of the target.

But, none denying the fact that they are an alternative to the use of force.
Several factors play a role behind the imposition of economic sanctions: 1) there may not be any other policy option; 2) pressure from the international community to punish the target; 3) to uphold an international norm; 4) to deter worse behaviour by demonstrating the will to escalate to a stronger response. As nations have limited means to influence each others behaviour on the international arena and sanctions being a middle ground between diplomacy and military action, are often selected as a means to pressurize the target nation.

6.1.1 Instrumental and Symbolic

Sanctions have both instrumental and symbolic goals, making it difficult to analyze the effectiveness of any particular action in isolation, even when the policy makers state publicly that their goal is to make the target retreat from objectionable behaviour. Sometimes they may overstate what sanctions can do in order to sell the use of sanctions domestically or to stake but a strong bargaining position vis-a-vis the target nation. ¹ Although they may believe to

achieve only symbolic goals.

But in a chaotic international environment, symbolic signalling is vital. The League of Nations sanctions against Italy in 1935 showed how powerful sanctions can be particularly when they send wrong messages. The resultant dispute between Britain and France omitted the key items as oil, coal and steel from the embargo that sent a signal lacking disapproval which they had intended.

The grain embargo imposed by President Carter on Soviet Union for its invasion of Afghanistan in 1979 was commonly believed to be a failure as the Soviet Union did not withdraw the forces by the time President Reagan lifted the embargo. Moreover many analysts pointed out that sanctions had very little effect because Soviets found a new friend in Argentina. But President Carter indicated the imposition of sanctions to demonstrate US resolve and to deter Soviets from further aggression in more strategic areas as Iran, Pakistan and the Persian Gulf regions. So the sanctions could be viewed as a vital symbolic response and consequentially, this concept of failure can be seen as stemming from the belief that the achievement of instrumental goal is the sole criteria for success.
6.2 Factors for Effectiveness

6.2.1 Non-Economic Factors

Sometimes the goals of sanctions vary over time. When sanctions were first imposed against Iraq they were ostensibly designed to compel Saddam Hussein to withdraw from Kuwait and impede the Iraqi army's readiness for war. Later they were justified as an incentive to make Iraq comply with U.N. resolutions ending the Gulf war, which called for routine U.S. inspection of Iraqi weapons facilities and the destruction of weapons-manufacturing capabilities. Later the Bush administration added that sanctions would not be removed until Hussein was ousted from power although Clinton administration seemed to be backing away from this latter requirement.

Compliance is a difficult objective to achieve with sanctions as Iraq endured the most universal comprehensive sanctions in modern history, which were enforced by a tight naval blockade and had a severe effect on that country's economy. As in most cases, the target government directs the pain of severe sanctions away from its supporters to the opponents. Iraq being no exception, Saddam was able to
channel the hardships of sanctions away from the security forces that kept him in power. Consequently, sanctions failed to achieve their goals.

The results in the Iraqi case validates Johan Galtung's observation that sanctions with severe economic effects could be rendered ineffective by non-economic factors.2

Thus, Galtung has shown that the political success of sanctions is not closely associated with the amount of economic damage they cause. If this is true, even if strong sanctions can be negated by the political cohesion they endanger the target nation. Can an economically weak effects ever succeed politically? Sanctions against South Africa demonstrate that they can.3

In the South African case, reduced lending investment and the threat of more sanctions chilled business confidence


and induced a long-term drag on the South African economy. Moreover, the South African whites who considered themselves as Europeans were startled when shunned by the West. The South African case showed that sanctions need not be necessarily devastating to achieve their desired psychological effect, e.g., banning sports crazy South Africa from international sporting events had particularly potent negative impact on the psyche of South African whites.

6.2.2 Economic Factors

Another assumption about the effectiveness of economic sanctions is that there is a co-relation between economic conditions and political behaviour, i.e., the idea that the increasing economic hardships would motivate the Serbian citizens to protest Milosevic's policies in Bosnia and even overthrow him. In reality, the sanctions regime made it absolutely easier for Milosevic to rule in isolation by forbidding external assistance to support an independent media, cutting the resources of the opposition forces, making newspapers prohibitively expensive and effectively stopping the flow of information from outside. Moreover, for many apolitical serbs who might have otherwise opposed Milosevic sanctions violated their sense of fair play be-
cause other Yugoslavs were also guilty of the charges that were levied. Essentially, the use of sanctions assumed that there would be democratic pressure from below to change the regime or its policies. But sanctions actually reinforced the governing myth of Milosevic as martyr to the nation, a national myth that stressed survival against external foes and the conviction that Serbia cannot be secure without its own state and military resources which broadened Milosevic's political base among criminals, mafia and the police.

So in Serbia, sanctions reinforced the power of the extreme nationalists which made many analysts to believe that the Western sanctions were based on false assumption that economic pressure will convince Serbian President Slobodan Milosevic to seek peace when in fact his political life may depend on a continuation of war.⁴

What is particularly striking is that sanctions have been extremely effective in eroding the technological base of the Serbian economy. It would be very difficult for Zastava, an automobile company to regain their position on world markets without large-scale western assistance. The

future of Serbia's electronics industry is even more gloomy. Serbian engineering firms have been damaged less by the oil embargo than by the rupture of long-standing relationships with foreign partners who were indispensable to boosting the industry's lagging technological capability and competitiveness. Moreover, the ban on imports of spare parts and equipment may cause irreparable damage to Serbia's power industry.

Consequently, the sanctions have been effective in undermining Serbia's technological base and clouding its medium and long-term economic prospects than in halting aggression. Even if no further damage is inflicted, it is clear that the Serbian economy will be able to recover only with the help of massive injections of foreign aid.

Economic sanctions are the most damaging weapons in the West's political arsenal. The Serbs have so far demonstrated great obstinacy in the face of threats of western intervention and economic blockade. Sanctions, therefore, are by no means a guaranteed way of terminating the war in Bosnia and Herzegovina.

But diminishing sanctions as ineffective does not do
justice to the historical record. According to a 1990 study by Gary C. Hufbauer, J.J. Schott and Kimberly Ann Elliot, the success rate depends on a host of factors. In 52% of the cases, sanctions were successful in destabilization cases. Moreover, sanctions involving modest goals such as improving human rights, preventing nuclear proliferation, discouraging support for terrorism and bringing about the release of political prisoners, succeeded many a times (see Appendices I and II).

The Hufbauer study has found that sanctions tend to be most effective when the goal is relatively modest, when the target country is much smaller than the country imposing sanctions, when the target is an ally and close trading partner of the sanctioning nation, when the sanctions are imposed quickly and decisively to maximize impact, when the imposing nation avoids high cost to itself; and when sanctions are carefully tailored to the objective sought.5

Multilateral sanctions can have enhanced political effects but not necessarily because of their greater economic pressure. Despite the recent examples of severe

multilateral sanctions against Iraq and Serbia, it is difficult to get many countries to agree to impose harsh, comprehensive measures because of their economic interests. It is rather easier to win multilateral support for selective sanctions which are generally targeted at the vulnerable sectors of the target's economy that eventually leads to an overestimation of effects by the political leaders, thus may tend to succeed.

6.3 Effectiveness of Economic Sanctions

Despite significant failures sanctions have been successful in some situations. For example, U.S. sanctions helped topple Haiti's Duvalier in 1986, Uganda's Idi Amin in 1979, Chile's Allende in 1973, Dominican Republic's Trujillo in 1961. The threat of U.S. sanctions helped discourage South Korea from buying a nuclear reprocessing plant from France in 1975-76. Although, the evidence is still unclear, comprehensive U.S. sanctions probably helped free the hostages from Iran in 1981 and U.S. and allied controls on high-technology exports to the Soviet Union may substantially impair Soviet military potential.

The fact that the South African government's change in
policy direction occurred soon after the imposition of sanctions, by a large number of South Africa's major trading partners, does not mean that those sanctions caused the policy shift. Although there was abundant evidence of economic vulnerability of South Africa to international pressure. The more specific aims described by the countries that took action against South Africa, have achieved a large measure of success - the unbanning of African National Congress (ANC) and other organizations, the release of political prisoners, the repeal of the major apartheid legislation, the conference for a Democratic South Africa (CODESA) negotiations for a transition to majority rule can be directly linked to the National Party Government's final recognition of the need for an end to international violation in order to revive the economy.

In the case of Iraq although economic sanctions did account for the economy to suffer, recent news release has shown that Pakistan has become an instrument for the distribution of Iraqi oil in violation of U.N. embargo and sanctions. There are a host of factors responsible for the effectiveness of economic sanctions, one of them is time, which helps to accommodate the losses incurred in the past
that in turn leads to inefficacy of sanctions.\textsuperscript{6}

The United Nations sanctions that aimed at restoring Haiti's democratically elected President Aristide, proved to be a failure because of the reliable supplies of gasoline and diesel from the neighbouring Dominican Republic which shares the island of Hispanola with Haiti.

Though off-setting assistance can cause sanctions to fail but its absence does not guarantee success. In Cold War politics, with one of the superpowers aiding its rival's target was very common practice for which the best example is Fidel Castro's Cuba. The Soviet Union's subsidies to Cuba over the thirty years of U.S. embargo are estimated in billions of dollars. Sensing that Castro might be vulnerable after the collapse of the Soviet Union and the subsequent suspension of Soviet subsidies, Congress moved to tighten the embargo but as to the present day, Castro remains in power.

Although in the post cold war, the international political mood has swung towards the support for a strong United Nations combined with the Security Council freed of Cold War

vetos, encouraged the use of economic sanctions but interna-
tionally imposed and enforced sanctions proved to be highly
complex for all participants which had effects on both
international and domestic politics.

Sanctions are not a routined political interaction but
rather an extraordinary instrument to be adopted only after
a careful study of all circumstances. Neither in the case
of Iraq nor Yugoslavia did the introduction of sanctions led
to the fulfilment of the goals articulated by the interna-
tional community eventhough they were able to undermine
vital areas of target country's economies.

The indiscriminate introduction of sanctions may help
to consolidate or even strengthen the power of the target
nation's leader. Simultaneously, an embargo on certain
types of deliveries may help to prevent the escalation of
conflict as was in the case of Yugoslavia. The actual
effects of embargo against Egypt since 1979 were significant
with respect to aid flows and trade. In the areas of
tourism and migration, only temporary effects could be
discerned, although the sanctions reduced the desire of Arab
tourists to visit Egypt. Moreover, one may notice an in-
crease in Egyptian trade with Saudi Arabia the latter did
not offer any financial help which one could read as a reflection of the latter's reluctance to evade an Arab embargo and to act against the decision of the Arab Summit.7

6.4 Functions of Economic Sanctions

The consideration of international sanctions not only raises questions about the standards of international behaviour as well as the practicality of collective coercion by a variety of means. But there is need to weigh the costs and benefits before embarking on programmes of international economic sanctions.

There is no accepted functioning system of law and order between States and self-help is prevalent. Inevitably, there is recourse to multilateral or unilateral coercion or retaliation in the event of an international crisis usually without any authorization by an international body. "Aggression" can be presented as "self-defence", intervention justified as assistance to a friendly government. Unilateral responses are often more appropriately described as retaliatory measures of self-help.

The sanctions would succeed in bringing to an end the offending policy of the target, i.e., they would put things right back to where they were or forward to where they ought to be. Secondly, and more probably, sanctions will make the continuation of the offending policy more costly for the target. They will hurt and become a kind of international fine which has to be paid for misbehaviour, they may perhaps limit or constrain further adventures. The cost to the target is reckoned as a gain to the sanctioning states. Thirdly, benefits can sometimes be indirectly linked to impact. The sanctions demonstrate publicly official disapproval of what is going on.

But there are demonstrations and symbolic functions which sanctions perform:

1) the government of the target gets the message of the penalties and reasons for them. Even if the offending policy is not abandoned further act of the same kind can be deterred;

2) the groups in the sanctioning states who wanted action are pleased; and

3) to the world at large, sanctions can demonstrate that a
principle is being upheld perhaps at some cost to the upholders.

6.5 Costs of Economic Sanctions

The costs of sanctions are inescapable. As far as the target associated costs are concerned, some impact and hardships are to be expected. As sanctions can reduce or eliminate trade in particular commodities or across the board, they can limit or block capital flows, tourism, communications, aid, the transfer of technology - all of which can have unwelcome, cumulative and possible serious effects for the economy of the target and the lives of some or all of its people.

But experience has shown how readily economic sanctions can be evaded and their effects minimized or circumvented. Moreover, the target itself will take defensive measures: by doing without, by developing alternatives, by fighting back with countermeasures. It can improve self-sufficiency, stockpile scarce commodities, encourage diversification of production, encourage smuggling and the rerouting of trade through middlemen, cloaking all transactions in secrecy. Its government can also mobilize patriotism internally and develop new friends and linkages externally.
Without a physical blockade or full participation in sanctions by those who fully control a strategic resource, it seems that trade boycotts and embargoes do not work to change policy. Indeed, there is a danger that they may harden the attitude of the target not soften it. This may be true to Iran, it seems also to had been true to Italy, Cuba and white attitudes in Rhodesia. And the shifts in emphasis or "tilts away from Israel towards the Arabs, is discernible in some countries after the 1973-74 oil embargoes which might support arguments that economic coercion works, did not involve basic changes in national policy such as would be entailed by giving up apartheid. A set of cost is borne by the sanctioning states themselves. Economic relationships are two-way and the sanctioning group will suffer corresponding losses. Export markets may be forfeit-ed, vital imports and interest on investments cut-off. Established and mutually beneficial links can be permanently severed, countermeasures imposed can bring additional hardship.

The third set of costs comes with the spillover effects of economic sanctions to third countries, which have geographical or other important links with the target. It may
be incumbent on more prosperous countries to help which means further costs for them directly or through contribution to international agencies and the help does not necessarily fully offset the sacrifice/cost to the third states. Finally, there can be harmful "chain" on the whole international economic system especially if the target is in some way an important component of it: as buyer, supplier or investor. There will be disruption of trade and investment, blocking of channels of exchange, emphasis on self-sufficiency, loss of certainty, loss of confidence.

Prediction of the intensity of any or all of these costs may be difficult but it is unrealistic not to take account of them even if the cause still appears to justify their being incurred.

In the 1990s, changes in the international economy have reduced the number of targets likely to succumb to unilateral economic coercion. Many potential targets now have developed strong and diversified economies that will never again be as vulnerable as they once were. Even relatively weak economies are more secure today as a result of the growth of world trade and the rapid dispersion of technology which means that U.S. exports can be replaced at little cost
and alternatives even to the large U.S. import market, can usually be found. Moreover, the collapse of the Soviet Union provides a geographical benefit that partially makes up for the negative economic trends that have made unilateral sanctions less potent.

6.6 Critical Assessment

But the "success" of an economic sanctions from the sender country's viewpoint has two parts: the extent to which the policy outcome sought was in fact achieved; and the contribution made by sanctions to a positive outcome.

In evaluating "success" there is need to distinguish between the types of foreign policy objectives sought in different cases. There are five major objectives sought: modest changes in policy, destabilization of the target government, disruption of military adventures, impairment of military potential and other major policy changes.

Success also depends on some extent on the ability of the sanctions to hit a sensitive sector in the target country's economy. Officials in the U.S. State Department and other foreign ministries spend long hours tailoring their creations because they believe that the cut of a sanction
matters a great deal.

The success of Iranian asset freeze and the aid-denial cases of the 1960s involving Egypt, Brazil, India and other countries, suggest that financial sanctions are generally more effective than trade sanctions: 1) if the financial sanctions entail a reduction in official aid or credits they are not likely to create the same backlash, from business firms at home or allies abroad, as the interruption of private trade; 2) private financiers who might provide an alternative source of credit must anticipate a long-term relationship with the target country and long-term relations are unsettled when financial sanctions are in the air; 3) the denial of finance can disrupt the well-laid plans of powerful government ministers. By contrast, pain resulting from the shortage of goods can often be spread across the populace at large.

In addition, the protagonist countries frequently use export controls than import controls. Because the protagonist countries usually enjoy a more dominant market position as suppliers of exports than as purchasers of imports. The dominant position of the United States as a manufacturer of military hardware and high technology equipment has particu-
larly influenced the tactics of U.S. involvement with eco-

conomic sanctions.

Sanctions are suppose to impose economic penalties in
order to coerce the target country to alter its policies; if
the sanctions impose no costs, they are unlikely to change
foreign behaviour, i.e., according to the underlying ration­
ale, the level of costs importantly determines the success
or failure of a sanctions episode.

But there are several instances where the target had
actually become better off, in economic terms, as a result
of the sanctions. Soviet attempts to pressure Yugoslavia in
1948 failed miserably from Moscow's perspective but yielded
Tito an abundant harvest of western aid and trade credits.
In a similar fashion, American efforts to coerce Ethiopia on
human rights and compensation issues helped to push Colonel
Mengistu into the waiting and generous arms of the Russians.

The protagonist enjoys an immediate economic gain from
the imposition of sanctions due to a reduction in the budget
expenditure, but the corollary loss of trade contracts may
entail an economic burden in the form of lost sales and
jobs, on the sender country. Although it is quite difficult
to quantify the costs, higher rates of failure are associated with greater costs borne by the sender country. On the one hand, failed cases may entail intrinsically tougher objectives and the sender government may be willing to expend greater effort in achieving its goals; on the other hand, as costs mount, pressures may arise within the sender country to abandon the attempt, thereby contributing to the failure of the episode.

Whatever may be the case, it can thus be concluded that sanctions are only the most dramatic evidence of the proposition that national security interest cannot be viewed in isolation from economic and financial interests. As the nations of the world have grown to depend on one another for the requirements of everyday living with countries relying on world markets for food or industrial raw materials, are vulnerable to compulsive measures such as boycotts, embargoes or attempts by rival nations to freeze victim-state's assets or dry up its markets on a global scale, all of which is a part of economic sanctions.

In the present day world, no nation is completely immune to economic coercion, might exhaust their domestic resources to incur the costs sanctions impose and thereby
make themselves available for manipulation by the countries they look out for the substitutes. Currently though the possibilities of success of any sanctions episode is bleak, still, they would continue to be a popular instrument of statecraft as international relations continue, because nations always try to maximize their pay-offs from their interaction - security being one of the most important interest to be safeguarded. There is a linkage between national security interest and economic policies. Nations do not impose sanctions as a first resort, rather they systematically allocate and coordinate national resources for the development of trade and industry to strengthen their overall security positions. The time has passed long since one can afford not to think about trade and economic issues including sanctions, in the context of long-term national security goals. It is neither sound economic policy nor politically beneficial for United States to continue to reduce its international economic leverage for short-term political gain.

But, obviously economic pressure will continue to be used by individual states and by group of states for coercive purposes. The question is, whether international economic sanctions carry enough political impact to justify
their imposition - a political impact which more than off-sets their economically damaging effects which experience has shown cannot be confined to the target and seem unlikely to correct an unwelcome situation. If they fail, is there also a further cost?

These questions are to be seriously considered in careful and detailed manner before policy decisions are made, as economic impoverishment for any state is undesirable unless there are compelling reasons for it. The world is already beset with economic difficulties and long-term harmful economic effects cannot be readily expunged when sanctions end, they are blunt instruments which can miss their target and can have a boomerang effect.