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Financial Sanctions Effectiveness as a Foreign Policy Tool on Crises Management¹

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Abstract

Post-Cold War financial sanctions utilization reached its peak as policymakers employed them in order to face address major international crises. Their prominence among foreign policy instruments sparked the interest of many scholars and enriched the existing literature. However, their attractiveness raises several interesting research questions, such as "Do targeted sanctions suffice to achieve the defined objectives?", "Which variables affect their effectiveness?", "What shortcomings can be overcome to make them more productive?" To probe these queries, in this paper different aspects of both comprehensive and financial/smart/ targeted sanctions are examined. It is concluded that political will and better understanding of their effects is needed to improve sanctions design and overcome legal and administrative obstacles, since the current flaws are not incurable.

Keywords: Smart sanctions; coercive diplomacy; sanctions effectiveness; international institutions; human rights

Introduction

Since the end of the Cold War era, sanctions have emerged as one of the most important and widely used tools of economic statecraft in international politics (Neuenkirch & Neumeier, 2015). As Weiss (1999) claims, the explosion of post – Cold War sanctions cases is affiliated with three main reasons. First, the international community is more willing to interfere in states' domestic issues. In terms of internal affairs, countries are no longer beyond reproach as the new international challenges have undermined the nonintervention principle and reformed the concept of sovereignty. States are accountable for their actions and if they deviate from the internationally acceptable rules, they will face the consequences. Second, security nowadays does not necessarily concern military threats, but ranges from socio – economic to environmental and humanitarian affairs, as it is formally depicted in Boutros – Ghali's 1992 'An Agenda for Peace'. Last but not least, the deployment of military power is costly and not appealing, especially if states have no perceived vital interest in the "target – state". Therefore, sanctions seem to be an inexpensive and more humane alternative (Weiss, 1999).

Sanctions fall within the scope of coercive economic measures that are employed by an international actor (state, group of states, international organization) against another international actor (state, group of states, terrorist group etc). They can be used either as a preventative action or as an answer

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to a breach of international law and generally aim at a change of the target state's undesirable foreign policy (Heine – Ellison, 2001). The main theory behind sanctions is that economic pain induces political gain, meaning that the inflicted economic distress will cause political reforms. In the words of former UN Secretary General Kofi Annan, sanctions “represent more than just verbal condemnation and less than the use of armed force” (Neuenkirch & Neumeier, 2015: 111). Indeed, there is evidence that policymakers have employed sanctions as a complement, substitute or even precursor to the use of military force, since sometimes diplomatic means are not adequate to reach the desired outcome (Early & Jadoon, 2016).

Generally, the core of sanction's theory is that the restrictive measures use economic means to achieve a political objective and by no means do they have an economic motivation, as the EU's “Guidelines on implementation and evaluation of restrictive measures (sanctions) in the framework of the EU Common Foreign and Security Policy” declares (Giumelli, 2010: 88). This view has been shared by Write (1955: 239), who notes “Politics may be an instrument of economics and economics may be an instrument of politics”.

Objectives

Sanctions' imposition is a process that serves multiple foreign policy objectives. Generally, restrictive measures are, at least, driven by three main purposes. First, sanctions can coerce and alter target's behavior by imposing unbearable costs upon their economy, and subsequently acquiesce to sender's demands in order to have the sanctions lifted. Second, there are constraining sanctions that aim at limiting a target's economic capabilities in order to prevent it from achieving its goals. Finally, the third category is the one of signaling sanctions, which are designed to evoke an ostracizing effect on the target – state and, thus, isolate the target within the international community (Weiss, 1999; Giumelli, 2010; Early & Jadoon, 2016). The stigma upon the targeted political regimes may be used as a signaling mechanism for donors that internal conflicts in the target state have the potential to escalate. Sanctions thus symbolize a serious threat to its political stability and this uncertainty ought to have a detrimental impact on the target state's trade and financial relations as well as on its domestic and foreign direct investment (Neuenkirch & Neumeier, 2015).

The literature related to sanctions objectives is rich. Barber (1979), for instance, identifies three main categories of policy goals: primary objectives related to targeted policies; secondary objectives concerning international status of sanctioning countries; and tertiary objectives pertain to the structure and modus operandi of the international system (Peksen, 2019). Doxey, an expert of sanctions scholars, maintains that since sanctions regimes often have multiple intertwined goals, the categories

of political objectives may overlap. Furthermore, during the sanctions regime as the conditions of the target state change, the objectives will follow suit (Heine – Ellison, 2001).

Legal Framework

The legal framework for the utilization and imposition of sanctions is provided by the United Nations Charter. The United Nations is the leading universal institution which has the right and duty to use “effective and collective measures” in order to face any threats to international peace (Heine – Ellison, 2001). Given its universal membership and prestige, the United Nations can confer a significant amount of legitimacy upon a sanctioning effort. The Security Council has the authority to take action to maintain or restore international peace and security whether that involves military action or military alternatives. Meanwhile, member states are obligated to comply with the Security Council’s resolutions even if that involves complete interruption of economic relations with a target state (Early & Jadoon, 2016).

Multilateral vs Unilateral

Contrary to the Cold War period, when most sanction cases were unilateral due to the need for consensus in the decision making process of the Security Council, in the past few decades all of the major cases have been multilateral (Heine – Ellison, 2001). However, the practice of sanctions is still appealing to singular economic powers (Lopez & Cortright, 1997). The most prominent example is the United States of America. No other country in the world has imposed economic sanctions more often, earning the ridicule of many prominent policymakers. Washington’s “sanctioning madness” nonetheless remains evident hitherto. As the world’s leading superpower and an undisputed financial hegemon, the United States of America has deployed sanctions against several adversary countries and numerous non-state entities such as terrorist groups and drug traffickers since the turn of the 21st century (Peksen, 2019; Weiss, 1999). Although unilateral, the US preeminence in global monetary and financial matters has contributed in leveraging its capacity to utilize financial sanctions as a foreign policy tool. Zarate (2013: xi) argues that “the United States can call upon these techniques to confront its most critical national security threats”. The White House (2015: 23) accords with this prospect in the US National Security Strategy, noting that the “use of targeted sanctions and other coercive measures are meant not only to uphold international norms, but to deter severe threats to stability and order at the regional level”.

The European Union has also embraced financial sanctions as they have been part of its diplomatic toolkit for decades now. Since the entry into force of the Treaty of Maastricht in 1993, the EU has

employed sanctions in plenty of international crises, such as in the Syrian crises, on Iran and North Korea for non-proliferation and Russia during the Ukraine crises. Due to the shortcomings in creating its own functioning military force, sanctions arise as a means to strengthen its role and status as an autonomous international actor. They are utilized to safeguard EU's values and, subsequently, consolidate its coherence (Giumelli & Hoffmann & Książczaková, 2020). For the most part, restrictive measures have been developed in response to human rights violations or to counter attempts at sabotaging democratization processes (Giumelli, 2010).

Smart sanctions

In the 20th century, conventional sanctions were the preferred means of economic coercion. However, by the end of the Cold War and after the publicity surrounding the humanitarian crisis caused by comprehensive sanctions against Iraq in the 1990s, policymakers grew into the employment of smart sanctions (Peksen, 2019). Financial sanctions have arisen as a particularly attractive alternative to conventional comprehensive sanctions, which affect the entire economy of the target state. The main difference is that targeted sanctions put direct pressure on the target regime and its support coalitions to change some undesirable policy by imposing economic (asset freezes, travel restrictions, financial restrictions on international banking activity, sectoral sanctions e.g., arm embargoes and restrictions on dual-use technology) and subsequently political costs on decision makers. Thereby the general population is spared of the economic hardships and the political goals are achieved with less civilian pain (Weiss, 1999; Lektzian & Patterson, 2015).

Traditionally, financial sanctions have been a part of comprehensive or such as general trade sanctions. Nevertheless, the past decades smart sanctions are applied as an added measure after the imposition of a trade embargo, as a tightening of pressure or a 'knock-out' punch (Lopez & Cortright, 1997). The evolution of smart sanctions as a diplomatic tool is driven by the negative policy externalities that come with more comprehensive sanctions. Namely, the devastating humanitarian effects and the increase of corruption through the expansion of black markets and transnational illicit channels to access scarce goods led to the conviction that financial sanctions are more fruitful and involve less collateral damage than traditional trade sanctions (Drezner, 2015). The consequences of trade embargoes for the civilian population are usually insufferable as they decrease the availability of food and clean water and access to medicine and health care services. Hence, the life expectancy is significantly lowered, while the infant mortality rate experiences an upturn. (Neuenkirch & Neumeier, 2015).

Advocates of smart sanctions claim that comprehensive sanctions are nondiscriminatory and so fail to affect the “true target”. Therefore, targeted sanctions minimize the humanitarian costs and have several related advantages. When directed to an authoritative state, they are more moral and fair since they target only the “wrongdoers” and not civilians. In addition, the fundamental principles concerning protection of human rights are not violated. Thus, leaders cannot gain international and domestic support and have limited access to foreign aid related resources. Furthermore, by minimizing destruction in the social and economic sphere, the long term effects on fields such as education and health care are decreased (Heine – Ellison, 2001).

Yet, studies reveal that the theoretical attractiveness of financial sanctions is downsized by practical difficulties (Weiss, 1999). There is no robust evidence that they are more successful than conventional sanctions probably because they do not impose significant costs on the target economy. Smart sanctions not only have a relatively low success rate in accomplishing discrete policy goals, but also might generate major negative effects on civilians, particularly increases in political repression, deterioration of humanitarian conditions, corruption in the government, and poor governance (Drezner, 2015; Peksen, 2019).

Obstacles

Concerning the weak history of smart sanction’s success, there are many obstacles associated with further utilization. For example, it has been claimed that targeted sanctions cost as much to enforce as broad trade embargoes, while in fact they have lower levels of effectiveness (Heine – Ellison, 2001). Furthermore, a key factor for sanctions success is speed and secrecy, meaning that freezing one’s assets has to be prompt and with no warning in advance. Stalling in order to ensure consensus from the international community or bureaucratic hurdles gives the target government the time needed to shelter assets abroad. Achieving international consensus has proven to be quite difficult, especially when it is about human rights violations and not high politics issues such as an overt military aggression, as the case of Iraq’s invasion in Kuwait reveals. The placement of targeted regime’s funds in tax havens also makes it difficult for senders to trace them. Banking centers do not have political interests and are usually indifferent to the state’s foreign policy goals. They are under no legal or moral obligation to the international community so their profit – seeking behavior leads them to operate as havens in the interests of political despots escaping national or international retribution (Lopez & Cortright, 1997).

Impediment to research of sanction’s effectiveness is the absence of detailed time-varying sanctions data. Not only are data sparse, but they are also inaccessible to international organizations or

manipulated for political purposes, so changes in target's behavior are not easily detected. In addition, multiple factors are involved in worsening a population's condition, which complicates disaggregating the consequences resulting from sanctions, war, political repression, military spending, social policies, and poverty (Weiss, 1999; Peksen, 2019).

Effectiveness

In order to evaluate the success of a sanction regime, one has to count, along with the policy result, the international and domestic costs derived from sanctions imposition. For example, sanctions against Iraq did end up in political concession from the targeted government, but with unacceptably high human costs (Weiss, 1999; Heine – Ellison, 2001). Although smart sanctions are the most preferred tool of economic coercion, scholars are quite doubtful about their effectiveness in achieving their stated goals. Morga et al. (2009) demonstrate that only 34 percent of all sanction episodes successfully achieve their set political goals (Shin, Choi & Luo, 2016).

Galtung (1967) formulated the “naïve theory of sanctions”, in which he made clear that ‘rally-round-the-flag’ is a possible civilian reaction. Policymakers sometimes do not bear in mind that targeted states will attempt to counterbalance the effects of sanctions and suppose that under the burden of sanctions, the population will turn against the authoritative government and compel a regime change. However, that is not always the case, since political leaders will try to rally patriotic sentiment to broaden political support and shift the burden of economic hardship onto vulnerable groups and regime opponents (Lopez & Cortright, 1997).

Research concerning sanction's effectiveness has made considerable progress in the course of time, as scholars have focused on different aspects of sanctions use and efficacy. There are multiple factors that play a part in determining the outcome of a sanction's imposition. For example, previous studies support that the severity of economic sanctions has a detrimental contribution to whether target governments change their foreign policy behavior (Neuenkirch & Neumeier, 2015). Other studies find that sanctions are more effective in achieving their policy objectives if they are directed at allies rather than rivals and when the target highly depends on the trade with the sender. It has also been established that goals related to high salient issues such as regime change have not only limited success, but might also become counterproductive by further deteriorating the target's situation. On the contrary, less ambitious policy objectives such as releasing a political prisoner are more attainable (Bapat, Heinrich, Kobayashi & Morgan, 2013; Peksen, 2019).

However, as Giumelli (2010) notes, the findings of these studies are not standards that guarantee effectiveness. Effectiveness can be assessed in relation to the policy objectives and is differentiated

from the concept of impact. The former entails the consequential results of employing restrictive measures against a state. The latter has a wider concept, as it includes not only direct effects of sanctions but also the general potential contribution to the overall strategy objectives that sanctions can have, including possible humanitarian effects. This distinction indicates that the desired impact does not guarantee effectiveness (Heine-Ellison, 2001). That is why policymakers should run a pre-assessment analysis before using sanctions for an accurate projection of what contexts are likely to emerge and decide whether sanctions will strengthen or weaken both themselves and their targets (Giumelli, 2010).

Many scholars claim that multilateral sanctions led by international institutions are more effective than those imposed by a single country or an ad hoc coalition of a few countries (Martin, 1992; Miers and Morgan, 2002; Bapat and Morgan, 2009). International institutions are competent to create mechanisms to supervise the enforcement of sanctions regimes and penalize those who are caught breaching them. In addition, broad international cooperation reduces the target's ability to redirect its economic transactions to other suppliers and markets (Peksen, 2019). Sanctions effectiveness is highly dependent on the sender state's ability to impose economic isolation on its adversary. As previously stated, third-party governments and private actors are interested in profit, so should their interests with sanctioning countries not coincide, it is unlikely they will be affected by sanctions rules. Such was the behavior of many American firms during the American sanctions on Iran, because of their enormous profits from operating in Iran's oil infrastructure. The so – called black knights may exploit the economic disruption in order to strengthen their economic links with the sanctioned country (Peksen, 2019; Shin, Choi & Luo, 2016). Consequently, the target's costs from economic sanctions are counterbalanced and even well-coordinated economic sanctions can fail. Elliot (1998) also emphasizes that globalization of economic exchanges significantly impedes the negative impact of sanctions on target economies. Alternative markets and suppliers of goods and services are easily acquired, for example via tax incentives, and can be utilized to make up for the lost value of trade (McLean & Whang, 2010). Political organizations are also crucial in sanction politics, since the majority of all world trade is currently conducted within regional trade arrangements. Therefore, political leaders are likely to turn to their trade bloc members when they are sanctioned by nonmember countries to minimize economic hardships (Shin, Choi & Luo, 2016).

Other research highlights the impact of targets' regime characteristics on sanctions success (Brooks, 2002; Kaempfer, Lowenberg, and Mertens 2004; Major, 2012). In particular, coercive economic measures are more likely to elicit concessions against democracies than dictatorships. Autocratic leaders evade sanctions by intervening in the economy to divert existing wealth and resources made

scarce by sanctions towards their support base and away from their rivals and average citizens. Democratic governments, however, are more restricted in their ability to endure the costs of the coercion through the selective delivery of goods and resources. They have more incentives to agree to the demands for reform by the senders in order to remain in charge. Studies show that sanctions can also be effective against autocratic regimes, particularly when applied against personalist regimes, due to the lack of established institutions such as a strong party network or a military apparatus-. (Escribà-Folch & Wright 2010; 2015). Thus, leaders' ability to collect taxes and generate other government revenues is undermined, and subsequently makes them heavily dependent on external foreign aid. Single-party and military regimes, on the other hand, are unlikely to yield to sanctions, as such dictatorships possess a high degree of institutionalization and strong coercive capacity to effectively use repressive tools and positive incentives to remain defiant (Peksen, 2019).

Recommendations

Despite the broad utilization of financial sanctions as a foreign policy tool in the past decades, there has yet to be made a breakthrough in their design and implementation. Because of that, many claim that smart sanctions remain an underdeveloped, ineffective and sometimes counterproductive means of economic coercion. There is no silver bullet to increase their effectiveness as each case is different and, thus, the planning of a sanction's regime should be customized to the target's specifications. Sanctions require effective design, political cooperation and flexibility.

Policymakers should direct economic measures at those responsible for the crisis and not as a punishment to the entire population. Taking into consideration the vulnerabilities and interests of targeted governments they can accurately pre-assess the expected impact of sanctions since each kind of restrictive measure has different effects. After the imposition of sanctions there should be monitoring of the target's behavior and, if needed, modification of the sanctions regime accordingly. For instance, it has been suggested that rewarding the rebel government through partial lifting of sanctions when it complies with the sender's demands, the "stick and carrots approach", is an incentive to generate further concessions (Lopez & Cortright, 1997; Heine – Ellison, 2001). Furthermore, should negative humanitarian effects be noted, sanctioning countries can grant exemptions to the measures in order to minimize humanitarian suffering with the provision of food or medicine under specific regulations. Such was the case in Iraq, where the devastating consequences of sanctions on Iraqi society led to the establishment of the oil-for-food program, as a compassionate twist to the initial plan (Weiss, 1999). Besides the issues concerning design, there are legal and administrative obstacles to be surpassed. The procedure for adopting a UN sanctions regime is

particularly time consuming due to the massive bureaucracy and, thus, the element of surprise is compromised. A new model of legislation needs to be developed, that would enable countries to enforce sanctions and cooperate with multinational institutions in their imposition (Lopez & Cortright, 1997).

In general, the limits to sanctions effectiveness concern more flaws in their design and implementation than inherent shortcomings in the instrument itself. When properly designed, sanctions can coerce policy change, because the benefits of compliance outweigh the costs (Lektzian & Patterson, 2015).

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