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Economics Wars and Economic Sanctions (II)

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Economic sanctions are a set of measures that put pressure on a government to achieve predominantly political objectives. However, although sanctions lead to negative consequences in the economy of the sanctioned country, the ultimate political objectives are by no means always achieved. More often than not, they are not achieved at all. According to Gary Hufbauer a well-known American expert in this area, and his co-authors, who have documented 204 cases of sanctions, only about a third were successful (Table 1).

Table 1.

Objectives of economic sanctions and their effectiveness

Objective	Number of cases	Success rate
Moderate policy change	43	51
Regime change or democratisation	80	31
Ending military operations	19	21
Destruction of military potential	29	31
Other significant policy changes	33	30

Source: Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg. Economic Sanctions Reconsidered, 3rd edition. November 2007.

In many cases, economic sanctions have a stimulating and mobilising effect on the economy of sanctioned countries. The continental blockade organised by Napoleon Bonaparte against Great Britain, for example, fuelled the second phase of the industrial revolution in Great Britain and contributed to the country's definitive transformation into "the workshop of the world". Incidentally, for a while Napoleon managed to involve Russia in the continental blockade, insisting that she stop supplying England with grain, timber, flax, fur goods and so on. At the same time, Russia was forced to stop importing industrial goods from England, including iron and textile goods. Specialists in economic history note that it was Russia's involvement in the continental blockade that fuelled the development of Russia's iron and steel industry (ironworks) and her textile industry.

A classic example of the ineffectiveness of sanctions is the trade embargo imposed on Italy at the end of 1935 by the League of Nations. The sanctions were initiated by Great Britain, and the reason for their declaration was Italy's invasion of Abyssinia (Ethiopia). The embargo proved to be ineffective. Firstly, Italy continued to trade with countries that were not members of the League of Nations (primarily Nazi Germany). Secondly, even those countries that voted for sanctions against Italy did not stick to them that rigidly.

An impressive example of the mobilising effect of economic sanctions is the Soviet Union. In just the first few months after the Bolsheviks came to power, the Entente countries organised a sea and trade blockade against Soviet Russia. Cut off by the blockade, the country's government gradually realised that it needed to build an economy that was minimally dependent on foreign markets. In December 1925, the slogan of 'socialist industrialisation' was advanced. Four years later, the first five-year plan was launched, laying the foundation for the Soviet Union's heavy industry. More than 9,000 industrial facilities were built before the outbreak of the Great Patriotic War, and the country was able to prepare itself for the invasion by fascist Germany. The share of imports needed to meet the demands of the Soviet Union, both for the means of production and for consumer goods, dropped to around the 2 per cent level. Over 10 to 12 years, an ambitious programme of import substitution was carried out.

Following World War Two, one of the focuses of the West's cold war against the USSR was an economic war, reflected in the ban on the transfer of military and dual-purpose technologies to the Soviet Union, grain embargoes, restrictions on borrowing, dumping charges, the refusal to grant the most favoured nation status and so on. However, the West's economic war against the

USSR had a very limited effect. Firstly, the Soviet Union learned how to get around certain restrictions and bans on trade with the West. Secondly, the Soviet economy's overall dependence on both imports and exports in the three decades after the Second World War remained at a low level. Thirdly, some of the USSR's import needs began to be covered by other socialist countries.

It was only in the 1970s that the situation changed. At the end of 1973, oil prices on the world market jumped fourfold. A shower of petrodollars rained down on the USSR and the country gradually became dependent on oil. The Soviet Union began to change from an industrial power into a nation of raw materials, which heightened the effectiveness of the West's subsequent actions as part of its economic war.

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The West's actions against Iraq and Iran serve as current examples of the low efficacy of economic sanctions.

Following the annexation of Kuwait by Iraq (which Saddam Hussein was deliberately provoked into doing by the US, incidentally), on 6 August 1990 the UN Security Council passed Resolution 661 (1990), which stipulated the use of coercive measures against Iraq without the use of weapons. All financial flows and products fell under the scope of these measures, with the exception of supplies intended strictly for medical purposes, and, in humanitarian circumstances, foodstuffs. Most importantly, Iraq's oil export channels were closed off.

It goes without saying that the sanctions had a tangible effect on Iraq's economy, which was dependent on the export of oil. On the eve of the sanctions, the oil sector provided more than 60 per cent of Iraq's GDP. Living standards began to fall, and here and there the shortage of food began to be felt. There was also a continuous devaluation of the national currency. During the period of comprehensive measures from 1990 to 1995, the Iraqi dinar fell in value against the US dollar by more than 20 times. Inflation on an annual basis was measured in hundreds of percent, although after the Oil-for-Food programme was established (from 1996 onwards), inflation began to reduce, and the problem of food and medical shortages became less acute. Gradually, however, the Iraqi government established ways to bypass the sanctions, allowing trade with the outside world. It was because of the ineffectiveness of the sanctions that Washington decided to invade Iraq.

As for Iran, it has been under sanctions from the US and its allies for the past 35 years, but the country is showing no signs of a crisis. Negative developments in the Iranian economy are noticeable, of course (especially in the oil industry due to bans on the supply of oil equipment), and an additional strain has been placed on the Iranian economy since Washington managed to get the EU involved in sanctions, but over the course of literally 2-3 years, Iran managed to adjust to the West's all-out oil blockade. For Washington, this has come as an extremely unpleasant surprise. Iran has essentially become a kind of guide, showing other countries how they can bypass Western sanctions. In my view, this was the main reason why Washington initiated talks with Iran on its nuclear programme in Geneva in 2013 with the participation of six mediators (five permanent members of the UN Security Council plus Germany). I do not believe, however, that the US is most worried about Iran's nuclear programme, just as I do not believe that the West will wind down sanctions against Iran in exchange for the phasing out of its nuclear programme. Even in the case of Washington's promise to unfreeze Iran's seized foreign exchange reserves (allegedly as a gesture of goodwill), this refers to a minuscule part of Iran's reserves. Furthermore, the US administration has emphasised that any possible decisions regarding the lifting of sanctions against Iran will be reversible.

To summarise, it is possible to draw the following conclusions.

1. While not denying the impact of sanctions on the economies of sanctioned countries, it should be recognised that the political objectives of the countries imposing the sanctions are achieved relatively rarely. The negative social consequences of sanctions are usually offset by the government's use of sanctions for the ideological and political consolidation of society.

2. The impact of sanctions may weaken over time as the sanctioned countries find different ways to adjust. In many cases, sanctions become the impetus for a serious restructuring of the economy.

3. The countries imposing the sanctions often find that they themselves are suffering significant losses because their companies are unable to trade with the sanctioned countries. Moreover, this could strengthen the competitive position of companies in countries that are not involved in the sanctions.

4. In the absence of the desired political effect, sanctioning countries could resort to the use of other methods to put pressure on sanctioned countries (diplomatic, military, intelligence operations and so on).

5. In every way possible, the West is ignoring cases involving the ineffective use of economic sanctions and is using their threat as a deterrent to countries deviating from the policies of Western centres of power.

In the final article, we will examine the ways that different countries adjust to a regime of sanctions based on an analysis of international experience.