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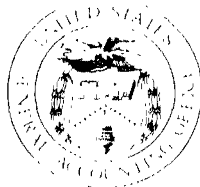
Report to the Chairman, Committee on Foreign Relations, U.S. Senate

February 1992

ECONOMIC SANCTIONS

Effectiveness as Tools of Foreign Policy



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National Security and
International Affairs Division

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February 19, 1992

The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate

Dear Senator Pell:

Economic sanctions are being used more frequently as a tool of foreign policy. As you requested, this report analyzes (1) what political goals economic sanctions can and cannot achieve; (2) the social, economic, political, and psychological effects of the measures; and (3) the situations in which sanctions are likely to succeed and when they may fail.

We plan no further distribution of this report until 30 days after its issue date, unless you publicly announce its contents earlier. At that time, we will send copies of this report to the Secretaries of State, Commerce, and the Treasury and to other interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 275-4812 if you or your staff have any questions concerning this report. The major contributors to this report are listed in appendix II.

Sincerely yours,

Allan I. Mendelowitz, Director
International Trade, Energy,
and Finance Issues

Executive Summary

Purpose

The United States and other nations use economic sanctions as an important tool of foreign policy, and sanctions have been used with greater frequency in recent years.

At the request of the Chairman, Senate Committee on Foreign Relations, GAO analyzed (1) the political goals economic sanctions can and cannot achieve; (2) the social, economic, political, and psychological effects of sanctions; and (3) the circumstances when sanctions are likely to succeed and those when they may fail. GAO examined 27 episodes from the post-World War I period that were particularly illustrative of sanctions' effects. While this historical record cannot yield exact or definitive rules that predict how sanctions might succeed in any future case, it does provide lessons that would be appropriate to consider in evaluating other cases where sanctions might be imposed.

Background

Economic sanctions used for foreign policy purposes are economic penalties, such as prohibiting trade, stopping financial transactions, or barring economic and military assistance, used to achieve the goal of influencing the target nation. Sanctions can be imposed selectively, stopping only certain trade and financial transactions or aid programs, or comprehensively, halting all economic relations with the target nation. Sanctions often are imposed when domestic pressure for action exists, but diplomacy or propaganda would be too mild a response, yet the most severe responses, covert action or military action, would be too severe.

Results in Brief

Sanctions can be imposed to serve multiple goals. The measures are more successful in achieving the less ambitious and often unarticulated goals of (1) upholding international norms by punishing the target nation for unacceptable behavior and (2) deterring future objectionable actions. However, they are usually less successful in achieving the most prominently stated goal of making the target country comply with the sanctioning nation's stated wishes. Thus, excessive expectations are often formed about what sanctions can achieve.

Economic sanctions can raise the cost of trade and finance to the targeted nations, but in most cases have not ruined their economies. (Sanctions can also hurt the sanctioning nation by ending mutually beneficial commercial transactions.) The extent of actual economic damage to the target nation, however, does not often determine the success of sanctions; the threat of damage from further sanctions is often more powerful. Actual damage

rarely compares with threatened pain because of the illicit evasion of sanctions and the legal redirection of the target's trade and financial flows.

Economic sanctions are most effective when they are applied multilaterally or against otherwise friendly nations with economic and political ties to the sanctioning country. Cultural characteristics of the target nation and international publicity can either enhance or weaken the effect of the measures. If the target nation has a strong shame and honor code—that is, if "saving face" is important—or if sanctions receive substantial publicity, sanctions may create a backlash in the target nation, particularly if harsh, comprehensive measures are used from the onset of sanctions. If international publicity enhances the threat of further sanctions, however, then it may cause effective psychological pressure on the target.

GAO's Analysis

Economic Sanctions Can Achieve Realistic Goals

The historical record suggests some common elements in successful sanctions, particularly if success is judged by more realistic goals rather than those often stated by analysts and policymakers. The prevailing belief in the academic and business communities that sanctions are generally "ineffective" has been reached by comparing the results of sanctions against their publicly revealed primary goal. This goal is often presented in terms of making the target nation comply with the policy goals of the sanctioning nation—for example, ending the apartheid system of racial segregation in South Africa or compelling Iraq to withdraw from Kuwait. Yet, policymakers in the sanctioning nation may have incentives to overstate this primary objective. The real goals of sanctions may be unarticulated and more modest.

Other goals of sanctions, such as demonstrating national resolve or punishing misbehavior of the target to uphold international norms or deter future unacceptable actions, may be more crucial than the stated primary goal. These goals may in fact be the motivating factors for imposing economic sanctions. And, sanctions are often better at fulfilling these other goals. For example, the publicly perceived primary purpose of U.S. sanctions in 1980 against the Soviet Union was to compel Soviet withdrawal from its invasion of Afghanistan. Yet, evidence indicates that President Jimmy Carter believed the more realistic and important objectives of sanctions were showing resolve and deterring Soviet incursions into Iran,

Pakistan, or the Persian Gulf, which he considered strategically more important.

Sanctions Raise the Cost of Commerce

Sanctions can raise the cost of trade and finance for the target nation but usually do not ruin its economy. Over time, the target nation can develop new suppliers and markets, although at increased cost. For example, South Africa, the target of multilateral boycotts, replaced most lost exports in 2 years, but incurred losses from discounts on the prices of its products and the added transportation costs required to develop alternative markets. Sanctions can also raise costs for the sanctioning nation, including lost profits of forgone exports and financial transactions and additional expenses from purchasing more expensive imports from alternative suppliers.

When used together, the different economic effects of export, import, and financial sanctions frequently reinforce each other. Such measures, however, are blunt tools with limited ability to focus economic pressure against particular groups in the target society. For example, U.S. financial sanctions against Panama, designed to hurt the Panamanian government while sparing the economy, had substantial inadvertent adverse impact on the economy and nontargeted population groups.

Noneconomic Factors Often Determine the Outcome of Economic Sanctions

The effectiveness of sanctions is not primarily determined by the economic damage they inflict. Sanctions work best when there is strong internal political opposition to the target government, particularly internationally oriented commercial interests that want to retain business ties with the country imposing the sanctions. Where significant political opposition exists, imposing selected sanctions with the threat of more severe measures to follow often causes the opposition to pressure the target nation's government to acceed to the sanctioning nation's wishes. The success of the sanctions thus is more closely related to the threatened damage of subsequent measures than it is to the economic damage of sanctions actually in place. In the case of multilateral sanctions against South Africa, for example, measures of moderate economic effect raised fears of future sanctions among more liberal white businessmen opposed to the policy of apartheid. Their lobbying for change helped create pressure for the reforms instituted in South Africa.

Even with significant internal political opposition (and even more so without it), imposing harsh, comprehensive sanctions immediately may be

counterproductive. The target government may use the severe economic pain to rally its population in the face of an external enemy. In the early to mid-1960s, Fidel Castro used the harsh effects of the comprehensive U.S. embargo to win additional popular support in Cuba.

International cooperation enhances the possibility that sanctions will succeed. Multilateral sanctions have more political legitimacy and inflict greater isolation on the target nation than do unilateral measures. The effectiveness of multilateral sanctions can be counterproductive, however, when disagreements among sanctioning nations impair the appearance of resolve aimed at the target. For example, western unity broke down in an intra-alliance dispute about whether to embargo the export of equipment to the Soviet Union that could be used to construct a natural gas pipeline.

A friendly target nation seeking to preserve political and economic ties to the sanctioning state has incentives to acceed to the sanctioning state. Sanctions can be counterproductive, however, if they are so severe and comprehensive that the target nation seeks greater ties to adversaries of the sanctioning nation.

Sanctions that ostracize the target nation can be effective when that nation's culture is similar to the sanctioning nation's; sanctions generally fail when cultural norms in the target nation demand resistance to "save face." International publicity may exacerbate the backlash in the target nation if harsh, comprehensive measures are used; such publicity, however, can enhance the threat of future measures and is vital if deterring a nation from unacceptable behavior or showing support for its political opposition is the goal.

Recommendations

While this report contains no recommendations, it provides insights into factors that should be considered in evaluating any future use of economic sanctions.

Agency Comments

In conducting its study, GAO discussed the issues involved with officials of the Departments of State, Commerce, and the Treasury, as well as with many outside experts on sanctions, and their views were considered in preparing this report. However, in accordance with the requester's wishes, GAO did not request written agency comments on a draft of the report.

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Abbreviations

GAO	General Accounting Office
U.N.	United Nations

Introduction

Economic sanctions have been used by nations as a foreign policy tool for centuries. Sanctions were imposed in ancient Greece in 432 B.C. during events leading to the Peloponnesian War between Athens and Sparta. The United States used sanctions against the British and French from 1808 to 1809 to try to get them to make concessions on the rights of neutral states. Since the late 1950s, the use of sanctions has been particularly widespread. The most recent episodes of sanctions include multilateral measures against South Africa imposed in 1985 and 1986 in response to its policies of racial segregation, U.S. financial sanctions against Panama in 1988 to destabilize the government of General Manuel Noreiga, selected embargoes on China in 1989 after its repression of political dissent, most visible in Tiananmen Square, and the comprehensive United Nations (U.N.) trade quarantine against Iraq in 1990 after it invaded Kuwait.

Despite the liberal use of sanctions by governments in recent times, there is considerable controversy over their effectiveness. According to one side of the argument, sanctions are ineffective. According to this perspective, in an interdependent trading world where multiple buyers and suppliers exist for particular goods and services, it is difficult to devastate the target economy with sanctions. Even in the rare cases in which substantial economic pressure can be brought to bear, the government in the target state often will remain politically intransigent in the face of an external challenge and can even benefit by using sanctions to increase its standing among its population.

Opposing this view is a growing number of academic analysts who recognize that sanctions are often employed when there is domestic pressure in the sanctioning state to take some action against the target nation, but diplomatic measures are perceived as too weak and military action is seen as too strong. This perspective believes sanctions can be used to send important signals to other nations and deter them from displaying future objectionable behavior.

To achieve their political goals, sanctions can be designed to inflict varying degrees of economic pressure. In analyzing past episodes of sanctions, we recognized three categories of sanctions in order of declining economic severity.

1. Instrumental sanctions. These are measures designed to prevent the target country from obtaining specific goods or financial capital. The post-World War II western embargoes on military-related technology to communist nations illustrate the military goal. During the Cold War, the

Coordinating Committee, often referred to as COCOM, an informal association of western nations, was set up to control exports of civilian technology that could be used to enhance the military capabilities of communist nations. Comprehensive trade and financial sanctions imposed by the United Nations in 1990 against Iraq represented an attempt to choke off the country's commerce and limit its ability to wage war by denying it military equipment and spare parts. The unprecedented degree of cooperation among the sanctioning nations and the military blockade to enforce the measures were designed to severely cripple the Iraqi economy. The goals were to pressure a withdrawal from Kuwait and to impede the ability of the Iraqi military to fight a war.

2. Punitive sanctions. These are measures designed to punish the target economically for unacceptable behavior. These sanctions usually do not prevent the target nation from obtaining goods or capital, but can impose substantial economic costs. Policymakers in the nations that impose sanctions resign themselves to the target's developing alternative markets or suppliers. For example, U.S. restrictions imposed in 1981 and 1982 on new credit, high technology exports, preferential trade status, and International Monetary Fund membership for Poland were designed to punish that country for imposing martial law and suppressing the Solidarity trade union. Poland was still able to trade and get credit, but sanctions still exerted moderate economic pressure.

3. Symbolic sanctions. These are measures whose economic effects are so slight that sanctioning nations do not expect them to cause great economic harm to the target. The mild 1989 western embargoes on arms exports and multilateral loans to the People's Republic of China after the suppression of dissidents in Tiananmen Square illustrate this type of sanction. The U.S. goal was to send a signal of disapproval to the Chinese government, while maintaining commercial relations.

Objectives, Scope, and Methodology

At the request of Senator Claiborne Pell, Chairman of the Senate Committee on Foreign Relations, we analyzed (1) what political goals economic sanctions can and cannot achieve; (2) the social, economic, political, and psychological effects of sanctions; and (3) the situations in which they are likely to succeed and those in which they are likely to fail.

To address issues concerning the effectiveness of economic sanctions as a foreign policy tool, we conducted in-depth examinations of 27 illustrative episodes of sanctions imposed during the post-World War I period, most of

which were recent cases. These cases are listed in appendix I. We interviewed and obtained documentation from officials of the Departments of State, Commerce, and the Treasury and representatives of U.S. business groups. We also interviewed researchers at universities and relied on academic journal articles and books for information on sanctions. We incorporated our prior work on U.S. sanctions against Libya, Panama, and South Africa into the report. A listing of our related products on sanctions is attached.

We performed our work from June 1990 to April 1991 in accordance with generally accepted government auditing standards.

In conducting our study, we discussed the issues involved with officials of the Departments of State, Commerce, and the Treasury, as well as with many outside experts on sanctions, and their views were considered in preparing this report. However, in accordance with the requester's wishes, we did not request written agency comments on a draft of the report.

The Foreign Policy Goals of Economic Sanctions

Economic sanctions can attempt to induce compliance with the sanctioning nation's foreign policy goals, enhance that country's prestige or status, or punish or deter target nations. Each episode of sanctions can serve more than one of these goals; therefore, effectiveness of the measures should not be evaluated only on the basis of the target nation's compliance with publicly stated objectives or demands.

Sanctions Have Diverse Goals

The economic sanctions dicussed in this report are foreign policy tools. Their goals are political rather than economic in nature, in that they are imposed by one nation to change the policy of another nation, enhance the standing of the sanctioning nation, or deter potential policies or actions of other nations. Governments are often willing to accept economic losses when imposing sanctions in anticipation of achieving overriding political or foreign policy goals. (The terms "political goals" and "foreign policy goals" are used interchangeably in the analytical literature. Economic penalties used for economic gain—for example, import duties—are not usually considered economic sanctions by the literature.)

An assessment of the success of economic sanctions should focus on their effectiveness in achieving these overriding goals, rather than measuring the degree of economic pressure brought to bear on a target nation. One study cites three types of political or foreign policy goals for economic sanctions.

1. Primary goals. These are the publicly revealed objectives of the nation imposing sanctions, usually presented in terms of making the target comply with its wishes. For example, the United Nations imposed sanctions against the white minority-ruled government in Rhodesia in 1966 to compel it to institute a system of majority rule. The primary goal of sanctions is usually the most difficult to achieve.

2. Secondary goals. These objectives entail symbolically enhancing the prestige or status of the sanctioning government. Sanctions can increase prestige internationally by making a moral statement against the target's behavior. For example, U.S. import and export sanctions in 1978 against the Idi Amin government in Uganda for violations of human rights satisfied this goal.

Sanctions can also increase the standing of the sanctioning government in the eyes of its domestic interest groups. For example, selective sanctions placed against South Africa by the governments of many western industrial

nations were a moral statement against its policy of racial segregation. These sanctions won the western governments greater support from their own domestic antiapartheid groups.

3. Tertiary goals. These are goals that affect the international system. Sanctions, or the threat of them, can punish a nation for the violation of international norms. They also can act as a symbol of resolve by the sanctioning nation to deter the target or other nations from displaying future unacceptable behavior. In the mid-1980s, the United States placed fairly comprehensive unilateral trade and financial sanctions on Libya to punish it for state-sponsored terrorism and intervention against neighboring states. Also, western nations threatened to impose sanctions against the Soviet Union if it invaded Poland to suppress the Solidarity trade union in 1981. According to one analyst, this threat could have resulted in the decision in Moscow to repress Solidarity by the Polish government's imposition of martial law rather than by a Soviet invasion. A Soviet invasion would have been perceived as a greater threat to the West.

Sanctions Are More Effective in Achieving Modest Goals

Despite the usual focus on the publicly revealed primary goal, sanctions often can and do have more than one goal. When assessing the effectiveness of sanctions, all goals to be achieved must be kept in mind: (1) public and private and (2) primary, secondary, and tertiary. Policymakers often overstate the publicly revealed primary goal to win acceptance of sanctions by their domestic public or to establish a strong bargaining position to achieve a better eventual settlement with the target. Such overstatement leads to excessive expectations about what sanctions can achieve. Using only the achievement of the publicly revealed goal to determine the "success" or "failure" of sanctions is inadequate. Sanctions are usually least effective in achieving this goal. Evaluating sanctions based only on the publicly revealed goal biases the analysis toward finding that the measures are rarely effective.

When evaluated against the achievement of secondary and tertiary goals, however, sanctions are more successful. In fact, rather than being imposed to achieve the publicly revealed goal of target compliance, sanctions are most often imposed when public pressure in the sanctioning nation demands a stronger response to the target's unacceptable behavior than diplomatic action or when signaling or deterrence is the goal. In some cases, such measures seek to deter by showing that the sanctioning nation is willing to escalate to military action if the target continues the objectionable behavior.

For example, the publicly perceived purpose of the major actions taken by the United States in 1980 against the Soviet Union—the grain embargo, restrictions on high technology exports to that country, and the U.S. boycott of the Moscow Olympic games—was to induce a Soviet withdrawal from Afghanistan. Yet, statements by then-President Carter showed that he also had more modest goals. His speeches indicated that he wanted to deter the Soviet Union from attacking Iran or Pakistan or from attempting to gain control over Persian Gulf oil, all of which he considered strategically more important. The following statements reflect this concern:

> ...A Soviet-occupied Afghanistan threatens both Iran and Pakistan and is a steppingstone to possible control over much of the world's oil supplies.

> ...There was no doubt that the Soviet move into Afghanistan, if done without adverse consequences, would have resulted in the temptation to move again and again until they reached warm water ports or until they acquired control over a major portion of the world's oil supplies.

In this case, some analysts have focused on the publicly perceived primary goal, concluding that sanctions were a failure since they did not compel Soviet withdrawal. If the tertiary goal of deterrence is used, evaluating success is harder. Such evaluation depends on determining Soviet intentions and contrasting those with their actual behavior. It is difficult to determine whether the Soviets intended to take further military action against other nations and whether U.S. sanctions deterred them from doing so by threatening escalation to stronger measures. Yet, given the strategic nature of the Near East region and the level of U.S. concern, a stronger signal than diplomatic protests may have been warranted. Thus, the function of sanctions as a potential deterrent was more important than the primary goal of inducing Soviet withdrawal. In sum, although evaluating the success of secondary and tertiary objectives is more difficult than assessing whether the primary goal has been achieved, this does not detract from their usefulness in achieving these ends.

The Economic Effects of Sanctions

Economic sanctions can raise the costs of trade and finance to the target nation and can slow economic growth but usually do not wreck its economy. Market forces often reinforce import and financial sanctions but undermine export embargoes. Although export, import, and financial sanctions each have unique consequences, their effects can reinforce each other. However, sanctions have many collateral effects on the economy of the target nation and cannot be used effectively as a precision instrument to hurt specific population groups.

Sanctions Raise the Cost of Commerce to Both the Target and the Sanctioning Nation

Sanctions can raise the cost for the target nation to conduct trade and finance activities but usually do not cause extensive damage. As nations in the international system become more interdependent and the volume of world trade and financial transactions increases, it is increasingly difficult to completely isolate a target nation from supplies of imports, markets for exports, and financial inflows. Because economic incentives exist for conducting commercial exchange, the market readjusts when sanctions are imposed. After sanctions are imposed, nonsanctioning nations may supply (or be supplied by) the target nation, and the sanctioning nation may supply (or be supplied by) former customers (suppliers) of the nonsanctioning nations. For example, during the 1980 U.S. grain embargo against the Soviet Union, the nations of Canada, Australia, Argentina, and the European Community increased wheat sales to the Soviets; the United States in turn shifted wheat sales to customers of these countries. The Soviets were able to replace the wheat trade lost from the U.S. embargo by purchasing from these other suppliers.

Such a market readjustment takes time, however, and raises the costs of conducting trade and finance for the target nation by increasing its transportation costs, its expenses for developing new export markets (for example, offering discount prices and liberal financing terms), and its costs for raising capital (for example, increased interest payments). Although the effects of trade sanctions dissipate over time, most of these additional costs remain until the sanctions are lifted. For example, our analysis of western import boycotts of South African products indicated that in 1987, the first year after sanctions were imposed, the country lost $266 million in exports; it recovered all except $44 million during 1988 by redirecting trade to nonsanctioning nations. Yet, the previously mentioned costs of market readjustment remained. Also, because South Africa's exports stagnated while world trade increased, its world market share of products under sanction declined from a presanctions level (average of the years 1984-1986) of 1.36 percent to 0.98 percent in 1987; it dropped even

further to 0.92 percent in 1988. In one particular commodity under sanction—coal—South Africa was forced to sell at a discount on the world market in an attempt to maintain its market share. The country also had to pay a higher-than-market interest rate for what loans it could obtain.

Only in the rare case in which the nation imposing sanctions is also the one dominant producer for an item can an effective unilateral export embargo be imposed. For example, civilian aircraft in the free world are made with at least some U.S.-built components. Sales to a target nation of such airplanes by U.S. and foreign aircraft manufacturers can be stopped by the U.S. government through restrictions on the export and reexport of products containing U.S. components and technology. In addition, spare parts for machines built by the sanctioning nation and located in the target state are sometimes vulnerable to a unilateral export embargo; the parts are hard to obtain from sources other than the original supplier. According to the then-President of Iran, the United States significantly hurt the Iranian economy in 1979 when it embargoed spare parts to retaliate for the taking of hostages. The embargo induced shortages of spare parts and raised the cost of acquiring the items illegally through intermediaries. U.S.-built equipment was critical to operating the Iranian military and the key oil and gas sectors; the embargo on spare parts impaired the activities of these industries.

When nations that constitute a significant portion of world supply or demand for the items under sanction impose the measures multilaterally, actual permanent trade losses can occur. The target will not be able to replace all exports, imports, or financial inflows lost because of sanctions or will take many years to develop new markets to recoup the losses. After the United Nations imposed a strong boycott in the mid-1960s on Rhodesia to pressure its government to adopt majority black rule, Rhodesian exports declined. Exports were 278-million Rhodesian dollars in 1965; in 1966, the first year of sanctions, they were 171-million dollars. Exports did not return to or exceed the 1965 level until 1972.

In the rare cases when sanctions become universal and are enforced by physically preventing commerce—for example, by the 1990 U.N.-sanctioned naval blockade against Iraq—trade losses can be severe. The U.N. embargo was unique because it had an unprecedented degree of international participation and enforcement.

Even in such unique cases, a target can evade sanctions. There were reports that prohibited goods were shipped to Iraq through neighboring

countries. Because there are ample monetary incentives for illegal trade, evasion is substantial in many episodes of sanctions. However, the need for evasion increases the cost of trade and finance because intermediaries must be paid significant fees to "launder" goods and financial transactions to or from prohibited nations through third countries to disguise them.

Sanctions Have Indirect Costs

Indirect costs also result from sanctions. These costs, which include a slowing of long-term growth and sanction-induced inefficiencies in the target nation's economy, can sometimes exceed the direct costs of lost trade and capital. While the effects of trade sanctions dissipate over time, the effects of financial measures multiply. When sanctions cause capital to become more costly or scarce, future investment and long-term economic growth will decline. In South Africa, foreign private and government sanctions on lending and investment in 1985 and 1986 contributed to these effects in the late 1980s. The formal and informal reluctance of foreign nations to infuse new money into South Africa and the higher cost of such capital that the country did obtain caused a chilling of confidence in the financial markets. This chilling caused domestic South African investment to decline, leading to lower rates of long-term economic growth. The average real economic growth rate for South Africa was a sluggish 1.5 percent from 1985 to 1989.

Sanctions can also cause inefficiencies in the target economy when new industries must be created to substitute for more expensive or scarce imports. For example, the multilateral oil and arms embargoes against South Africa caused that nation to make otherwise unlikely investments in expensive and inefficient arms and synthetic fuel industries. Although South Africa became more self-sufficient in the energy and military sectors, that self-sufficiency came at a high price. Import-substitution industries such as those are inefficient because the target nation could use its efforts to produce products more suited to the resource base it naturally possesses. This inefficient substitution lowers the rate of return on investment for the target economy as a whole. When taxes are raised to pay for such undertakings, normal investment patterns can be distorted by rendering other usually feasible projects infeasible.

Sanctions can also increase the costs of trade and finance to the sanctioning nation because it loses mutually beneficial commercial transactions. The additional costs to the sanctioning nation may include lost profits from prohibited exports to and financial transactions with the

target nation. Also, the sanctioning nation generally must pay higher prices for imports from alternative suppliers.

Exporters in the sanctioning nation may complain that the use of embargoes makes their country appear to be an unreliable supplier; this perception can erode future sales. For example, farm organizations in the United States made this claim in the wake of the U.S. grain embargo against the Soviet Union.

Specific Effects of Export, Import, and Financial Sanctions

Sanctions can be imposed that prohibit importing items from the target nation or that prohibit financial transactions with the target nation. These import and financial sanctions, respectively, have separate and distinct effects, although market forces tend to reinforce these effects. Sanctions may also be imposed that prohibit exports to the target nation. The economic incentive to evade such export sanctions or embargoes tends to undermine their effectiveness.

Market Forces Often Reinforce Import and Financial Sanctions

It is often easier for the sanctioning country to obtain international cooperation when imposing a ban on both imports from the target nation and the flow of financial capital to the target nation than when it is imposing an embargo on the export of goods to that nation. A ban on imports from a lesser developed nation can be particularly effective because such nations oftentimes export items that are in abundant supply on world markets—for example, primary products, such as agricultural goods, and widely produced manufactured items, such as textiles and iron and steel. Developed nations, which often seek protection for these same industries, are more likely to participate in boycotts on imports of these items because they also reduce competition from the developing target nation. Their cooperation often extends to enforcement, a common problem when sanctions are imposed.

Import boycotts against goods in excess supply also can benefit from the reduced number of alternative markets available for the target nation to redirect its exports. Therefore, the market forces of abundant supply often reinforce the effects of import boycotts. For example, South Africa's exports of coal, textiles, uranium, and iron and steel were reduced in 1987 from 1986 pre-sanction levels by western import boycotts reinforced by soft markets for these products.

Market forces also frequently strengthen the effects of financial sanctions. When the sanctioning nation imposes bans on lending to or investment in the target country, business confidence in that market is chilled. Private capital from the sanctioning nation or public and private capital from other nonsanctioning nations may cease to flow to the target or may be withdrawn when sanctions or the threat of them are used. A flood of companies voluntarily removed their assets from South Africa in part because further sanctions against that country were threatened. Many U.S. pension funds and universities also divested their holdings in South African corporations. Despite its illegality under South African law, South African capital was also flowing out of the country because of a domestic loss of business confidence.

Banks are especially sensitive to the behavior of other international banks when assessing the risks of doing business in a particular nation. When one bank refuses to lend to a country because sanctions are threatened or imposed, other banks often perceive increased risk and suspend or end their lending. In 1985 French government and U.S. local government sanctions and threatened measures by the governments of the United States, the European Community, and the Commonwealth of Nations (the United Kingdom and its former colonies) played a role in Chase Manhattan Bank's refusal to loan new money or extend the repayment period for South Africa's credits that were coming due. Other international banks followed suit, causing a major financial crisis in South Africa. Because South Africa was getting no new money from banks and funds were flowing out of the country from disinvestment by foreign corporations and the illegal flight of South African capital, the country had a shortage of capital. Similarly, private western banks might have been less willing to make loans after multilateral lenders, such as the World Bank and the Asian Development Bank, suspended new loans to the People's Republic of China in 1989. When such multilateral lenders suspend lending, it sends a strong signal to the international financial community.

Market Forces Often Undermine Export Embargoes

In contrast, market forces frequently work to undermine embargoes on exports to target nations. Abundant supply in many world markets, and the accompanying strong competition for sales, gives exporting companies in the sanctioning nation an incentive to evade any embargo and to sell into the prohibited market by "laundering" the goods through third countries. If these exporters do not act, given the excess supply in the market, the target often can easily get products from competing companies in nonsanctioning nations. For example, the Soviet Union was able to replace

U.S. wheat sales after the 1980 grain embargo by purchasing from other grain-exporting nations. Export embargoes also may cause nontarget nations to switch suppliers because they perceive companies in the sanctioning nation to be unreliable suppliers.

Also, sanctioning governments can fail to honor their commitments to enforce sanctions. These governments can gain political advantage from cooperating in international efforts to punish the unacceptable behavior of a target nation; at the same time, they reap economic benefits by looking the other way as their companies evade the sanctions and illicitly take over the market share of other sanctioning countries. For example, although all of the major oil-producing nations imposed a ban on exports of crude oil to South Africa in the 1970s, that country continues to obtain all of the petroleum it needs through independent oil traders acting as intermediaries.

Export, Import, and Financial Sanctions Reinforce Each Other

When used together, export, import, and financial sanctions can reinforce each other. Although embargoes on exports to the target nation are particularly prone to evasion, they raise the cost of imports to that country. When sanctions are also imposed on financial flows to the target country and on imports of the country's revenue-earning exports, they will reduce the funds available for the target that could be used to pay the higher prices for its imports. For example, a comprehensive, international embargo on exports to Iraq in 1990 raised prices for the country's imports. Iraq's funds that could be used to pay the higher prices were severely eroded by a U.N. boycott of its exports (including the oil that accounts for 95 percent of its incoming revenues) and a freeze on new credit and its overseas assets.

Sanctions Are Not a Precise Tool

Although export, import, and financial sanctions have unique effects, the ability to use sanctions as a precision instrument to pressure certain population groups in the target nation while exempting others is very limited. Sanctions are a blunt instrument and have many collateral adverse effects. Sanctions imposed on one sector of an integrated economy will spill over into other sectors. Furthermore, the target government can take measures to help redirect the costs of sanctions from groups that support it to groups that oppose it or are politically weak. For example, U.S. financial sanctions against Panama in 1988 were designed to reduce funds available to General Noriega's government and defense forces without harming the Panamanian economy. By avoiding infrastructure improvement and repairs and thus reducing investment by 79 percent, however, the Noriega

government was able to redirect the costs of sanctions to the general economy. As a result, it could continue to pay the salaries of the defense forces and government workers and thus prevent these key groups from defecting to the opposition.

Factors Affecting the Success of Sanctions

The historical record of economic sanctions provides some insight into the factors that affect their success. It does not provide any rules or an ability to predict whether any future sanctions will be successful. Several lessons do emerge, however, that point to important issues that would be relevant in evaluating any use of sanctions.

One key lesson is that the likelihood of successfully attaining the foreign policy goals of an economic sanction is usually not determined by the actual economic damage caused by the measures. When the target government faces significant domestic political opposition, imposing selected, moderate sanctions with the threat of more to come is likely to have a greater effect than imposing comprehensive, severe measures that rally the population in the target country around its government. Severe measures can also push target nations closer to countries that are enemies of the sanctioning nation.

Other important lessons concern the nature of the sanctions and the relationship between the sanctioning and target nation, as well as conditions in the target nation. Sanctions are usually more effective when imposed multilaterally or against friendly nations. Cultural characteristics in the target nation may make the country more susceptible or more resistant to sanctions. In addition, the amount of international publicity sanctions receive can positively or negatively affect their success depending on how extensive the measures are and what goal they are attempting to achieve.

Table 4.1 summarizes these lessons, indicating the factors contributing to or reducing the chances for sanctions to be successful. These factors are explored in more detail in this chapter.

Table 4.1: Factors Affecting the Possibility That Economic Sanctions Will Succeed

General sanctions	Specific sanctions	Factor contributes to a positive outcome	Factor reduces chances for a positive outcome
Goals	Compliance with sanctioning nation's political wishes	X	
	Deterrence	X	
	Punish target to uphold international norms		X
	Support opposition groups in target	X	
Severity	Harsh, comprehensive sanctions; severe economic damage		X
	Moderate sanctions and threat of more severe measures as leverage	X	
	Multilateral measures	X	
Attributes of target	Target: friendly	X	
	Target: adversary		X
	Significant political opposition in the target	X	
	Target's cultural norms: strict shame and honor code		X
	Target's cultural norms: similar to sanctioning nation's	X	
Publicity	Publicized threat of more severe sanctions after moderate measures imposed "fifth column effect" predominates	X	
	Publicized harsh, comprehensive sanctions (causing the "rally around the flag effect"		X

Success Is Not Determined by the Severity of Economic Damage

Noneconomic factors are often more important in determining whether sanctions are effective than is the economic damage caused by them. This fact is important because domestic commercial interests in the sanctioning nation often oppose imposing sanctions, requiring policymakers to impose milder, selective measures rather than harsh, comprehensive ones.

One important noneconomic factor is the strength of political opposition in the target nation. When the target government faces significant internal

opposition, economic sanctions can cause powerful interests, particularly those target country nationals with international commercial ties, to lobby the government to comply with the sanctioning nation's demands (the "fifth column effect"). Selected, moderate sanctions, with the threat of more severe measures to come, inflict some economic pain on influential interests, giving them an incentive to lobby for compliance to alleviate the more severe impending threat. The political benefits derived from imposing graduated sanctions override the disadvantage of allowing the target nation time to adjust its economy.

The potential economic damage from threatened future sanctions has more effect on the chances for a politically successful outcome than the actual damage from measures imposed. When harsh, comprehensive sanctions are imposed immediately, business interests have no incentive to lobby the target government for changes in policy to avoid threatened future measures. After comprehensive sanctions are imposed, few stronger economic measures can be taken, removing the leverage of this threat. Furthermore, commercial interests have a greater incentive to cooperate with their government for mere survival (the "rally around the flag effect"—if stringent measures are imposed. This effect can be mitigated with the use of selected, moderate sanctions; that is, both the "rally around the flag" and the "fifth column effects" can occur simultaneously, but the "fifth column effect" will predominate.

Continuing partial sanctions against South Africa with the threat of more to come simultaneously contributed to rallying around the flag by conservative South African whites and to increased pressure on the South African government to end apartheid not only by blacks, but also by more liberal white South African business interests, as well. Such pressure predominated over the "rally around the flag effect" and contributed to the government's willingness to release black opposition leaders from jail, to allow the black opposition to operate more freely, to announce the elimination of laws that were part of the foundation of the apartheid system, and to begin negotiations on a new constitution.

Financial sanctions imposed on Panama in 1988 to harm the Noriega government but not the Panamanian economy also generated both effects. Some groups in Panama supported U.S. sanctions, and others rallied around the government. President Delvalle, deposed by General Noriega and supported in exile by the United States, opposed stronger sanctions because of fears that a widespread backlash would occur among the Panamanian people and overwhelm the fifth column effect.

Therefore, when political opposition exists, the threat of further sanctions is often more potent politically than the immediate imposition of comprehensive measures. When no significant political opposition exists and the fifth column effect is therefore absent, the target government can use an external government's harsh, comprehensive sanctions as a means to rally the population around its policies. For example, according to several analysts, the complete ban on U.S. trade and financial transactions with Cuba from the 1960s to the present allowed the Castro government to use the external threat posed by the United States to win additional popular support. In addition, as a visible symbol of U.S. hostility, the sanctions made it possible for Castro to justify building a large military and establishing tight political controls on Cuban society.

Severe comprehensive sanctions can also drive the target nation closer to countries that are adversaries of the sanctioning country. Even if it would not otherwise do so, a target nation might become more friendly with such adversaries because of the severity of the economic pain caused by comprehensive measures. These nations may replace trade and assistance lost from the sanctioning nation.

The clearest examples of the counterproductive effect of fostering ties between a target nation and adversaries of the sanctioning nation stem from the Cold War rivalry of the United States and the Soviet Union. Some analysts feel that U.S. attempts to isolate Cuba, including the imposition of comprehensive sanctions, encouraged its closer relations with communist nations. After the United States began cutting quotas on imports of Cuban sugar in mid-1960, Cuba negotiated a series of new trade agreements with communist nations. In only 2 years, Cuba redirected most of its trade from the United States to these nations. Before 1960, Cuba conducted 65-75 percent of its trade with the United States, but in 1961, the first full year after the United States imposed sanctions, Cuba was sending 75 percent of its exports to the communist bloc and receiving 86 percent of its imports from these nations. The Soviets also began providing large amounts of technical and monetary aid to the Castro government.

Communist nations also provided substantial trade and assistance to the Sandinista government in Nicaragua to compensate for U.S. sanctions, which were imposed in 1985 and designed to pressure the Sandinista government to reduce military spending, make democratic reforms, and end its support for leftist insurgencies in Central America. The Soviet Union replaced the United States as a supplier of fertilizer, machinery, motor vehicles, and other capital goods.

While this potential counterproductive effect of sanctions is most evident in examples rooted in the Cold War, the end of that conflict does not mean that the potential for any future sanctions to induce closer relations between a target and an adversary can be dismissed. Regional conflicts, for instance, may continue.

Multilateral Sanctions Are More Effective

Sanctions do not have to be multilateral to have positive political effects, though this feature helps. Unilateral sanctions can contribute to the achievement of primary goals, as well as to more modest secondary and tertiary objectives. By imposing import sanctions on the Soviet Union in 1933, the British government achieved the primary goal of obtaining the release of its citizens held by that country. In 1989, India imposed unilateral trade sanctions against Nepal, a traditional buffer against its adversary China, because of the Nepalese government's tilt toward that country. Those sanctions made some contribution to political reform in Nepal, the naming of a prime minister committed to improving relations with India, and the suspension of a Nepalese arms purchase from China.

Multilateral sanctions can usually impose greater economic pressure on the target than unilateral measures. Yet, obtaining international cooperation for sanctions may enhance their political effectiveness through noneconomic mechanisms rather than by inflicting overwhelming economic damage on the target. As more nations impose selected sanctions, the psychological threat of future measures and the potential economic damage caused by them are made more credible.

Multilateral measures also increase the chances for political success by showing that more than just one nation is concerned about the target's behavior, thereby enhancing the political legitimacy of the effort. International ostracism can have a substantial psychological effect on the target population. For example, 3 decades of multilateral sanctions against South Africa, isolating the country in the world community, led to sanctions-induced fatigue. The measures also helped indirectly by showing whites that the western community viewed apartheid as immoral.

Failure of an attempt to get multilateral cooperation, however, can cause sanctions to be counterproductive. Disputes among allied nations over sanctions that are designed to transmit a signal of resolve to the target may convey the opposite signal of weakness and disarray. Allied nations often have divergent economic interests and disagree about whether and what to sanction. For example, after the 1981 imposition of martial law in Poland,

a dispute arose in the western alliance over whether to embargo exports of equipment to the Soviet Union to be used in constructing a natural gas pipeline from that nation to Western Europe. The United States wanted to prohibit the exports to punish the Soviet Union for what it believed was the orchestration of Polish martial law and to delay the building of a pipeline that would generate hard currency revenues for the Soviet Union and increase Western Europe's dependence on Soviet energy. The U.S. government ordered European subsidiaries of American companies and European firms that had contractual agreements to use U.S. technology to refrain from selling equipment containing such technology to the Soviet Union for use in building the pipeline. In defiance of U.S. wishes, the governments of France, Britain, and Italy, on whose territory these companies were located, ordered the firms to sell the equipment to the Soviet Union. The dispute caused considerable disagreement in the western alliance. Instead of sending a unified alliance signal to the Soviet Union that Polish martial law was unacceptable to the West, the alliance appeared divided and indecisive.

A similar episode occurred in 1935, when the League of Nations, led by France and Britain, imposed comprehensive import and selected export and financial sanctions on fascist Italy for its invasion of Ethiopia. A dispute arose between the United Kingdom, which wanted somewhat stronger measures, and France, which wanted milder measures because of its stronger need to cultivate Mussolini as an ally against Adolf Hitler's Germany. The resulting measures, which omitted key items such as oil, coal, and steel from the embargo, sent the opposite signal from what had intended. According to Albert Speer, a former high-level Nazi official, Hitler interpreted the dispute as showing that the United Kingdom and France were too irresolute to stop his further territorial ambitions. In addition, neighbors of Italy—the nations of Austria, Albania, and Hungary—declined to participate in sanctions, creating a large gap in enforcement.

Sanctions on Friendly Nations Have Greater Potential for Effectiveness

A friendly target nation, defined by having substantial economic and political ties to the sanctioning country before sanctions are initiated, will have greater incentives to comply with that country's wishes after the measures are imposed. Potential costs to the target for noncompliance are greater when the sanctioning nation is friendly than when it is adversarial. For example, western sanctions against South Africa played a role in inducing the government to reform the apartheid system, in part because South Africa was politically and commercially tied to the West. The country

conducted about 80 percent of its trade with six industrialized western nations and obtained virtually all its foreign capital from the West.

Despite the increased likelihood of a successful outcome for sanctions against friendly nations, they may be less likely to be imposed. The key ingredient of success—close presanction political and economic ties—will increase the costs for the sanctioning nation to impose the measures.

Cultural Factors in the Target Nation

When the target society has cultural ties to the sanctioning nation or nations, the fifth column effect is more likely to predominate. Elements of the target society are more inclined to identify with the goals of the sanctioning nation. For example, South African whites consider themselves to be part of the western community. One of the reasons sanctions contributed to political reform is that the white community felt isolated and morally ostracized by the western world. Sanctions encouraged more liberal whites to pressure the South African government for reform. Where few cultural affinities exist between the two nations, the target government will find it easier to generate a rally around the flag effect among its people.

Other cultural factors in the target society also may undermine the effectiveness of sanctions. In societies with strong shame and honor codes—that is, countries where "face-saving" is paramount—it may be difficult for the target government to comply with the sanctioning nation's wishes without appearing weak. This shame and honor code was cited by some analysts as a reason for Saddam Hussein's refusal to withdraw Iraqi military forces from Kuwait after his invasion in 1990, even in the face of extensive economic damage caused by the most universally adopted, comprehensive sanctions in history.

Publicity Surrounding Sanctions

Whether conspicuous, public sanctions or behind-the-scenes measures between governments are more likely to be politically effective depends on the goal to be achieved. If the goal is to make the target comply with the wishes of the sanctioning nation, publicized sanctions can be counterproductive especially when harsh, comprehensive measures are employed or the target society has a strong shame and honor code. Publicity for sanctions can magnify a target government's need to take a defiant stance to avoid appearing weak to its people. Furthermore, the publicity surrounding sanctions may allow the target government to consolidate support by means of the rally around the flag effect when it is weak politically or when it needs to avoid blame for its own economic mismanagement. As

noted earlier, Fidel Castro used U.S. sanctions in the early 1960s to strengthen the domestic standing of his new government by depicting an aggressive external enemy. Castro also blamed the country's economic problems on the sanctions.

Under certain circumstances, however, international publicity for sanctions can contribute to target compliance with the sanctioning nation's wishes. International public ostracism by use of sanctions can sometimes enhance the fifth column effect. The previously mentioned rally around the flag effect generated by publicity when using comprehensive sanctions can be mitigated by using selected, moderate measures with the public threat of more. The episode of sanctions against South Africa shows that publicity can enhance international ostracism and isolation of the target and make the threat of future measures more credible.

International publicity is vital when the goal of sanctions is to punish the target for violating international norms, deter the target or other nations from displaying future unacceptable behavior, or show support for the political opposition in the target. U.S. restrictions on new credits, high technology exports, preferential trade status, and International Monetary Fund membership for Poland imposed in 1981-1982 to punish that nation for imposing martial law and suppressing the Solidarity trade union benefited from publicity in conveying its message. Publicity for trade and financial sanctions against Libya in the 1980s was helpful to symbolically express U.S. displeasure for that nation's terrorist activities and interventions into the affairs of neighboring states. Publicity was also vital for the 1980 U.S. export embargo on grain and high technology to deter further aggression by the Soviet Union after its invasion of Afghanistan. In addition to pressuring the regime to end apartheid, public western sanctions against South Africa sent a signal of support to the black opposition. Some analysts believe this signal provided internal impetus for reform by adding international support for the black opposition's cause and encouraging it to take stronger positions against the South African government. This action may have been the most important effect of international sanctions against South Africa.

Sanctions Episodes Assessed for This Report

Target nation(s)	Sanctioning nation(s)	Date
Cuba	United States	1960-
Dominican Republic	United States	1960-62
East Germany	Multinational	1961-62
Eastern Bloc	Coordinating Committee	1948-
Greece	League of Nations	1925
Iran	United States	1979-81
Iraq	United Nations	1990-
Israel	Arab League	1946-
Italy	League of Nations	1935-36
Japan	United States	1940-41
Libya	United States	1978-
Netherlands	Organization of Petroleum Exporting Countries	1973-74
Nepal	India	1989-90
Nicaragua	United States	1985-90
Panama	United States	1987-90
Paraguay and Bolivia	League of Nations	1932-35
Peoples Republic of China	Multinational	1989-
Poland	United States	1981-82
Rhodesia	United Nations	1965-79
South Africa	Multinational	1963-
Soviet Union	United Kingdom	1933
Soviet Union	United States	1980-81
Suriname	United States and Netherlands	1982-
Turkey	European Community	1981-82
Uganda	United States and United Kingdom	1972-79
United States	Organization of Petroleum Exporting Countries	1973-74
Yugoslavia	League of Nations	1921

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