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International Sanctions

Macroeconomic effects and retaliation



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Abstract

In various instances, countries, regional organizations, and the United Nations have resorted to use of sanctions as a foreign policy, as a tool for geopolitics, in order to influence the behavior of targeted states. Numerous researches and analyses have been conducted to observe and understand the effectiveness and impact of sanctions, and subsequently dismiss them as either effective, ineffective, or counterproductive to their intended objectives.

This study seeks to address the aforementioned question; in particular, whether sanctions remain to be an option as a geopolitical tool to influence the behavior of targeted states? The core of this work consists of three case studies: first, sanctions on Russian Federation (2014-present); sanctions on Iran (1979 – present, 2006, 2012 – 2016); and, US trade embargo on Cuba (1960 – present). These case studies have been analyzed from the structural point of view to understand its specifics, background, and plausible retaliation by the state. Then, the technical results achieved by the sanctions are reviewed, and their weaknesses are highlighted. Lastly, numerous relevant arguments are provided to reinforce the conclusion.

As a result, this study concludes that economic sanctions are not very practical and feasible as a geopolitical tool. While they may serve as an initial shock to the targeted country's economy, mostly, they do not succeed in fulfilling the objective of influencing the behavior of targeted states.

Key words: Sanctions, trade, embargo, economics, geopolitics, international

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Introduction

Sanctions: Definition, types, and reasons for placing sanctions

What are sanctions?

Individuals and entities within a country are expected and obliged to follow the set of rules and regulations within the country. These rules and regulations are usually enshrined and encoded in the form of text, and form the national law of that country. All individuals and entities resident in a particular state, unless exempted, are bound by these set of laws that well defined, and are supposed to work for running the country and for the common interests of its people.

Countries and States, on the other hand, are bound by certain obligations to each other under an umbrella term - international law. International law, as according to the United Nations, defines the legal responsibilities of States in their conduct with each other, and their treatment of the individuals within the State boundaries.¹ States might be bounded to follow these laws by signing or being part of treaties, conventions, and universally accepted human rights, that majority of the world agrees upon.

In case of *erga omnes* (applying to all) international obligations, breaching a certain obligation attracts the independent appliance of certain penalties and subsequently the obligation to repair the material prejudices that have been caused.² However, unlike national law - where those who violate domestic laws receive a punishment deemed appropriate by the court - international law has no explicitly defined enforcement mechanism for violations or misconduct. Nonetheless, United Nations charter, or more specifically, Article 41 under Chapter VII, covers enforcement measures not including the use of armed force that form the basis of international law.

¹ <http://www.un.org/en/globalissues/internationallaw/> (access date: 29.02.2016)

² Al. Bolintineanu, A. Nastase, B. Aurescu (2000), *International Public Law*, Bucharest: All Beck Publishing House, p.258.

Like many other topics and terms that fall under public international law, definition of sanctions is labyrinthine at best, and while Article 41 does not explicitly use the term *sanctions*, it does provide us with a list of punitive measures that can be taken while making it clear that the list is not exhaustive:

*The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.*³

Hence, sanctions can be succinctly defined as penalties imposed on State and non-State actors for misconduct and/or violation of their international obligations toward other States and have breached international law regulations.

Different types of sanctions

How these aforementioned penalties may be applied, and to what extent they could be exercised depends upon myriad factors – *reason* and *purpose* being two critical factors. These penalties can take a number of forms, scope, and extent.

These penalties can be unilateral – exercised by one state, or bilateral, where several states wage sanctions against one or more nations.

Accordingly, sanctions can be diplomatic, juridical, military, cultural/sport, economic and restriction in free circulation.⁴

- i. Diplomatic: Breaking the diplomatic relations, expulsion of staff, suspending official visits etc.
- ii. Juridical: Suspending or nullifying preexisting treaties, or preferential partnership

³ <http://www.un.org/en/sections/un-charter/chapter-vii/index.html> (access date: 29.02.2016)

⁴ A. Crăciunescu (2006), *International Public Law*, Concordia Publishing House, Arad, p. 252.

- iii. Military: Enforcement of embargo on armaments (selling, supplying, transferring etc.)
- iv. Cultural: Obstruction in participation in cultural or sport events
- v. Economic: Restrictions imposed by a country in international commerce, in order to convince the targeted government to change its policy; they can in the forms of, among others:
 - Tariffs: Imposing taxes on goods imported from the target country
 - Quotas: Limiting the quantity of goods that can be imported or exported into the other country
 - Embargoes: Restricting trade with the target country⁵
 - Non-Tariff Barriers (NTBs): Restrictions on imported goods, more rigorous licensing and packaging requirements, product standards etc.
 - Asset freeze or seizures: Preventing assets owned by the country or its individual to be sold or moved
- vi. Restriction on free circulation: Interdiction for citizens of a state to enter in the other state's territory, landing or take-off of airplanes/ships belonging to the target state

Recently, there has been a growing trend towards using targeted sanctions for other purposes as well, namely: non-proliferation, counter-terrorism, democratization, and human rights.⁶

Why do we need sanctions?

While the scope and reason of exercising sanctions on another state is mentioned already, one needs to assess why we need sanctions; whether they are an effective tool in achieving our (geopolitical) objectives.

United Nations Security Council first applied voluntary sanctions on the apartheid regime in South Africa in 1963, that later became mandatory sanctions with Resolution 418 in

⁵ 'Sanctions' refer to 'economic sanctions' from this point onward.

⁶ Security Council Report, http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/special_research_report_sanctions_2013.pdf (access date: 29.02.2016)

1977. By mid 1980s, South African growth rate had halved, and the state changed its course on Apartheid within next decade.⁷

Market value of Iranian currency, Rial, crumbled after the newly imposed United Nations Resolution 1984 in June 2011. There were not any significant impact on official currency rates that were kept artificially low, however the effect on market exchange rate of USD/IRR was immediately visible. (Figure 1)

Figure 1: Iranian Real: USDIRR Official vs Market Rate (Jan'10 – Jan'12)



Source: OANDA Historical Rates USDIRR; Market rate data from NPR's *Iran Currency Tumbles*

European Union embargo against Iran in July 2012 had an immediate effect on crude oil exports that make up for a significant portion of Iranian exports. It would be noteworthy that before the EU placed its embargo, one in every five barrels of Iranian crude oil went to European refineries.⁸ (Figure 2)

⁷ Philip I. Levy (1999), *Sanctions on South Africa: What Did They Do?*, http://www.econ.yale.edu/growth_pdf/cdp796.pdf (access date: 29.02.2016)

⁸ <http://www.bbc.com/news/business-35317159> (access date: 29.02.2016)