
Effectiveness and Repercussions of Global Economic Sanctions

Sri Lanka Journal of Economic Research
Vol. 07(1): pp 113-133
Sri Lanka Forum of University
Economists
ISSN: 2345-9913

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Abstract

The economic sanctions are not new ways of imposing international pressure on target economies, it has a long history. However, the powerful counties use the economic sanction to cripple the target economies and then pressuring the target counties to compliance with the measures suggested by the powerful nations. It is very obvious fact that the target counties have not obeyed with the world powerful nations to adopt the recommendations enforced by the powerful nations. Rather the target counties develop alliances with the close allies of those counties to combat the effect of the sanctions on their economies. After enforcing sanctions, the countries face severer humanitarian issues due to limited supply of essential goods particularly medicine. The political impact of sanctions seems very moderate or sometimes after the sanctions are imposed further, the affected countries accelerate the horrible behavior after the sanctions. Hence, the economic sanctions are failed to achieve the intended targets of powerful nations. The humanitarian crises are more pervasive side effects than political motives.

Keywords: Economic sanctions, social impacts, misbehaving countries

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Introduction

The advent of Globalization paved the way to interconnect and integrate all economies and the economic activities into one platform. Literally, it created positive and negative impacts on the economies irrespective of size of the economies. It is known fact that world super powers attempt to leverage their power to control weak economies as it is always the case in the international politics. In international politics, economic sanctions have become a major weapon for controlling the economic, political and financial power of target counter economies in different scales for disintegrating the economies and economic activities. The prime aim of the economic sanction is to ensure target government compliance with the conditions of the sanctions. More cursory definition is that the economic sanctions are deliberating the removal of normal trade or financial relations of a target economy (Hufbauer et al., 2007). If it is further elaborating, the economic sanction is a commercial or financial isolation imposed by one or more economies against a targeted economy, group of economies, individual or corporation. The economic sanction signifies the world that existing behaviour or the norms of sanctioned nation in general not the interest of the rest of the world economies (Wallenstein, 1968).

Past literature revealed that the sanctions come in different forms such as trade sanctions, investments or financial sanctions and targeted sanctions¹. Conversely, the most interesting argument on economic sanction is that whether the economic sanctions properly work in achieving their indented outcomes. There are varying arguments on the success of sanctions excised by the superior countries on the several target economies. For example, Wallenstein, (1968) revealed that sanctions have been failed and not a good tool for protesting and punishing the target country. Basically, the economic sanction is a way for acquiring the power of the counter economy without military intervention and able to create an impact on the target economy or on the imposed economy.

Moreover, Nossal (1989) states that imposing economy fails to change the objectionable policy or behaviour of targeted economy by an economic sanction. It leads to raise a question, why still economic sanctions are imposed in controlling the countries in the world, while economic sanctions do not work as anticipated. As a reasonable answer for the above question, Baldwin (1985) pointed out that politicians employ economic sanctions for expanding their economic power. However, economic sanctions subjected to controversy over the last two decades due to its negative impact towards human rights, democracy, poverty, healthcare, and basic living conditions. More dangerously, economic sanctions lead to enlarge the income inequality in the sanction affected

¹Golliard, M.M. (2013). Economic Sanctions: Embargo on Stage. Theory and Empirical Evidence. Available at <https://tampub.uta.fi/bitstream/handle/10024/84444/gradu06628.pdf>.

economy. The studies of Afesorbor and Mahadevan (2016); Neuenkirch and Neumeier (2016) negative consequences of economic sanctions on the poverty level.

Moreover, economic consequences of the sanction drives through plunging the per capita GDP at an alarming rate, decreasing exports, imports and limiting the international capital flow. For an example, Gross Domestic Product (GDP) dropped from 38 billion USD in 1989 to 10.6 billion USD in 1996 and per capita GDP moved around 500 USD per person from 1991 to 1996 in Iraq due to the U.N. economic sanctions against Iraq over 1991 to 2003². Moreover, sanctions challenge the smooth functions and economic activities of non-sanctions economies as well. The peculiarity of sanctions is that it immediately impacts on the target economy while leading to diminishing or uplifting the sanction affected economy's trade with third party countries. As an example the US sanctions on Russia in 2014 could not create any major impact towards Russian-Indian defense industry³.

The academic literature on the economic sanctions is relatively very vague globally. Hence, promotion of academic dialogs is vital as a policy guide to politically interested parties and policy makers. As such, this paper aims at exploring the ground realities of the global sanctions by reviewing the past global economic sanctions. Therefore, this study primarily focuses on exploring whether the economic sanctions are effective in terms of achieving the intended outcome. Apart from primary focus the paper sheds lights on how sanctions affect on social and economic activities of the sanction affected countries. Moreover, it also explores the fact that how past economic sanctions came into effect and the political objectives of economic sanctions. The balanced sections of this paper are organized as follows. Section 2 explores induces for economic sanctions. Then, section 3 discusses the economic and social effect of selected past economic sanctions. Finally, it argues the effectiveness of economic sanctions in achieving intended outcome.

What Induces Economic Sanctions?

The economic sanctions are instrumented and being applied as an emerging foreign policy tool for some powerful counties to consolidate their political, social and economic interest in view establishing democracy in the world. The ideology of economic sanction is not a current phenomenon; its history goes back to approximately 2,400 years where Athens declared a trade restriction on neighboring Megara. Afterwards, it initially and popularly emerged as a weapon for controlling the behavior of trading partners for another party's interest. The sanctions appear in various forms. Basically, trade sanction or a financial sanction may with a unilateral or the multilateral

² Central Intelligence Agency.

³ <https://economictimes.indiatimes.com/news/defence/us-sanctions-have-no-major-impact-on-indo-russian-defense-ties-envoy/articleshow/65069545.cms>.

form. However, the scope of the economic sanction expands to several areas of the target economy such as; (a) to consolidate democracy and protect the human rights, (b) to isolate a targeted counter economy, (c) to force to change unruly behavior, (d) to change the political regime in the targeted economy, (e) to safeguard the fundamental values and common values of economic union, (f) to strengthen the security of the union. Specially, the United Nations more democratically choose the sanction as a remedy to ensure peace when peace has been vulnerable and political efforts been miscarried. A well-known and very recent example is that United States imposed humanitarian sanction against Syria for exercising the state power by the Syrian government for the civilians by firing chemical weapons to control the uprising. The ultimate aim of the economic sanction is to isolate the horribly behaving countries and then hoping to get them to correct path. The widely used tools are trade restrictions and limiting the capital flow to those counties. For example, Bornstein (1968) stated that an economic sanction is a tool for isolating a country or the group of countries from the international trade and international capital movement by banning their goods and services.

Moreover, economic sanctions are applied as protectionism strategy; to protect the industries in the imposing economy from external competition. The most relevant example is that the United States imposed import tariffs on steel in 2001 as an effort to protect their steel industry from more efficient foreign competitors such as China and Russia. Now again the US president, Trump imposed heavy tariff on steel import from Mexico in order to protect the local industry with some other motives. However, World Trade Organization (WTO) announced that these import tariffs as an illegal action. Further some argued that, the economic sanction is a non-military weapon for consolidating economic power of another country. On the other hand, sanction imposing economy applies economic sanctions to pressure or change the existing political regime of the targeted economy and broaden the economic power. Most convincing evidence is the United States' economic embargo against the Cuban economy and apart from that, the most recent example is the US financial and trade embargo on Venezuelan economy by targeting regime change. Moreover, in 1960, the US imposed embargo for countering to the Castro's regime for ensuring the democracy in Cuba.

Lessons Learned: Economic and Social effect of Global Sanctions

International trade theories allow free trade between two or more nations. A prominent economist David Ricardo (1817) developed a classical economic theory of comparative advantage and established the basis of international trade in the comparative immobility of capital across national boundaries. Further, Ricardo (1817) described that product composition of world trade has differences due to the productivity of the labor resources between the nations. Besides, in 1979, the Heckscher–Ohlin theory concludes that a nation exports those goods whose production is intensively high factor abundant of the

country and imports goods that intensively less factor abundant. Though, in the real-world context, the Ricardian comparative advantage theory as well as Heckscher-Ohlin international trade is invalidated due to the economic sanctions. It became as a tool for political economics rather than promoting the free trade all over the world. Consequently, having explored the theoretical stand point, the remaining section of this section discusses the impact of past sanctions on free trade all over the world and the economic and social impact of concerned sanctions. This study mainly focuses on major sanctions imposed by world major powerful economies. The subjected past sanctions in this study are Cuba, Iran, North Korea, Russia and Sri Lanka.

Sanction on Cuba

As historical literature revealed the Cuba is one of the colonial countries of the United States in the early nineteenth century which gained independence in 1902. Unfortunately, still the United State attempts to control the economic freedom of Cuba. Importantly, past global experience of sanction is that, in 1960, the United States imposed an official ban which is called as an embargo on Cuban economy on exports to Cuba from the United States except for the foods and medicines. It resulted to reduce Cuban sugar quota in the US market up to zero percentage. A ban was imposed on all vessels carrying cargo to the U.S. from Cuba. However, in 1962 U.S. Government extended the embargo for almost all import items from Cuba and it expands through six different layers. The Figure 1 showcases the U.S. trade with Cuba during the period over 1992-2018. It specially shows that, the Cuban economy reported 3.6% imports to the US in 1957, prior to economic sanction. However, it shows that U.S. imports from Cuba take approximately zero in most of the years over 1992-2018 due to the presence of economic ban against Cuban goods and services.



Figure 1: U.S. trade in goods with Cuba (In USD Mn.)

Source: United States Census Bureau.

The most humanitarian issue is that sanction hits the Cuban economy in all most all sectors of the economy. It is obvious that, the embargo on the Cuban economy over the last 58 years negatively impacts on social development, economic development as well

as the environmental aspect of the Cuban economy. One of the major notable consequences of the economic sanction is a violation of human rights. The United States is a superior economy in the world with more regional economic power and advanced technology. It has the ability to cripple any country in the world taking the advantage of the superior power they have in terms of military and economic. For example, Bossuyt (2000) pointed out that Cuba is subjected to deficiencies in new medicines and technology that impact on protecting human rights of Cuban citizens. It is due to the United States has advanced the sanctions, restricting the medical technology and medicine facilities subsequently on Cuba. Further, Bossuyt (2000) explored that Cuban citizens further suffered and disrupted their human rights because United States attempted to transform unilateral embargo into multilateral embargo by forcing other economies to enforce sanctions against Cuban economy. The US Trade statistics indicate that US medical and pharmaceutical exports to Cuba has changed significantly over the past few decades due to this tough measure. It is more visibly shown on Fig. 2.

Additionally, Garfield & Santana (1997) established that a tightening of the US embargo in 1992 on health and health care sector in Cuba had a significant adverse effect on public health of Cuban people. Diminishing the nutritional levels of general public had mounting effect on the rates of communicable diseases. The weakening of the public health infrastructure is the major impact on the healthcare sector of the Cuban economy (Barry, 2000).

Moreover, US embargo on Cuban derived massive economic adverse on both countries. In US economic perspective, embargo on Cuban economy created some negative consequences such as reduction of the revenue of US Airlines, Ports, Shipping and Cruise lines, lost the all the possible construction income from Cuban economy. It also badly hit the US constructors engaged in construction industry of Cuba. However, Congressional Budget Office (1999) noted that the economic sanctions on different economies including Cuban embargo had not created any significant adverse impact towards the US economy.

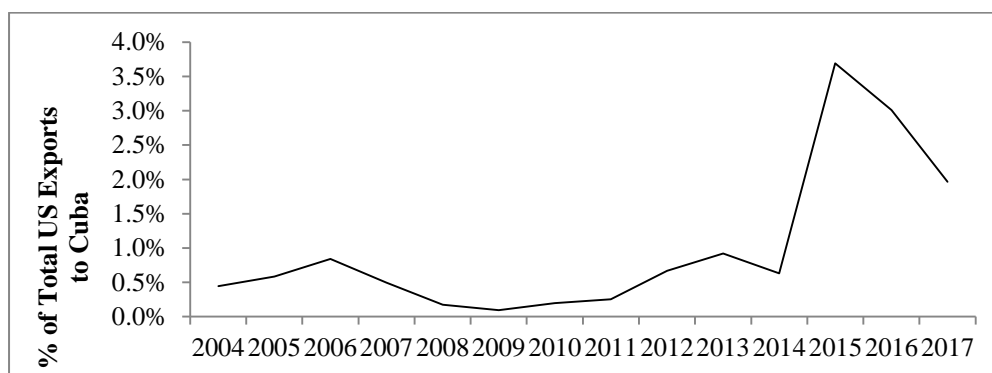


Figure 2: US Medicinal and Pharmaceutical Exports to Cuba from 2004 to 2017.

Source: United States Census Bureau.

Sanction on Iran

Moreover, US imposed an economic, trade and military sanctions against Iran in 1979. This was tit for tat for the misbehavior of radical students; the students seized the American Embassy and took hostage the people inside. Immediately after the economic sanction in 1979, the Iranian economy was fallen down to -27.52% of GDP growth in 1980 and it continued up to 1981. The Figure 5 presents the clear view of the impact. Afterwards, the US government prohibited sales of the weapon and cut down all the assistance to Iranian economy in 1984 which ran to further weaken the economy approximately by 8% of GDP. Further, former American president Bill Clinton extended the Iran economic sanction in May 1995 by prohibiting the oil trade with Iran. President Mohammad Khatami took an effort to get relaxed the US economic sanctions after rigours discussions with President Clinton in 2000 and US agreed to remove the sanctions on few trading items such as pharmaceuticals and medical equipment, caviar and Persian rugs. Unfortunately, again the US imposed economic sanctions against the Iran in 2005 due to noncompliance to the agreement of the UN Security Council.

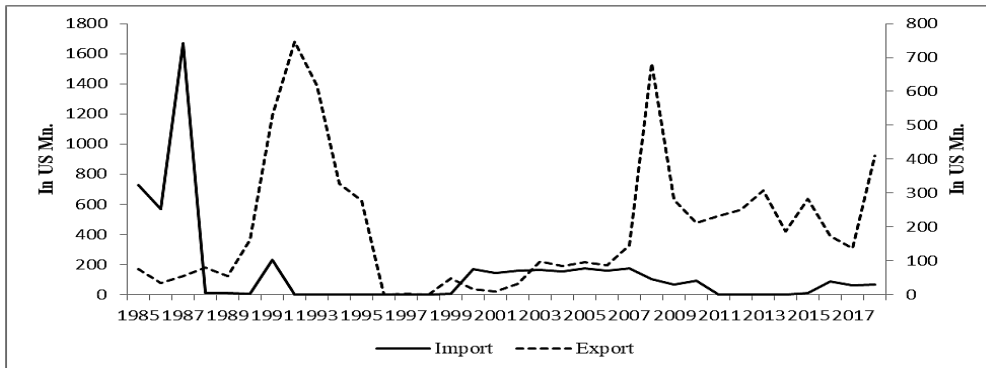


Figure 3: US trade in Goods with Iran (In Mn).

Source: United States Census Bureau.

Figure 3 depicts the US trade with Iran over the period of 1985 to 2018. It clearly indicates that from time to time trade has fluctuated due to the different degrees of economic sanctions imposed by the US government against Iranian economy. It shows that during the period 1992 to 1999 and 2010 to 2015, US imports from Iran took zero; the reason is very obviously the prohibition of oil imports from Iran to US. Iran's oil export reported as 2.6 million barrels per day in 1994, it is approximately USD 13 billion per year and out of which 600,000 barrels were purchased by US companies per day which amounted to between 3.5 billion to 4.0 billion USD per year. During the presidential regime of Clinton, US imposed a comprehensive economic sanction on Iran, and US oil imports from Iran was dropped up to zero. The US sanction has an adverse impact on the Iranian economy in the short run as well as in the long run. However, interestingly, Iran was able to succeed by catering their oil products to new clients in other countries such as India, China, and South Korea.

The Current president of US again imposed economic sanctions on Iran with effect from November 2018. According to the predictions of the International Monetary Fund (IMF), Iran's economy will fall down in 2019 due to this restriction⁴. As an immediate impact, Crude oil exports from Iranian economy will be expected to reduce by 1 billion barrels per day. It will also result for diverting the oil export to other countries. It is also expected that oil price will increase in the near future due to US sanction as supply of oil reduces to the global market. As a result the price will increase to 85 USD per barrel after the first quarter of economic sanction⁵.

As initially pointed out the major purpose of US economic sanction on Iran was to change the unruly behavior of the Iran. However, Amuzegar (1997a & 1997b); Clawson (1998) pointed out that the US government failed to push the Iranian economy to correct path with the sanction. It is obviously evident that economic sanction negatively affected on both countries. Askari et al. (2001) discovered that both countries incurred more cost on economic sanction while Iran continuing the same practices despite the sanctions. Further, Torbat (2005) concluded that US trade and financial sanctions on the Iranian economy have succeeded but the political motive on the sanctions has reported minimum results. Furthermore, Al-Smadi (2018) pointed out that US sanction on Iranian economy an instrument for pushing the economy to collapsing state which causes the living standards of the Iranian people. However, critic says that the aim of the sanction has not been clearly revealed by US counterpart. Impressively, year to year change of the inflation for the month ending of 20, February 2019 reported as 42.2%⁶. It further confirms the argument of Al-Smadi (2018). In summary it is clear that the US has achieved its aim on Iranian sanction considerably than other sanctions.

Apart from, the US economic sanction against Iran, the European Union also imposed economic sanctions against the Iranian economy since 2010 July which targeted individuals, corporations and industries those directly involved in the nuclear activities in Iran. In 2010, the European region's 25th largest trading partner was Iran as well as Iran ranked as the seventh largest crude oil exporter to the European region in 2011⁷. However, in 2012 January the European Union (EU) imposed sanctions against oil imports from Iran which caused devastating effect on oil export to EU. Moreover, Iranian economy has obtained wide range of releases on economic and financial sanctions as an outcome of the discussion with E3+3 country representatives (UK, France, Germany, Russia, China and USA) and the members of European Region under obligations of the nuclear deals were agreed in July 2015. Remarkably, Iranian economy performed well in 2016 by reporting GDP growth of 13.39% when comparing with the previous year GDP growth rate of -1.32% and inflation also bounced back to 8.65%

⁴ World Economic Outlook, 2018.

⁵ Morgan Stanley.

⁶ Source: Iran's Economic Update, April 2019. Available at World Bank.

⁷ ISPI – Analysis (2012).

from 13.69%. The Figure 5 depicts further details about this effect. The economic sanction of European region against the Iranian economy has caused significant harm on petroleum export industry in Iran. It largely reduced their market share in the European economy. Figure 4 further depicts that the change in Iran petroleum exports to the European Region over the period the Sanction is in effect. The European embargo against Iran oil industry has generated many consequences to the Iranian economy. The Iran found some other alternative channels to keep their export market on target. As bargaining power of Iran is weakened due to sanction some other economies benefited trading with Iran. Interestingly, China is able to earn higher discount rates from Iranian crude oil imports, which is later exported to the European Union.

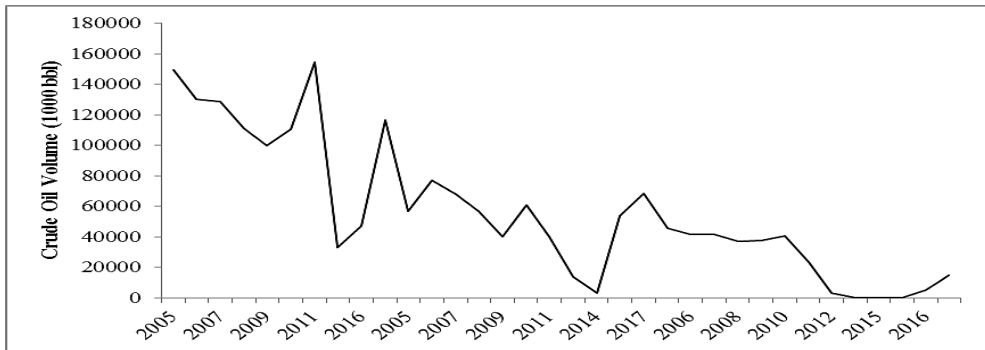


Figure 4: Iran Crude Oil Exports to European Region from 2005 to 2016.

Source: European Commission of Statistics.

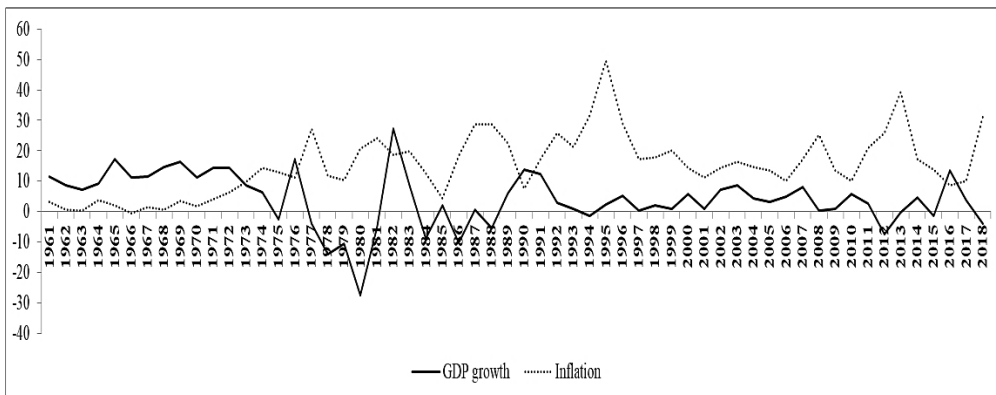


Figure 5: GDP Growth and Inflation in Iran over the period from 1961 to 2018.

Source: World Bank Database.

Sanction on North Korea

Subsequently, global sanctions expanded to North Korea which is in East Asian region which heavily impacted on the countries in the region especially on foreign trade. The first economic sanction against the North Korea was imposed by the United States in 1950s as a tit for tat for the international bombing against South Korea by North Korean government. In 1988, United States labeled the North Korea as a country which

fuels the international terrorism and added the North Korea into the list of state sponsor of terrorism. It lasted for only few years, in 1990s North Korean Government was succeeded in getting relaxation after several rounds of discussions with the United States. This led former president Bill Clinton to sign the Agreed Framework with the North Korea in 1994. Unfortunately, the relaxation of economic sanctions was lasted for a short period due to further continuance of the nuclear programmes by the North Korean government. Therefore, sanctions against North Korea were focused on trade restrictions which cover the weapons-related materials and goods initially and later extended to luxury goods. Additionally, sanctions lengthened to cover financial assets and banking transactions including general travel and trade which caused crippling effect on the Korean economy.

Successively, the United Nations took several attempts to control the behaviour of the North Korean Government by extending restrictions on the economy and trade including the financial services. In view of giving more pressure to Iran on 2006, UN ordered its member countries to hold the export of selected military supplies and luxury goods to North Korea. Further broadening the sanction, in 2009, the UN encouraged all its member nations to inspect the ships and destroy any cargo which is suspicious of being related to nuclear weapons and activities. In March 2013, UN imposed sanctions on fund transfers aiming to reduce the fund transferring to North Korea from the international financial roots. Moving further step, in 2016 sanctions were further broadened by banning the North Korean exports of gold, vanadium, titanium, rare earth metals, coal and iron. The UN economic sanctions against North Korea further extended up to different industries in 2017 notably to the financial sector⁸. In line with the UN sanction against North Korea, one of the member nations of UN which is China imposed sanction on North Korean economy with effect from February 2017 by banning all imports of coal and textiles from North Korea and exports of selected petroleum products to North Korea.

In 2016, Japan also imposed sanctions against North Korea and banned the remittances except remittances which are made for humanitarian purpose. However, it was limited to a ceiling of yen 100,000. In addition, Japan marginalized the North Korean residents by restricting migrating and visiting Japan. Another tough step is banning the entry of nuclear technicians who left to North Korea from Japan. Furthermore, the EU imposed several sanctions against North Korea since 2006. Further extending the pressure, the EU expanded the ban on several other things such as arms and related materials, export of aviation and rocket fuel, luxury goods to North Korea and import of gold, precious

⁸Davenport, Kelsey (1 March 2016). UN Security Council Resolutions on North Korea, Washington, D.C., USA: Arms Control Association.

Fifield, Anna (22 February 2016). Punishing North Korea: A Rundown on Current Sanctions, Washington Post.

Gladstone, Rick (5 August 2017). "U.N. Security Council imposes punishing new sanctions on North Korea.

metals, diamond and sand minerals from North Korea. Furthermore, the restriction of financial support for trade, investment and financial activities, inspecting and monitoring cargoes imported to North Korea and exported from North Korea and restriction on certain North Korean individuals from entering the European Region⁹.

Apart from UN sanction against North Korea, they stressed on their member nations to impose sanctions against North Korea. However, a prominent scholar Noland (2008) pointed out that UN sanction does not reveal any significant negative impact on the North Korean's trade in luxury goods with their largest trading partner of China. It does not imply any indirect negative impact towards the aggregate trade with China. As similar to Noland (2009); Hyung-Gon and Hokyung (2017) highlighted that UN's first economic sanction against North Korea has failed to achieve the desired objectives. It is because the North Korean economy succeeded in importing luxury goods to their large trading partners such as China, Singapore, Thailand, Germany, etc. Even though the North Korean government made every possible attempt to attract foreign investors to the economy, it largely failed. Despite all these pressures, the North Korean government continued the nuclear advancement effort. All these developments created huge political risk in North East Asia in the medium term. It is also forecasted that; North Korean economy will face a big challenge and possible crisis during 2018-2020¹⁰.

The widely accepted fact on economic sanction highlights that economic sanctions are failed to achieve its desired objectives, and some argued that it is not an appropriate mechanism for countering the economies. More dangerous impact of legal sanctions is that the sanction affected country attempts to fulfill the economic targets by illegal means or sometimes tend to commit government sponsored crimes. The purpose of the North Korean sanctions is forcing the country to abundant nuclear advancement. Surprisingly, the most severe repercussion is as reported by KCNA news agency of North Korea is that economic sanctions pushed the North Korean government to speed up the nuclear programmes despite the sanctions.¹¹

Sanction on Russia

Russia was sanctioned by several countries and the international organizations in 2014 for military intervention in Ukraine. The countries participated are United States, Norway, Canada, Australia and the European Union. It was focused on individuals, organizations and government officials in Russia as well as Ukraine. It had caused the

⁹ Fifield, Anna (22 February 2016). Punishing North Korea: A Rundown on Current Sanctions, Washington Post

¹⁰ North Korea: Sanctions will lead to economic crisis, Oxford Analytica Daily Brief Service 08 Jan 2018: 1.

¹¹ <https://www.independent.co.uk/news/world/americas/us-politics/north-korea-sanctions-nuclear-weapons-speed-up-trump-us-un-a7953716.html>.

Russian economy numerous and huge challenges over the period 2014-2016. The economic growth slowed by 0.3% in third quarter of 2014 and it continued till first quarter of 2016 (refer figure 9). Similarly, inflation rocketed from 6.8% in 2013 to 15.5% in 2015. The budget deficit expanded up to 3.2% in 2015 from 0.9% in 2013. In 2014, Russian economy had to suffer 152 billion USD of net private capital outflow which is approximately 200% of year on year change.

Interestingly, the Russia reacted promptly and imposed proportionate sanction on imports of foods from EU, United States, Norway, Canada and Australia. Later it was extended to, some other EU members namely; Italy, Hungary, Greece, France, Cyprus and Slovakia.¹² The Slovakia was the badly affected country. Remarkably, in 2014 Bulgarian Prime Minister Boiko Borisov stated that Bulgarian economy suffered from the economic sanction against Russia too. Bulgaria highly depends on Russian energy. Before the sanction, most of the tourists arrived from Russia and the estimated lost reported more than 3 million USD in revenue per quarter. In addition, Latvia suffered from Russian counter measure on EU regional countries; Latvian exports to Russia have declined by 64 million euros in the first quarter and euros 98 million in the third quarter of 2015 due to Russian countermeasure on EU region.

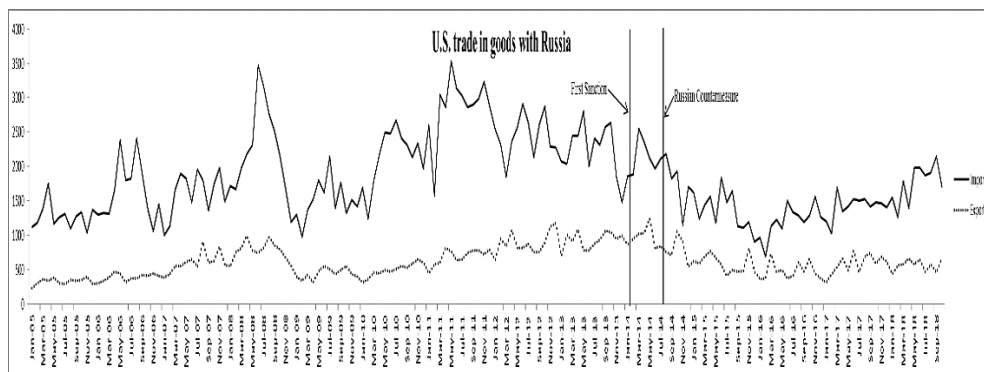


Figure 6: US trade with Russian in Goods

Data Source: United States Census Bureau.

The Russia highly depends on the food imports but from August 7, 2014, Russian president banned the imports of food items to Russia from restricted nations. Figure 5 clearly illuminates that U.S. trade with the Russian economy has significantly decreased after the Russian countermeasure. However, Russian countermeasure caused to create food shortage and increased the price levels of the economy (Mirzayev, 2015). Tyll et al (2018) noted that the decline in the oil price after 2014 was the major impact experienced by the Russian economy after the economic sanction. Further, Tyll et al (2018) revealed that the reason for declining in the oil price is due to the excess supply in the oil market and shale oil production in the United States. Figure 6 depicts that the

¹²Emmott R. & Baczyńska G. (2016). Italy, Hungary say no automatic renewal of Russia sanctions.

Brent crude oil price over the last decade and it shows a dramatic decline of oil price per barrel which further confirms the view of Tyll et al (2018). However, economic sanction against Russia and Russian countermeasure failed to create a significant change in the Russian crude oil exporting industry. Figure 7 indicates the Russian crude oil exports to the world over the period from 2013 to 2017 on monthly basis. Clearly, it portrays that during the period of sanction and countermeasure had not made any significant downturn in the crude oil exports and it shows an upward movement of crude oil exports with volatility after the extension of the sanction in July 2015.

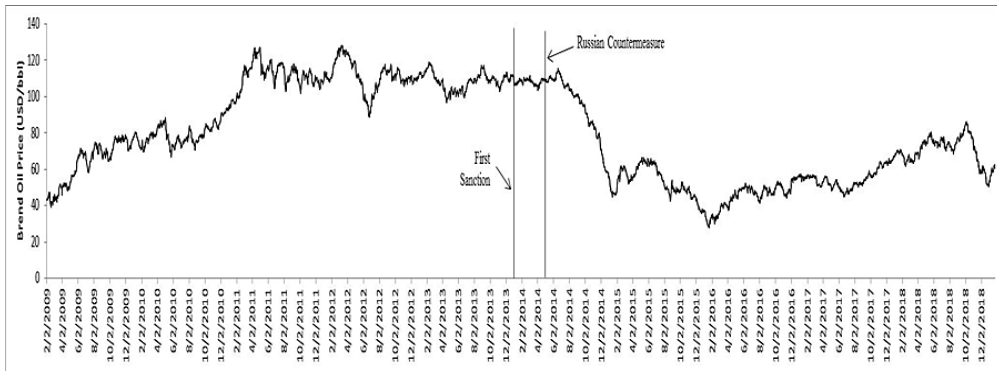


Figure 7: Brent oil price (USD/bbl.) over 2009 to 2018

Data Source: Macrotrends

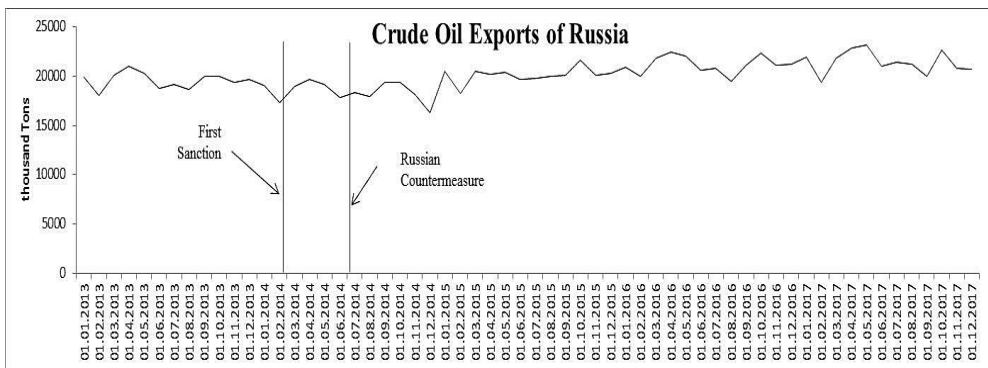


Figure 8: Crude Oil Exports of Russia

Data Source: Ministry of Energy of the Russian Federation

Additionally, Tyll et al (2018) noted that during the period of June 2014 to January 2015 the Russian economy has faced fiscal crisis due to decline in the oil price approximately 50%. However, during the period over 2015 and 2016 Russia has drawn off nearly two thirds of disposable funds to cover the budget deficit. Remarkably, prior to the economic sanction, 75% of the Foreign Direct Investments (FDIs) came from the European region and economic sanction directed to decrease European Union's FDIs by 30%. More specially, western countries had imposed sanction on Russia due to the Ukraine crisis with the expectation of capital outflows from the Russian economy.

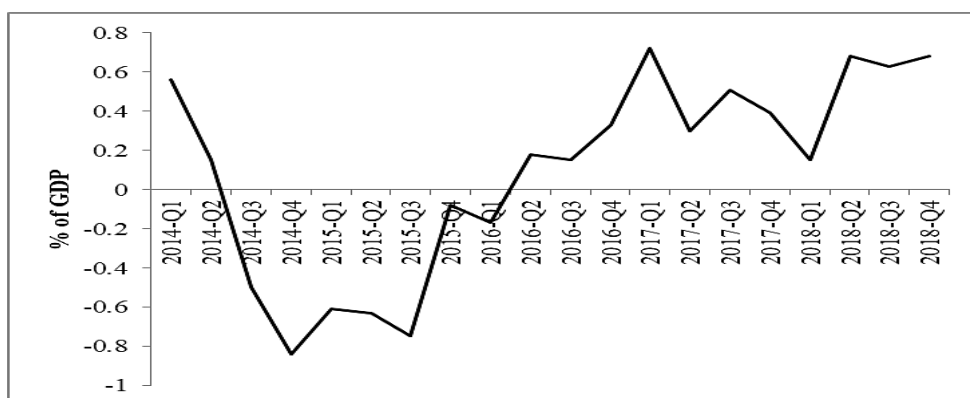


Figure 9: GDP Growth of Russia

Data Source: Macrotrends

US sanction on Sri Lanka

The United States imposed economic sanctions against Sri Lanka during 1961-1965 after the socialist government of Mrs. Sirimavo Bandaranaike was defendant of seizing the assets of U.S. and British oil companies. It resulted to fall down the economy drastically and impact to the GDP was 0.6%. The figure 10 shows how it impacts on the Sri Lankan economy. The liquidity position of the economy severely deteriorated. Further, Olson (1977) noted that Sri Lanka had experienced financial crisis during this period.

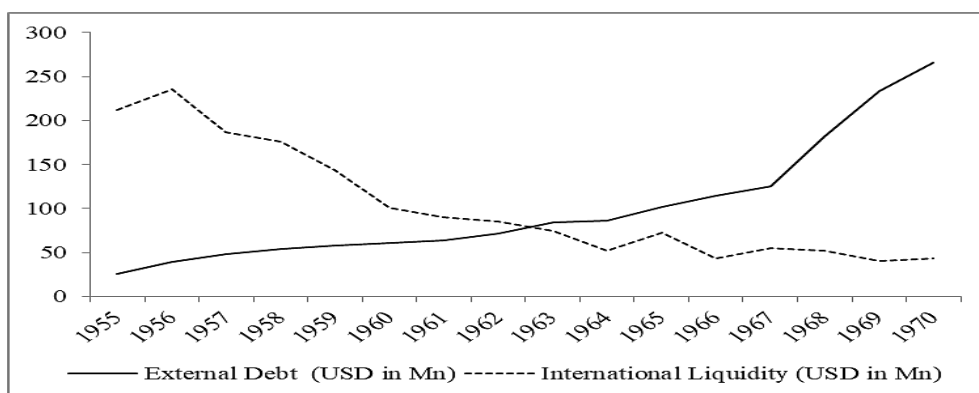


Figure 10: Economic Indicators of Sri Lanka from 1955-1970

Source: CBSL Annual Report & International Financial Statistics

Repercussions of the Sanctions

The close look on the past sanction revealed that majority of the past global sanctions has failed to deliver the intended outcome. As a tool of containing the countries which derailed from the democratic process, the sanction has achieved limited results. As pointed out earlier, Russian sanction has been a success by inflicting damage on EU economies of the Czech Republic, Poland, Estonia, Lithuania, Latvia Bulgaria, Malta, and Hungary. The sanctions against North Korea have been widely debated over the last decade as a failed economic sanction. Despite the sanction the President Kim carried out the nuclear testing creating alarming atmosphere to entire globe. Academic literature suggests that the time length of the sanctions has a direct impact over the success and achievement of the objectives of sanctions. Longer sanctions cost more to the target economy which is considered as an effective move for the success of sanction (Daoudi & Dajani; 1983). Moreover, Torbat (2005) noted that U.S sanctions on Iran are an extremely long and may lead to be diminished the outcomes of the trade sanctions. Interestingly, Dizaji & Bergeijk (2013) argued that the possibility of success of the longer-term sanction is lesser than the short term. Conversely, Martin (1992) noted that longer term sanctions will fail due to non-capability of maintaining international solidarity.

Not surprisingly, Hufbauer et al. (1990) revealed that approximately 43% of global sanctions were succeeded in archiving the desired objectives. Further, in 2009, Hufbauer et al. (1990) proposed some shortcomings of the economic sanctions which hinder the success of economic sanctions; they are namely (a) the degree of economic sanction imposed may be inadequate in order to accomplish the goals and objectives of an economic sanction, (b) when the objective of sanction is to undermine an autocratic regime of target economy, sanctions could in fact join together the targeted economy exiting it stronger and less recipient to change, (c) prosperous partners coming to the target's aid can largely offset the negative effect of the sanction, (d) sanctions could be a probable turn to the sender against its partners if the sanction goes against the self-interest of the partners. Additionally, Hufbauer et al. (2009) discovered that the trade linkage and relative size of the trade in between sanctioned economy and imposed economy cause to determine the success of economic sanctions. The Russian countermeasure on EU region remarked that success to impact on Bulgarian economy by down turning it because Bulgarian foreign earnings highly depend on Russian Tourists arrivals and energy imports from Russia to Bulgaria.

The empirical evidences on the success of an economic sanction are centered on the nature of the economic sanction, unilateral versus multilateral. In other terms, the number of senders (countries which are imposed the sanctions against the counter economy) of economic sanction will determine the success of economic sanction. Further to existing consensus, Caruso (2005); Allen (2008) pointed out that the multilateral sanctions are more effective than the unilateral economic sanctions. It is

revealed that as a multilateral sanction, the economic sanctions of the US, UN and EU against Iran caused an adverse impact on the Iranian economy by recording 9% weakening of the economy. However, multilateral sanctions on the North Korean economy have been ineffective because the North Korean government has not taken any effort to reduce their nuclear testing and other missile testing. Peterson Institute of International Economics (1997) reported that unilateral economic sanctions are less useful due to the increasing cost of sanction. During the period from 1945 to 1990 it is estimated that 29% of US sanctions have recorded success in achieving goals. Though, multilateral sanctions imposed in the same period showed 35% of success rate by verifying that multilateral sanctions are more aim oriented than the unilateral sanctions.

Remarkably, Bapat and Morgan (2009) publicized that the victory of sanctions does not depend on the number of senders but the involvement of the international institutions which determine the accomplishment of the aims of sanctions. However, it revealed that there are quite diverse views on economic the effectiveness and the determinants of success of sanctions. The inclusive argument among scholars is that the success of economic sanctions is somewhat limited. However, there is common consensus that economic sanctions are more probably to be a prosperous tool if it is a multilateral measure.

Social Impact of Economic Sanctions

Generally, Economic sanctions have benefits as well as drawbacks; it is up to the international community to determine the best way for imposing an economic sanction in a goal-oriented manner. Previous studies, as cited above have examined that the wider impact of economic sanctions on different economies to evaluate the usefulness of economic sanctions. Neuenkirch and Neumeier (2016) revealed that United States' economic sanction created negative consequences on the poverty level; especially it led to widen the poverty gap by 3.8% over the period of 1982–2011. Likewise, Lee (2016) discovered that sanctions escalated the poverty gap between urban and rural areas in North Korea because of the economic sanction. Lee (2016) debated that rather than changing the behaviour of the governing regime of the economy, sanctions upturn disparity at a cost for localities. It verifies that, at the basic level, economic sanctions directly affect on economic growth, poverty and inequality.

Economic sanctions will lead to economic suffering and aggravate the poverty of the sanction affected economy and poorest segment of the society will be severely affected. Ultimately, the frustrated government pushes the people to involve in illegal acts such as drugs trafficking, terrorist activities, human trafficking and so on. There is also a risk of government backing illegal activities. For example, Choi and Luo (2013) examined the association between economic sanctions and terrorism by analyzing 152 sanctions over the period of 1968 to 2004. Choi and Luo (2013) contended that poorest part of the economy inspires for terrorist activities due to the external shocks which comes due to

the economic sanction. Interestingly, they further publicized that leaders of the sanction affected economy manipulate the poorest population in the economy to terrorism activities by showing sanctions as a hazard to independence and well-being of the economy.

Political Impact of Sanction

It is widely believed that an economic sanction is a tool for protecting democracy and good governance in a misbehaving country. Importantly, Peksen and Drury (2010) analyzed the magnitudes of economic sanctions in establishing democracy in such countries and discovered that sanctions have influenced for the political freedom and the leadership in the sanction affected economies. Moreover, they argued that economic adversity caused by sanctions may be utilized as a strategic tool by the political administration to amalgamate power and deteriorate the power of opposite parties. In every economic sanction it is expected to establish rule of law and compliance to globally accepted treaties. One advantage of the sanction is that the country possibly brings back to correct track. Because of the fear of global isolation, the sanction affected country moves to formal platform as the isolation leads to several drawbacks on the economy particularly on foreign trade. Another side effect of the economic sanction is that as found Early & Peksen (2018) it increases their informal sector operations.

The critical global view is that economic sanction is not a successful foreign policy, as it causes more divisions and pushes the economies to illegal activities and sometimes countries face devastating impacts. More seriously, it will cause the shortage of essential medicine and essential food items in the target economy. The ban in food and beverage imports lead to deficiencies in calories consumption and malnutrition among children and other vulnerable groups in the economy by harming the quality of the life of the general public. Eventually, import ban of the food and beverage drives for increasing the price levels of the food and beverage in the economy. It is also a noted fact that the pregnant women face severe consequences on health of the new born.¹³

Outcome of Sanctions

What is revealed in the above discussion is that the objective of imposing of sanction is for diverse purposes. However, the available evidences suggest that the success of economic sanctions is largely questionable. It is revealed that the general intention of sanction is pressurizing on the target economy by imposing several restrictions i.e. trade embargo, financial blockage in the universal financial platform. Very specifically, the marginalization of the target economy is the strategic motive of the powerful economies. To mitigate the consequences the sanction affected economies find new

¹³Garfield, R. (1997). The Impact of Economic Embargoes on the Health of Women and Children. *Journal of the American Medical Women's Association*, (52):4, 181–4.

alliances with other countries particularly with the close allies. However, the sanction-stricken economy tends to seek new trade alliances with other economies to gain the lost opportunities due to sanction. As examples, the Russian economy is one of the economies sanctioned by western countries particularly by the European Union and the United States. Interestingly, the Russian economy succeeded to overcome the economic difficulties by making new economic relations with other countries. The Russian government has entered up to the forty new financial and technological agreements with the Republic of China to avoid the external shocks of economic sanctions. To cope with the restriction of agricultural imports to Russia, the trade relationships with Brazil and Latin American countries are visible examples. On the other hand, the North Korean economy also faces mounting economic sanctions. However, China is still maintaining informal trade relationship between North Korea by exporting fuel, seafood, silkworms, and cell phone to North Korea. According to statistics of the Korean Trade-Investment Promotion Agency, the trade between North Korea and China exceeds 6 billion USD per month after economic sanctions. The above facts revealed that; economic sanction is not a superior tool for controlling counter economies.

Conclusion

Practically, globalization and the free international trade bring growth opportunities for any economy through the static approach and dynamic approach by providing benefits to both producers and consumers. Moreover, free trade will encourage economies for gaining the comparative advantage. However, economic sanctions have emerged as a political tool for acquiring economic and political power by the powerful economies. The critical analysis revealed that almost all economic sanctions have failed to achieve its intended outcomes in optimum way. Both imposing and affecting countries suffer greater consequences in varying degrees. It is interesting to reveal the fact that economic sections create new trade alliances in combating the consequences of sanctions by diverting the global trade patterns to new platform. The humanitarian issues created by the economic sections are more pervasive than the possible impact on the incorrigible politicians. The time has come to initiate policy dialog as to how economic sections are implemented minimizing social impact and with a maximum pressure on unruly politicians.

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