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FPC Briefing: How Do International Economic Sanctions (Not) Work?

Dr Lee Jones

Executive Summary
International economic sanctions are used widely to respond to myriad domestic and international crises. While many ask whether sanctions work, a prior question should be: '*how* are they supposed to effect the change we seek, and do they actually "work" this way in practice?' This policy briefing summarises five years of research into how 'economic pain' translates – or fails to translate – into 'political gain' in target states. The starting point is that political outcomes in target states are predominantly determined by struggles between ruling and opposition coalitions of social and political forces. Sanctions 'work' by manipulating the political economy of targets, with consequences for the composition of forces contesting state power, plus their resources, alliances and strategies. Where sanctions can compel ruling and opposition coalitions to adopt strategic responses that meet the goals of those imposing sanctions, they may be 'successful'. However, this is generally possible only where opposition groups are already powerful and well organised. In contexts where oppositions are weak and fragmented, sanctions tend to entrench their exclusion from power, even if they also manage to weaken ruling coalitions. Since this is often the case in states where sanctions are used, sanctions are often ineffective. Lessons for policymakers include the need for careful planning, including plausibly specifying the mechanisms by which they expect sanctions to operate. If the mechanisms cannot be identified, sanctions should not be imposed.

Introduction: Unanswered questions about economic sanctions
In the last two decades, sanctions have risen from obscurity to become a central instrument of global governance and a key policy in many states' and international organisations' security policies. While sanctions had been imposed on only a handful of states in the mid-twentieth century, by 2000, 50 states were targeted. Enthusiasm about their use was tempered by the experience in Iraq, where comprehensive sanctions inflicted colossal human suffering without toppling Saddam Hussein's regime. However, the invention of 'targeted' or 'smart' sanctions – directed at leading regime figures – has fuelled their continued use in virtually every international crisis.

Many have questioned whether sanctions actually work. The conventional wisdom is that sanctions only succeed in meeting their stated objectives in about a third of cases. Their defenders maintain this is better than 'doing nothing'. But this focus on whether sanctions work overlooks a necessarily prior question: *how* are they supposed to work, and do they function as expected? *How* is economic pain meant to deliver political gain? Through what social and political mechanisms? Sanctions experts agree that our understanding of this question is minimal. Yet, if policymakers have no idea of how imposing sanctions is meant to lead to the political outcome they desire, they are inflicting economic damage and human suffering merely in the vague hope that some good will come of it. This is deeply unethical and leads to unsound public policy. Furthermore, if we do not know how sanctions operate, we really cannot tell whether sanctions 'worked' in a particular case or whether something else produced the outcomes we observe.

This briefing draws on five years of research by this author into how sanctions operate, recently published as *Societies Under Siege: Exploring How International Economic Sanctions (Do Not) Work* (Oxford University Press, 2015). It explains how sanctions affect target states' politics, draws on case studies, and identifies lessons for policymakers.

How Do International Economic Sanctions 'Work'?

The Baseline: Social Conflict in Target States
Since sanctions are fundamentally an intervention in target states' internal political situation, analysis of how sanctions 'work' must start with that situation. *Societies Under Siege* argues that politics involves struggles for power and resources between coalitions of social and political forces: social classes and class fractions, distributional coalitions, ethnic and confessional groups, state-based forces like bureaucracies and coercive agencies, and so on. To capture and maintain state power, leading political forces seek to construct broad coalitions of social groups. These hierarchical ruling coalitions are cemented through flows of material resources, ideological projects, and coercion against recalcitrant groups. Those excluded from or opposed to the ruling coalition may form an opposition coalition, seeking to oust the incumbents and capture state power for themselves.

The forces contesting state power in target countries are rooted in a political economy context in three ways. First, some of the groups involved are class forces: business groups, investors, financiers, workers, and so on. Second, all are either producers or consumers of resources. Third, their strategies necessarily involve the harnessing of economic resources for political ends. Thus, for example, a regime whose dominant forces are a section of the local business elite could maintain power, in part, by subsidising the consumption of fuel and food by low-wage citizens, financed by taxing exports. Its opponents could seek to disrupt the regime by organising labour strikes or seizing oil fields, depressing government revenue and thus the regime's capacity to maintain its supportive coalition.

How Economic Sanctions Condition Social Conflict
Economic sanctions 'work' by manipulating the economy of target states, thereby affecting the composition of social forces and the resources available to them.

- Where sanctions cause serious economic damage, and/or last a long time, sanctions can affect the very composition of target societies. If economic sectors contract or are destroyed, the capitalists, professionals and workers populating that sector may be ruined. Individuals may be forced into alternative work, subsistence activities, or emigration. Conversely, long-term adaptations to sanctions, including smuggling or import-substituting industrialisation, can generate new economic actors in particular sectors.
- Sanctions can also alter the resources available to social forces and state managers. A regime dependent on coercion and subsidies to maintain its ruling coalition, for example, could find itself unable to finance these activities.

The impact of different types of sanctions on different societal groups can be summarised as follows.[1]

Type	**Groups Likely to be Affected**
Trade	• Export sanctions: producer groups and exporters harmed. Multiplier effects likely in intermediate sectors. • Import sanctions: consumer groups (e.g. urban middle classes) and sectors reliant on imports harmed; import-competing industries may benefit. Embargoes on key commodities like oil may raise costs economy-wide.

[1] Adapted from Jonathan Kirshner, 'The Microfoundations of Economic Sanctions', *Security Studies* 6(3): 46-9.

	• Smugglers – and their allies – may receive windfall gains. • State agencies reliant on trade taxation may be harmed; revenues may also suffer if trade losses depress overall economic activity. • If sanctions cause exports to fall below imports, creating a balance of payments deficit, government intervention to depress import demand could slow economic activity, with further consequences.
Investment	• In the short term, local capitalists benefit because they may acquire departing foreign firms' assets cheaply, and since capital becomes more scarce, its returns increase. • In the longer term, lack of investment, technology transfer and foreign expertise may depress productivity, profits, growth and employment opportunities, particularly for skilled workers. Economy-wide multiplier effects are likely. • State apparatuses may be harmed directly if investment is an important source of foreign exchange, and indirectly if stunted growth damages tax revenues. • Disinvestment may depress demand for, and thus the value of, the local currency, depressing importers' purchasing power and increasing foreign debt repayment costs for both private and public borrowers.
Aid and Finance	• Directly harms groups dependent reliant on external aid/ finance, e.g. for livelihoods or investment capital. Possible multiplier effects. • Directly harms state apparatuses dependent on overseas aid and loans; and indirectly the sectors upon which these resources would be spent.
Assets	• Harms those with assets frozen and their dependents.
Monetary (currency manipulation)	• Importers, exporters and consumers (private and public) suffer from price volatility and alterations in buying power. • Private and public borrowers with foreign-denominated loans face higher repayment costs. • Government may suffer ideological blow if national currency has ideological resonance. • Non-tradable or subsistence sectors will be less affected.
Arms	• May constrain state's capacity for war or domestic coercion. • As with import embargoes more generally, potential windfall gains for domestic producers and smugglers.

However, sanctions also spur a strategic response from socio-political forces that, over time, shifts their distributional costs and mediates their political impact. Accordingly, one cannot simply 'target' sanctions at groups supporting the target regime and expect them to produce the desired effect: dominant forces are often extremely good at recouping their losses and deflecting the burden of sanctions onto subordinated groups.

- Depending on their political orientation, capacity for collective action and relationship with state managers, groups harmed by sanctions may resign themselves to their losses and become focused on bare subsistence; seek compensation from their patrons; or defect to the opposition.

- A regime whose support base disintegrates as society's composition alters will need to cultivate new supporters to stay in power. This will require ideological shifts and the redeployment of resources, such as the cultivation of import-substituting industries or the reallocation of state subsidies. This may in turn prompt protests or defections from other members of the ruling coalition.
- The same logic applies to opposition coalitions. Groups that are harmed by sanctions or perceive lucrative opportunities in joining the ruling coalition in sanctions-busting activities may defect from the opposition. A population consumed with the struggle for daily subsistence may have little time, energy, or resources to devote to political activism.
- In the longer term, these strategic responses to sanctions may themselves alter a society's basic composition. For instance, the promotion of import-substituting industries or domestic agriculture can strengthen industrial or agricultural working classes and bourgeoisies, which may be incorporated into ruling or opposition coalitions.

It is in this strategic phase of sanctions cases that 'success' or 'failure' is determined. If the strategic response of ruling and opposition coalitions involves political decisions that take the country closer to the objectives sought by those imposing sanctions, 'success' is possible, and vice-versa.

The implication of this framework is that sanctions are a rather blunt and unpredictable tool. Despite the perception of precision that the phrase 'targeted sanctions' may create, it is extremely difficult to predict how actors harmed by sanctions will respond. They will often react in a way inimical to the goals of sanctions regimes and, particularly if they enjoy access to state power, will frequently displace the costs onto weaker social groups.

Case Studies: South Africa and Iraq

South Africa: Although widely feted as a great 'success' story, sanctions against South Africa's apartheid regime were actually counter-productive in the 1960s and 1970s and only 'bit' in the 1980s thanks to the emergence of forceful anti-regime opposition. The early oil and arms embargoes merely stimulated massive import-substituting industrialisation: the formation of Armscor, which transformed South Africa into a major arms *exporter*, and the creation of massive oil-from-coal plants that supplied 40 percent of South Africa's oil requirements. This strategy actually expanded the regime's support base by increasing the size of the white bourgeoisie and professional and working classes. It also fostered closer ties between the regime and the capitalist class in defence of their commercial interests. Sanctions-busting networks also emerged that criminalised parts of the South African state apparatus, particularly the military, which also drew closer to leading business interests.

Sanctions only harmed the regime in the 1980s when decades of economic growth, coupled with the effects of sanctions-busting had changed the composition of South African society. Most importantly, the demands of industrialisation had bred a large, restive, non-white working class in South Africa's cities. By the 1980s, economic growth was insufficient to absorb South Africa's growing non-white population and the townships were becoming ungovernable. Meanwhile, the Afrikaner bourgeoisie was outgrowing the cocoon of state patronage and began chafing against apartheid restrictions on the labour market. Along with the expanded Afrikaner middle class, it formed a social basis for 'reform'. To preserve a ruling coalition, the regime responded to these developments through domestic counter-insurgency and welfare improvements targeted at non-whites, plus modest relaxations of apartheid strictures. However, the financial burden of busting the arms and oil embargoes was compounded in the 1980s by a severe debt crisis (unrelated to sanctions) and by additional, relatively modest sanctions on trade and investment. The apartheid regime simply could not afford to finance repression, welfare and sanctions-busting all at once. However, without repression and welfare spending combined, the dominant forces feared an eventual black revolution. The white bourgeoisie increasingly distanced itself from the regime, reorienting towards the opposition. Eventually the regime was compelled to seek a democratic settlement to avoid the total destruction of white wealth and power.

Iraq: Despite being seen as an archetypal case of sanctions 'failure', the comprehensive embargo imposed from 1990-2003 actually had dramatic consequences. It devastated the ruling coalition. The economic collapse caused by sanctions rapidly destroyed the urban middle and working classes that were the Ba'ath regime's popular support base. Government revenues shrivelled, rendering unaffordable the regime's previous strategies of rule: import-substituting industrialisation, consumer subsidies and military spending. The regime was forced to abandon many erstwhile supporters, concentrating its meagre resources on its inner core: a few Sunni tribes and around one million public servants. It also had to cultivate alliances with newly empowered groups: Iraq's resurgent tribal chiefs and landlords, to whom many state duties and privileges were reassigned, and a newly emergent smuggler class, the 'fat cats' of the embargo. These changes fostered enormous social unrest: inter-tribal warfare; clashes between tribes and Ba'ath party elites; struggles between rival state apparatuses over control of smuggling routes; and at least five coup attempts from 1993-6. As internal regime documents also show, Saddam's desperation to end the embargo also drove significant concessions to those imposing sanctions, especially the effective compliance with United Nations disarmament demands by the mid-1990s.

Nevertheless, sanctions did not produce the regime change that many believed to be their covert goal, at least for Britain and the United States. This was because they had a similarly devastating impact on Iraq's opposition forces, who were already weak, poorly organised and ideologically fragmented. Sanctions drove two million Iraqis to emigrate. Those left behind were consumed in a depoliticising daily struggle for survival, becoming dependent on state and tribal authorities for subsistence and being unable to revolt without placing their survival in jeopardy. The opposition Iraqi National Congress split over the question of sanctions. Most importantly of all, the Kurdish Democratic Party effectively defected to the Ba'athist regime by collaborating in its lucrative, sanctions-busting oil smuggling schemes. This fatally weakened the opposition, allowing regime troops to oust the opposition from northern Iraq in 1995. The Oil For Food Programme then arrested the regime's destabilisation and facilitated a modest recovery in its domestic fortunes, while the opposition withered.

Lessons for Policymakers

Clearly, the effect of economic sanctions does not depend simply on their severity, or on who they initially harm. What matters is how social and political forces in targeted societies change their coalitional strategies in response. While this strategic response is hard to predict and it is difficult to generalise across very diverse targets, *Societies Under Siege* identifies several key considerations.

- The autonomy of social forces from state power matters. The degree to which social forces can survive and thrive without state patronage is crucial to determining whether they will be rendered politically defunct, draw closer to the target regime, or break from it. South Africa's relatively autonomous bourgeoisie and large industrial working class displayed far greater political independence activism than Iraq's urban social classes, who were heavily dependent on state contracts and employment.

- The size, power and organisation of opposition forces is decisive. Partly because sanctions' effects are more destructive than creative, sanctions never mobilise opposition to a regime where previously it did not exist. They do not create opposition out of thin air but must work with what already exists. If an opposition coalition is already powerful and well organised, it may be able to resist the fragmenting tendencies of sanctions. It may also make it impossible for a ruling coalition to displace the costs of sanctions onto it, as in South Africa. The opposite applies where oppositions are weak and fragmented, as in Iraq.
- Targeted sanctions are not a panacea. 'Smart' sanctions appear to avoid the worst humanitarian consequences of comprehensive embargoes by targeting responsible elites rather than entire populations. But because their effects are narrow, their costs are even easier to evade or to displace onto others, meaning 'collateral damage' still occurs. As the case study of Myanmar in *Societies Under Siege* shows, regime leaders and their business allies can easily generate new business activities to compensate for their losses, pass higher costs onto consumers and citizens, and bust smart sanctions by operating through overseas front companies or obtaining passports in fake names.
- Each society is unique and demands devoted analysis. Sanctions are frequently imposed because – or called for with respect to – the assumed (by some campaigners) moral similarity of target regimes. In the 1990s, many anti-apartheid campaigners demanded sanctions on the military regime in Myanmar because they had 'worked' to hasten the demise of another unacceptable regime in South Africa. Today, many campaigners calling for 'Boycotts, Sanctions and Disinvestment' measures against Israel draw parallels between its situation and apartheid South Africa. Yet, simply because sanctions appear to have 'worked' in one country does not mean that even an identical package of sanctions will 'work' in another. Even countries with morally identical regimes have very different political economy contexts, differently constituted ruling and opposition coalitions, and different alliances, strategies and resource distributions.

Planning and Evaluating Sanctions

Given all the uncertainties involved, the intrinsic problems with intervening in the internal affairs of other states, and the risk of inflicting serious harm without generating any productive outcome, policymakers considering imposing sanctions need to develop very rigorous planning and evaluation procedures.

Questions that policymakers should ask before imposing and while designing sanctions include:

- What do we want to happen? Why? What would happen if we didn't act?
- Are we really concerned about the target, or are we acting to appease domestic constituents or international allies? If so, can imposing sanctions meaningfully achieve our goals? Is instrumentalising the people of the target state for these ends legitimate?
- Is there a mismatch between our public and private goals? Does this render either unachievable? In Iraq, for example, the unstated goal of regime change made it harder to achieve the stated goal of disarmament because the regime feared providing full transparency in a way that might make it vulnerable to attack.
- Have we clearly distinguished between means and ends? For example, is destabilisation our end goal, or the means to achieve regime change? Are we really seeking policy change from the target, or just trying to punish it?
- How wedded are the forces controlling state power in the target country to the policy to which we object? Are the coercive means at our disposal sufficient, given the salience of this issue to powerful groups?

- Most crucially, *by what mechanism* is the imposition of economic hardship supposed to filter through into political change?
  - What are the forces contesting state power?
  - What are their attitudes to the policy?
  - What is their relationship to key economic sectors?
  - How might damaging specific sectors affect different groups?
  - How will this material impact condition political conflict and outcomes? For example, do we wish to force the target regime to negotiate with us, or force it from office?
  - If policymakers cannot specify a plausible, step-by-step mechanism by which the infliction of economic pain will generate political gain, they ought not to impose sanctions at all. Doing so merely imposes random suffering in the vain hope of positive outcomes. This is deeply unethical, and poor public policy.

Given the difficulty in predicting social and political forces' strategic responses, it is also essential to monitor sanctioned countries very closely to determine whether the anticipated mechanisms are actually being activated. The key considerations for an evaluation process are as follows:

- Always seek to measure the degree of compliance with the stated goals of the sanctions regime. 'Success' means the achievement of these end goals, not simply the infliction of damage. It is premature to declare that sanctions are 'successful' simply because a country's economy is being harmed, or even if the social and political mechanisms seen as a route to that end are apparently operating.
- Is the anticipated *mechanism* for translating economic pain into political gain actually operating as we intended?
  - Have sanctions affected the groups we wanted, or others? Are the targets displacing their effects onto others?
  - Are sanctions changing the balance among domestic groups, and the strategies they are pursuing, in a way that advances or impedes our goals?
  - If the mechanisms are not operating as anticipated, return to the planning phase: conduct fresh analysis and alter sanctions measures.

Currently the expertise and mechanisms required to conduct this analysis, planning and evaluation simply do not exist within national governments or international organisations. Evidence suggests that they often wrongly consider the mere imposition of sanctions as a foreign policy 'success'. This in turn suggests that they care less about the target state than their domestic constituents and international standing. If policymakers are to avoid this conclusion – and the associated implication that they are merely instrumentalising foreign peoples for political ends – they must develop the capacity to think about sanctions more seriously and responsibly.

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Dr Lee Jones (l.c.jones@qmul.ac.uk) is senior lecturer in international politics at Queen Mary, University of London. For more information on his research, media activity and policy engagements, see his website: http://www.leejones.tk. *Societies Under Siege* is available from Oxford University Press at ukcatalogue.oup.com/product/9780198749325.do. Use code AAFLY7 at the checkout for a 30 percent discount.