Asphyxiation by Sanctions: Harm, Fear and Smog

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Abstract

The current century has witnessed a deluge of economic sanctions, with the attendant entropy. Formal empirical findings of researchers suggest that sanctions have been, for the most part, inefficacious in realising the *diplomatic* objectives of *sanctioners*. The lens through which the broader subject is analysed can, perhaps, benefit by: (i) explicitly recognising and incorporating *externalities*; (ii) an acknowledgement that degrading a *target* economy is a time-consuming *process* rather than an event and (intermediate) outcomes should be appropriately *granularised* (active sanctioners may already be doing this); and (iii) lifting the smog by *distinctly* estimating the *incidence* on diverse stakeholders of the *welfare* cost of sanctions, countersanctions, and secondary sanctions (including linked threats); these pose a global risk as sources of *systemic* economic-financial policy uncertainty. The extant gaps in the work of multilateral financial institutions belie their role as unbiased arbiters of assessing policies of their members.

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Time will tell if we are in an era of war, but, undoubtedly, we are in the era of economic sanctions.[1]

1. Introduction

Few will disagree that the scale of sanctions this century has contributed to global economic disorder, and that the overhang, conceivably, has been a factor in vitiating the investment climate. In case one was to summarise in a sentence the disquisitions on economic sanctions, it could be the following: if war is the pursuit of diplomacy by other means, economic sanctions are an instrument to inflict damage by an alternative agency.[2]

Sanctions are akin to laying a slow-burning siege. Wars are waged to exact direct physical destruction; economic sanctions and associated extraterritorial instruments are, in the first place, wrought to engender direct economic *harm*, and eventually indirect material damage, including to human capital. Qualitatively, the final intent is not different. And the underlying instrumentality is the same: harm and fear.[3]

It has been argued, with justification, that wide-ranging cross-border economic curbs have increasingly been a subterfuge for pursuing mercantilist trade and investment policies against foreign national champions. I have kept this frame of reference outside the purview of the paper.

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[1] Apparently, sanctions (or embargoes) have been around for millennia. The Megarian Decree in 432 BC is one of the earliest chronicled ones, when Megarians were forbade from using the ports and markets of Athens.

[2] Baldwin, David A. 1985. *Economic Statecraft*. Princeton: Princeton University Press.
Blackwill, Robert D., J. Harris, 2016. "War by Other Means: Geoeconomics and Statecraft", Cambridge, MA. Belknap Press.

[3] Using the term violence, instead of harm, may come across as emotional, hence is eschewed.

To use a central banking terminology, the impact on *current* and *potential* output of an economy, compared to a conflict-free basepath, is felt almost instantaneously in a military war, but with sanctions, the sanctioned country's national balance sheet is degraded over time.[4]

The literature is forthright that economic sanctions – curbs on trade & shipping, banking, payments channels, capital markets, insurance, conditions on assets and liabilities of multilateral development banks – are a substitute for military war for lining up the diplomatic agendas (see Table 1 below). Moreover, a negative narrative, combined with the (threat of) sanctions, carries the risk of undermining confidence and provoke a speculative attack on a country's currency.

Table 1: Goals for sanctions, 2000-2022

Objective of sanctioners	Number of sanctions
End War	129
Prevent War	68
Terrorism	88
Policy Change#	119
Destabilise Regime	10
Human Rights*	226
Democracy*	176

This includes nuclear proliferation.
*There is overlap, that is, sanctioners seek more than one concession from the target with the same set of sanctions.
Source: see footnote 15 for Tables 1 and 4-6.

Sanctions, countersanctions and secondary sanctions (and the linked threats) are an integral part of international economic reality, akin to other policies which have pervasive cross-border intertemporal effects and, therefore, deserve to be analysed in an unbiased way, fully and transparently, rather than skirted.

[4] The weakening of the target then leads to a change in military production (Pape, Robert A., 1997, "Why Economic Sanctions Do Not Work," International Security, Fall 1997, vol. 22, pp. 90–136.)

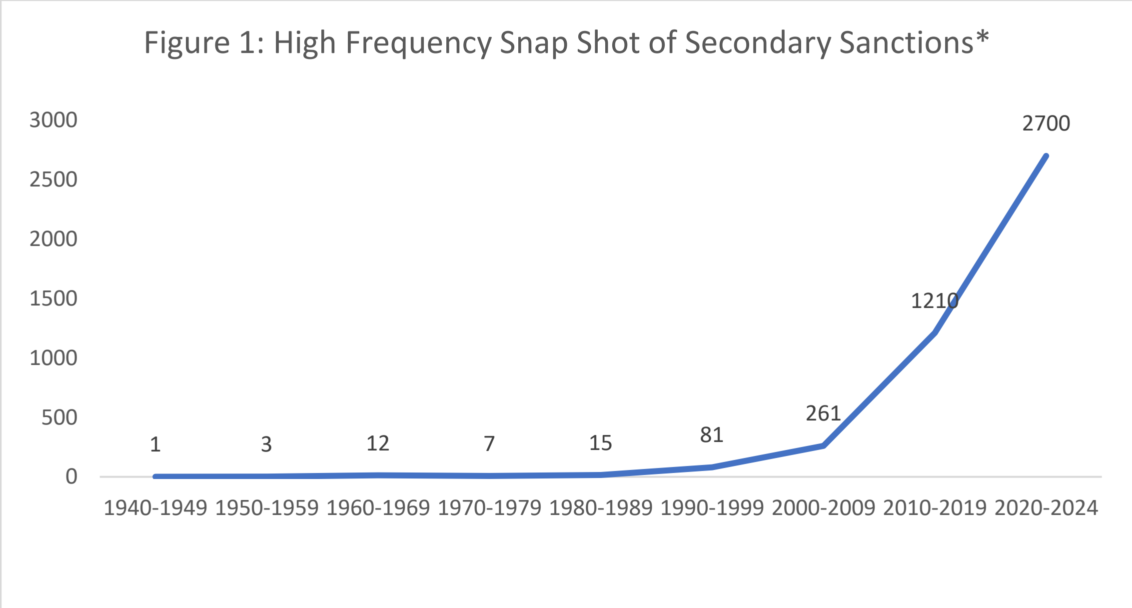
The nomenclature of war is teleported by researchers, albeit selectively, perhaps in a nod to being sensitive and to avoid controversy. A sanctioned country, the recipient, is called 'target' (the paper uses these two terms interchangeably). A sanctioning authority[5] is termed 'sender', a polite term as in 'sending a vacation postcard from distant lands'; 'targeter' could be more apt and help to make the war analogy complete. Sanctions have been described as "siege warfare" and ends are to be achieved by "weakening the enemy". Academic articles on economic sanctions revel in using "new weapons", "weaponised tariffs", "the weapons race", etc. The term 'smart weapons' has been usurped into 'smart[6] (or targeted) sanctions'[7]; the dictum that truth is the first casualty of war is true of sanctions ('smart sanctions are not harmful to anyone else!'). Smart, as opposed to comprehensive, sanctions have coincided with an *unending proliferation of secondary sanctions*, indirectly implying that for the former to work the latter *force-multiplier* is necessary (see Figure 1 below).[8]

[5] Can be a country, a grouping of countries, or a multilateral body (usually the United Nations).

[6] These are known as *list-based* sanctions, which have "allowed the U.S. government to more precisely target persons and groups who pose a threat to national security, foreign policy, and economy of the United States; list-based sanctions have been particularly helpful from a law enforcement perspective of the US Treasury's Office of Foreign Assets Control."

[7] The 9/11 attacks in 2001 are cited as catalyst for US smart sanctions ("to minimise the suffering of innocent civilians"). The President's Executive Order 13224 on September 23, 2001 provided US Treasury Department officials with "far reaching authority to freeze the assets and financial transactions of individuals and other entities suspected of supporting terrorism". In conjunction with the USA Patriot Act, "Treasury [Department] needs only a *reasonable suspicion* (my emphasis) – not necessarily *any* evidence – to target entities under these laws" (Jonathan Masters, June 24, 2024, "What Are Economic Sanctions", Council on Foreign Relations, Washington, D. C.).

[8] Smart sanctions are obviously not so smart: given macroeconomic interlinkages and the dominance of the dollar in global liquidity provision, cutting off payments' mechanisms for, say, specific transactions have unforeseen collateral consequences. Smart sanctions engender multiple externalities.



*The number of results returned for 'secondary sanctions'.
Source: Google Scholar, accessed November 16, 2024

Hardly a month passes without reports of further sanctions, usually secondary ones, oftentimes under the radar; the *sui generis* 'whack a mole' nature of these adds to the capriciousness, on par with a turn of the roulette wheel. Sanctions are a headwind for the global economy that does not subside – only arbitrarily strengthens over time. The *network* effects of such unidirectional expansion, *sanctions deepening*[9] if you will, cannot be negligible.

<u>Updating the lexicon</u>

Another evocative analogy harks back to cowboy movies where the country that places sanctions gathers a 'posse' of likeminded allies, the good guys, to punish the bad guy, the target.

The extant nomenclature is utterly reflective of a sanctioner's mindset that, inevitably, carries bias. It is natural that the lexicon is expanded to bring it up to date in consonance with the war-like attributes of current usage, and the sensibilities of sanctioned countries and third parties.

1. Sanctioning entity should be labelled (primary) *sanctioner* (or targeter).

[9] Pernicious analogue of capital deepening.

2. Secondary sanctions and the accompanying *ricochet* should be a central part of the discussion as they affect an expanding list of countries and sectors – the *secondary sanctioned*. These extraterritorial sanctions are enforced to impede the activity, economic and commercial, of governments and businesses of third countries; they are a means of influencing the decisions of countries that would not otherwise be in violation of a sanctioner's primary sanctions.[10] Consequences, instantaneous and lagged, are felt in the balance of payments, domestic investment, credit worthiness of projects and the government's fiscal position. This is an *economic externality* on which little (quantitative) light is shed.

   For India, the list of 'designations and updates' have 66 entries (related to Russia, Iran, Syria, Cuba, North Korea, anti-/counter-terrorism, and arms proliferation) on the US Office of Foreign Assets Control (OFAC) website; Brazil has 33 entries; and China has 240.[11] Traversing the intricacies of a sanctions regime (with the danger of being summarily debarred from some activities on the *suspicion* of transgression) can be tricky and increases the cost of doing business. For a condensed illustration of complications for India see Table 2 below for a sector breakdown and Table 3 below for country of origin of the entities in India that have violated US sanctions.

[10] Primary sanctions apply to the sanctioning country's persons or to instances where there is a sanctioning country involvement; it covers contribution of a sanctioning-country person, and sanctioning-country goods or transactions that take place within the sanctioning country borders vis-a vis the target country. Secondary sanctions are imposed to prevent third parties/victims (not subject to the sanctioner's legal jurisdiction) from dealing with a target (and entities therein) that is subject to sanctions issued by a (primary) sanctioner, even if these third parties are not citizens of the sanctioning country or based in the sanctioning country; they face penalties for doing business with the targeted country or individuals. About secondary sanctions, the US, which is by far the dominant sanctioner, authorises Office of Foreign Assets Control or the State Department to threaten sanctions on a person, including a non-US citizen, for a specified activity. The sanctions are intended to discourage non-US persons from participating in specific transactions, even if these transactions are not subject to primary sanctions. Distinct from primary sanctions that are enforced by fines or seizure of US-held assets, the secondary sanctions instrumentality is heavily dependent on the importance of the US financial system and the use of the US dollar as the global numeraire (unit of account) and the principal currency for settling cross-border transactions.

[11] A search on the OFAC website for secondary sanctions throws up 3,835 results of which 625 are Russia-related.

Table 2: India: Impacted sectors

Sector	Number of entities
Agriculture	1
Electronics Components (semi-conductor distribution)	1
Financial	4
Food and Beverage	2
Information Technology	1
Petrochemical	3
Petroleum and Petroleum Products	1
LNG Tanker	1
Sea and Coastal Freight	1
Shipping and Maritime	9
Technology and Digital Transformation	1
Telecommunications	1
Tobacco Products	1
Transportation	1
Travel and Hospitality	1

Table 3: India: Countries of origin

Country of origin	Number of entities
China	1
Hong Kong	1
India	16
Iran	1
N. Korea	1
Russia	4
UAE	5

Source: Compiled from OFAC data.

3. Third-parties can legitimately be identified as *victims* of the collateral damage schemed by sanctions and secondary sanctions.
4. The US is the 'hegemonic' sanctioner.[12] [Caution and apology: This paper may strike as biased; however, given the undoubted preeminence, by a considerable distance, of the US government as policy practitioner around sanctions, it cannot be helped.]

[12] It is analogous to labelling the US as an economic hegemon – an expression that is widely used.

5. Sanctions busters christened, disparagingly, 'black knight states' are *white knights* for sanctioned countries and resultant victims.
6. China, Eurasia, and the transitivity of geography spawned by physical proximity are significant elements. Accept China as a practical 'safe harbour' – a *hegemon saviour* of sorts – more so for countries caught up in the vortex of sanctions in Asia and the neighbourhood.
7. We should situate the relatively unfamiliar international financial architecture that is gradually shaping up around the BRICS and AIIB as a risk mitigant; a rational response to the ever-expanding sanctions blanket.

<u>Tweak the approach</u>

The paper attempts to make a case for the following adjustments:

(i) Reexamine and *augment* the *definition* of payoff to the sanctioner(s). Pay attention to externalities for a fuller comprehension of the ramifications of sanctions and secondary sanctions; presently, the incidence of *harm* to third countries is under appreciated (behind a veil?).

(ii) Modulate the classification of a successful sanctions regime. We have to diverge from the binary/discrete 'success' or 'failure' barometer to make sense of orthodox observations. Specifically, rationalise the yardstick of evaluation by *granularising* it.

(iii) It is not unreasonable that an emerging market perspective is necessary.

(iv) We must include accretion of sanctions and secondary sanctions and the externality inherent in them as a *source of policy-induced (global) economic uncertainty*, similar to the destabilising global macro shocks emanating from (occasionally erratic) announcements and implementation of conventional macroeconomic policies – monetary and fiscal – of systemic economies, viz., the US, the EU and China. The doubt and *fear* engendered by the frequency of fresh sanctions is non-trivial,[13] with its inbuilt 'extra turn of the screw' bias. There is rationale for a sanctions calculator; policy estimates of externalities can provide, *inter alia*, navigational beacons for the possibility, however remote, of course correction.

Uncertainty and trepidation around secondary sanctions is not theoretical; anticipation effects on investment are real. Ponder over the following timeline of development of Iran's Chabahar Port with Indian investment:[14]

- Talks started in 2003; subsequently, US sanctions targeting Iran put a hard break.
- Talks revived after the US eased sanctions in 2015 under the Iran nuclear deal.
- Tripartite agreement signed by Iran, Afghanistan and India in 2016.
- In 2017, the first shipment of Indian wheat to Afghanistan was unloaded at Chabahar.
- In 2018, the US withdrew from the nuclear deal, and "reintroduced maximum pressure sanctions" on Iran. This limited operations at Chabahar Port.
- In 2024, after India had signed a 10-year agreement with Iran to develop and operate Chabahar Port, the US State Department at a press briefing in May said: "Any entity, anyone considering business deals with Iran, they need to be aware of the potential risk that they are opening themselves up to and the potential risk of sanctions". India has been warned!

(v) Address the scantiness of information on who bears the cost of sanctions. It is critical to *disentangle* the effects on the global economy of continuing wars, sanctions, and the mushrooming of secondary sanctions on third

[13] I can personally vouch from direct professional experience that the unpredictability/threat of secondary sanctions, especially through the external payments channel, has created a miasma for third countries on the real likelihood of discrimination and disproportionate punishment that is embedded in them.

[14] Source: //www.aljazeera.com/news.

countries. The international media disregards this facet *in toto*. Can anyone recall when an analyst based in a sanctions-impacted country was interviewed on the theme by BBC or CNN? It is noteworthy that on the eve of the 16th Annual BRICS Summit in Kazan, Russia, the BBC's expert analyst on the topic was an academic in Ireland (October 22, 2024).

The plan for the rest of the paper is as follows. In Section 2, incongruity in aspects of the sanctions discourse is identified. In Section 3, explanations are offered to square the circle. In Section 4, choices of important stakeholders to eschew transparency on the welfare repercussions of sanctions, secondary sanctions, countersanctions, and the externalities innate in these policies is highlighted. Concluding remarks are offered in Section 5.

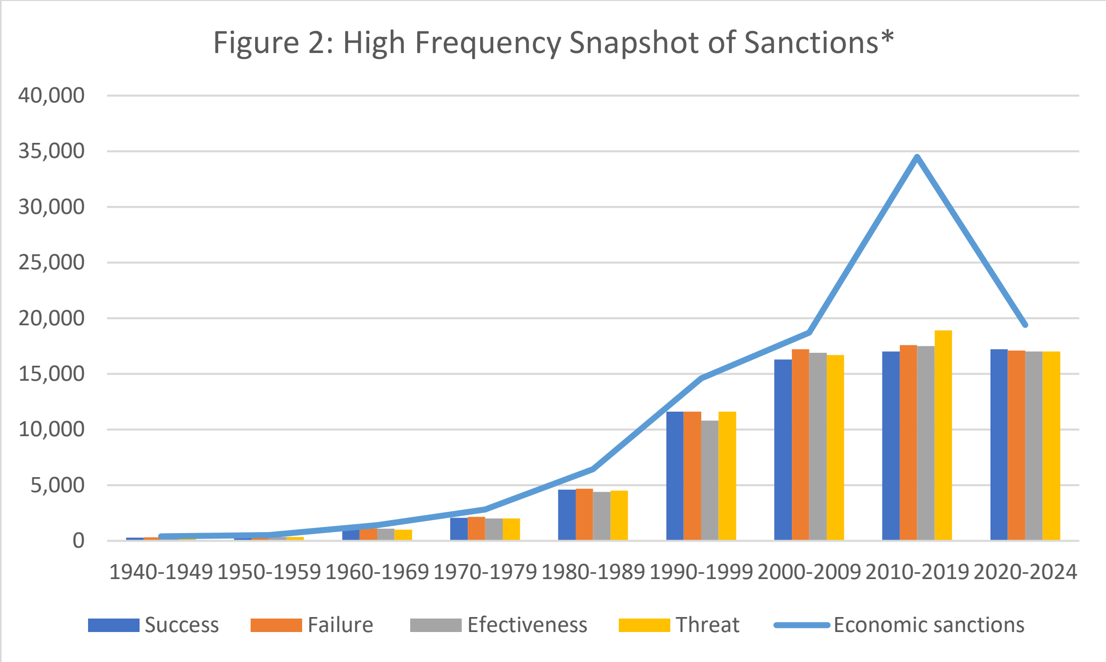
2. Dissonance

Dissonance #1: number of sanctions and (perceived) ineffectiveness

On balance, formal academic data suggests that economic sanctions are not that successful in effectuating stated objective(s) of the sanctioner (Global Sanctions Data Base, GSDB, Felbermayr et al. [2020], Kirilekha et al. [2021], Syropoulos et al. [2023]).[15] (See Figure 2 below for a high frequency picture.)

Out of 687 sanctions since 2000, less than one-fifth are judged 'total successes'; when 'partially successful', which number 167, are added to the count of 'total success', the fraction is one-fourth. It can be argued that recent sanctions have not had sufficient time to gain traction and reach thresholds that force targets to change behaviour.

[15] Felbermayr, G., A. Kirilakha, C. Syropoulos, E. Yalcin, and Y.V. Yotov, 2020. "The Global Sanctions Data Base," European Economic Review, Volume 129.
Kirilakha, A., G. Felbermayr, C. Syropoulos, E. Yalcin, and Y.V. Yotov, 2021. "The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency," in The Research Handbook on Economic Sanctions. Edited by Peter A.G. van Bergeijk. Elgaronline.
Syropoulos, C., G. Felbermayr, A. Kirilakha, E. Yalcin, and Y.V. Yotov, 2023. "The Global Sanctions Data Base - Release 3: COVID-19, Russia, and Multilateral Sanctions," Review of International Economics, vol. 32, pp. 12-48.



*The number of results returned for ‘economic sanctions’, ‘success’, ‘failure’, ‘effectiveness’ and ‘threat’.
Source: Google Scholar, accessed November 16, 2024.

There are many sanctions that do not end – close to watching paint drying. Reflect on two examples, viz., sanctions on Nigeria by the US in 2003 are ongoing; those by the EU on Moldova in 2003 are continuing. These are either where there is a failure to recognise that they have been futile, or, there is expectation of success, or, perhaps forgotten by sanctioning bureaucracies! There are instances when recognition of miscalculation was swift – sanctions on India in 1998 were lifted within 2-3 years of imposition. Others like that on Uzbekistan during 2003-2012 by the US failed after being active for a decade. Heterogeneity in behaviour of a sanctioner along the dimension of length of sanctions on a target necessitates reasoning. (In the next section a heuristic framework is sketched to elucidate this.)

Unsurprisingly, the US stands out as a sanctioner[16]: of the 1,325 sanctions since 1949 globally, 486 have been *by* the US and 11 have been *on* the US (most recently

[16] The US imposed *comprehensive* curbs on Cuba (since 1960), North Korea (2006), Iran (1979), Russia (2014) and Syria (2004, after being designated as a sponsor of terrorism in 1979). The US currently administers 38 ‘sanctions programmes’, one of which pertains to ‘Chinese military companies’ (OFAC website).

countersanctions by China and Russia, for obvious reasons).[17] [18] US-led sanctions jumped in recent decades, supposedly, due to the collapse of the Soviet Union (see Tables 4 and 5 below). OFAC currently administers more than thirty sanctions programmes.[19]

Table 4: Number of sanctions by major sanctioners/targeters

Country/Grouping	1990-2022	2000-2022
US	339	263
EU	137	100

Table 5: Sanctions on Asia* (noticeable step up after the 1980s)

Decade	Number of fresh sanctions
1950s	17
1960s	24
1970s	35
1980s	25
1990s	57
2000s	55
2010-2022	68**

*Excluding Russia; includes Central Asia.

** Main targets: Myanmar (12), China (10), North Korea (10), Afghanistan (6), Cambodia (6); Indonesia (4), Pakistan (3), Taiwan (3), Philippines (2).

Much of the empirical work on determining the economic effects of smart sanctions centres on a target country around trade in goods, and services that are adjacent to this exchange.[20] The spectrum of economic sanctions has ballooned from

[17] Source: see footnote 15.

[18] Total active sanctions by the US, according to Washington Post, are more than 15,000; presumably this is inclusive of secondary sanctions at the individuals' and entities' levels.

[19] The second largest non-UN sanctioner after the US is the EU.

[20] For recent examples see Daniel P. Ahna and Ludema, R., 2020, "The sword and the shield: The economics of targeted sanctions", European Economic Review, 130; and Egger, P., C. Syropoulos, and Y.V. Yoto, 2024, "Analysing the effects of economic sanctions: Recent theory, data, and quantification", Review of International Economics, vol. 32, pp. 1-11.

trade curbs, military embargo and end-use restrictions on bilateral foreign aid to a macro-financial inventory compounded by elaborate secondary sanctions – a fluid catalogue of don'ts on third parties – comprising banking, capital markets, insurance, pressure on multilateral development banks and limiting (official) debt servicing capacity, which have a bearing on credit rating and solvency (Table 4 below).

Table 6: Evolution of sanctions by type

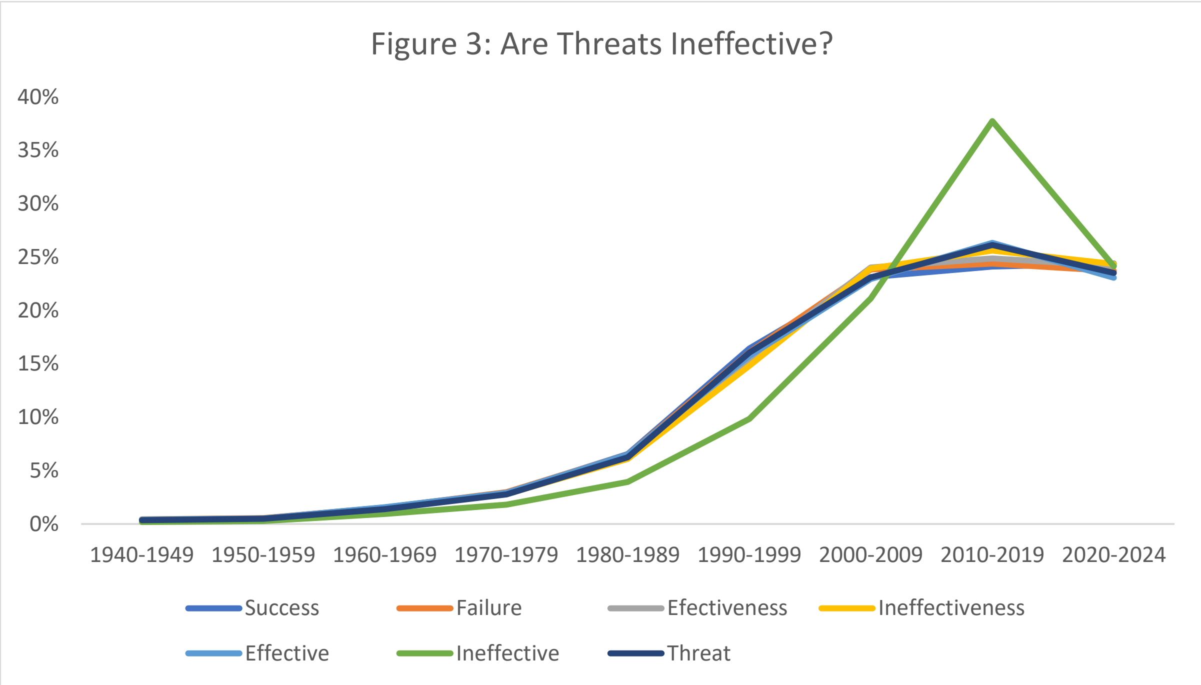
Decade	Trade	Financial	Travel	Military Assistance	Arms
1950s	27	14	8	1	7
1960s	30	29	8	13	29
1970s	47	54	4	23	11
1980s	52	51	21	13	19
1990s	76	147	32	58	69
2000s	71	102	68	71	63
2010-2022	209	327	205	62	67

The low success rate of sanctions over the decades is striking according to surveys by long-standing researchers (Hufbauer and J.J. Schott [1985] and Huffbauer et al. [2007]: 34 percent; Pape [1997]: 5 percent; Smeets [2018] and van Bergeijk [2021]).[21] Kirilakha et al. [2021] find that the average success rate of sanctions is 40 percent.[22] When threats are added to the mix the following conclusion is sobering: "However, a remarkable observation about economic sanctions is that they often fail to generate significant costs. According to the Threat and Imposition of Sanctions (TIES) dataset,

[21] Hufbauer, G.C. and J.J. Schott, 1985, Economic Sanctions Reconsidered. History and Current Policy, Peterson Institute: Washington DC.
Hufbauer, G. C., Schott, J. J., Elliott, K. A., & Oegg, B. (2007). Economic sanctions reconsidered (3rd ed.). Peterson Institute for International Economics.
Pape, Robert A., 1997, "Why Economic Sanctions Do Not Work," International Security, Fall 1997, 22, 90–136.
Smeets, M., 2018, "Can Economic Sanctions be Effective", ERSD Staff Working paper series, WTO, Geneva.
van Bergeijk., 2021, "Introduction to the *Research Handbook on Economic Sanctions*" (see graph on page 9) in Research Handbook on Economic Sanctions. Elgaronline.

[22] Kirilakha, A., G. Felbermayr, C. Syropoulos, E. Yalcin, and Y.V. Yotov, 2021. "The Global Sanctions Data Base: An Update that Includes the Years of the Trump Presidency," in The Research Handbook on Economic Sanctions. Edited by Peter A.G. van Bergeijk. Elgaronline.

82% of imposed sanctions between 1945 and 2005 produced only minor costs to the target state" (Cilizoglu and Bapat [2020])[23] (Figure 3 below).



Source: Google Scholar, accessed November 16, 2024.

There are researchers who argue that sanctions effectiveness cannot be reliably gauged quantitatively, by applying statistical/econometric criteria, because of disagreement/confusion/subjectivity over valid metrics (Pala [2021], Peksen [2019]).[24]

On the face of it, if something is not working there should be less of it, not more. And yet there is no drop in the number of new sanctions – in the 1990's the number of sanctions were 269, 2000-2009: 211, and 2010-2022: 476.

[23] Cilizoglu, M. and Navin Bapat, 2020 "Economic coercion and the problem of sanctions-proofing", Conflict Management and Peace Science. Vol. 37(4) 385–408.

[24] A failure by researchers to not distinguish between 'effectiveness' and 'efficiency' of sanctions is put forward as one of the underpinnings of the confusion:
Pala, Tadeas, 2021, "The effectiveness of economic sanctions: A literature review", The NISPACEE Journal of public Administration and Policy, XIV, No. 1, Summer 239-259.
Peksen, Dursun. 2019. "When do Imposed Economic Sanctions Work? A Critical Review of the Sanctions Eff ectiveness Literature." Defence and Peace Economics 30(6), 635 – 647.

To the numbers in the previous paragraphs, the long (and lengthening) shadow of secondary sanctions (along with other strictures), which are a multiple of primary sanctions, must be *conjoined*. Secondary sanctions have first-order effects on victims as these force third countries to deviate from optimal commercial preferences. The US has pioneered secondary sanctions on an industrial scale, with cooperative and synchronised overlapping by its posse, the G7/EU. The handbrake has been taken off for imposing sanctions; there are virtually no guardrails. (It is reported that the US was responsible for "three times as many sanctions as any other country or international body…") [25] The only constraint on maximising economic harm on a target is the self-harm to the sanctioner.

Secondary sanction circumscriptions are unsettled – a moving target – and open to interpretation, which can be inordinately lengthy, resultantly damaging as *risk aversion* compels a standstill on commercial decisions; this is a driver for enormous uncertainty – more than a dysfunctional WTO has – for wide-ranging categories of international commerce, and poses an anticipatory *hazard* for literally dozens of jurisdictions around the world. Is there a method to the chaos? While there are questions around the success of sanctions, there is clarity on why sanctions are forced: catalyse change in a target's policies that are detrimental to the sanctioner, leaving aside oft cited highfalutin intentions such as enforcing 'international norms of behaviour'. A target's policies should be congruent with the sanctioner's requirement, or, else!

[25] "…targeting a *third* (my emphasis) of all nations with some kind of financial penalty on people, properties or organisations" (Washington Post [May 2024]).

Dissonance #2:

Despite empirically persuasive that sanctions are ineffective, few scholars *conclude* that sanctioners should eschew this policy. Instead, proposals for making sanctions more effective (smarter?) and diminishing sanctions-proofing are the order of the day. It is in the professional wellbeing of the ecosystem around sanctions in the US and the EU to convince policymakers that it is viable to *seek a silk purse out of a saw's ear*.[26]

Is the quest for more effective sanctions instruments a fool's errand lubricated by directly unproductive profit-seeking (DUP) economic activity reminiscent of lobbying for rents around discretionary trade protectionism and government interventions more generally?[27]

If the current sanctions regimes resemble Swiss cheese with a limited chance of pushing the target to its knees, it behooves stakeholders, led by independent researchers/analysts – soothsayers of our times –, based in sanctioning countries, to call this out, instead of self-indulgent ventriloquising apropos making sanctions more effective inasmuch as "great powers" can do this (Early [2021]).[28] An expression that comes to mind is: *honey badger don't care*.

Dissonance #3:

Whereas wars and foreign policy are matters of electoral politics, economic sanctions are rarely debated. Why? A reasonable hypothesis is that there is not enough firm and coherent numbers to inform the debate. In contrast, calculations of impact on consumer prices of standard trade barriers (say, tariffs on washing

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[26] An idiom: "To produce something refined, admirable, or valuable from something which is unrefined, unpleasant, or of little or no value."

[27] See Anne Kruger, "The Political Economy of the Rent-Seeking Society", The American Economic Review, 1974, pp. 291-303; and Jagdish Bhagwati and T. N. Srinivasan, "The welfare consequences of directly-unproductive profit-seeking (DUP) lobbying activities: Price versus quantity distortions", Journal of International Economics, 1978, pp. 33-44.

[28] "Making sanctions work: promoting compliance, punishing violations, and discouraging sanctions busting", Bryan R. Early in The Research Handbook on Economic Sanctions. Edited by Peter A.G. van Bergeijk. Elgaronline.

machines) are available, but barely anything concrete on effects of sanctions on the pocketbook of the average citizen. Politicians rarely take credit for them and voters neither ask questions nor blame elected officials for their ineffectiveness. Voters come to know the tangible cost of wars, both human lives and spent treasure; on the other hand, cost-benefit of sanctions, countersanctions and secondary sanctions are a black box – the layered and complex scope is a mystery to most[29] (smog #1). A dollar estimate of the costs has the potential to inform citizens in whose name sanctions are applied by sanctioning governments; absent solid numbers, the subject matter is, well, too esoteric for public policy scrutiny. There is the odd exception when politicians are acutely aware of a domestic ideological by-product, such as imposing or lifting end-use limitations on foreign humanitarian aid for family planning arising out of voter preference.[30]

3. Rationalisation

Squaring the Circle

The above paragraphs have an undercurrent of irrational behaviour of sanctioners – they hanker for more sanctions just as they are reckoned to be ineffective, and voters appear detached.

A presupposition for the incongruence could be that the sanctions technology is becoming less effective, hence more sanctions (primary and secondary) are needed to attain effectiveness.

It is maintainable that not enough time has elapsed for recent sanctions to bite the target adequately. (After all, even military wars must cross (minimal) boundaries of physical damage to the target to elicit change in behaviour.) An example could be

[29] The bulk of smart sanctions are 'unknown to the general public' (Hufbauer, G. C., and E. Jung, 2021, "What's new in economic sanctions?", in The Research Handbook on Economic Sanctions. Edited by Peter A.G. van Bergeijk). Elgaronline.

[30] There is a clockwork five-year cycle in the US on the policy of US funding for nongovernmental organisations that offer abortion-related services abroad. First enacted in 1985, depending on which of the two main parties is in the majority in the legislature, the so-called Mexico City Policy has been enforced only under Republican governments and rolled back when the Democratic Party wins the White House.

that exhausting the target's foreign exchange reserves is time consuming with long lags.

Is this due to the rise of China in the last fifteen years and its emergence as a hegemon saviour? Owing to its economic prowess, complemented by its location straddling eastern and central Asia, China is better positioned to assist countries (partially) neutralise Western-led sanctions than the erstwhile Soviet Union ever was during its halcyon days as a military superpower, but short of economic and financial heft.

How does one explain these representative conformities?

Explanation #1

Augment the payoff accounting:

We can explicitly bring into the cost-benefit calculation the externalities/shadow benefits from the sanctioner's vantage point; if these are *internalised*, then perhaps the increase in sanctions by an optmising sanctioner is justified.

At the outset, it is logical to assume that sanctions and secondary sanctions are designed to cause economic harm to other countries, *contingent* on the constraint of acceptable cost borne by the sanctioner.

Let us briefly explore a constitutive breakdown:

B is the positive payoff to the sanctioner. It has two direct components: (i) harm to the target (which is the proximate motive for imposing sanctions and secondary sanctions); (ii) direct benefit to the sanctioner by expanding its market footprint (for example, increased oil and natural gas exports by the US to the EU substituted Russian energy in the global market).

D comprises direct cost (bureaucracy, information dissemination, economic aid as a sweetener to allies, harnessing diplomatic capital to convince partners, etc.) incurred by the sanctioner plus *self-harm* – a cost (negative payoff) for a sanctioner and its partners (spillback), incorporating blowback from countersanctions by the target. For instance, foregoing essential imports required by the sanctioner and loss of business. Self-harm/cost to the sanctioner increasingly includes (gradual) currency substitution away from the international numeraire; an adverse reputation effect due to violation of the payments facilitating obligation (reliability discount).[31]

E is a positive *non-pecuniary* externality that benefits the sanctioner's calculation in two ways: (i) countries on whom secondary sanctions are thrust induce them to lean on the target to listen to the sanctioner so it is advantageous for the latter to magnify the negative externality on the third party/innocent bystander (*strategic complementarity*); and (ii) a pre-emptive coercion/demonstration effect, a form of *signal* to potentially unobliging adversaries; it is (symbolically) useful as it burnishes the tough guy image of the sanctioner when differences of opinion arise in the future. To put it simply, *fear has value*.

S represents the second externality: harmful *pecuniary* spillovers on non-allies of sanctions on the target and (threat) of secondary sanctions on third countries (present and future); these are, not uncommonly, emerging economies. This is an economic loss (tangible collateral damage) that the sanctioner should weigh up but likely does not.

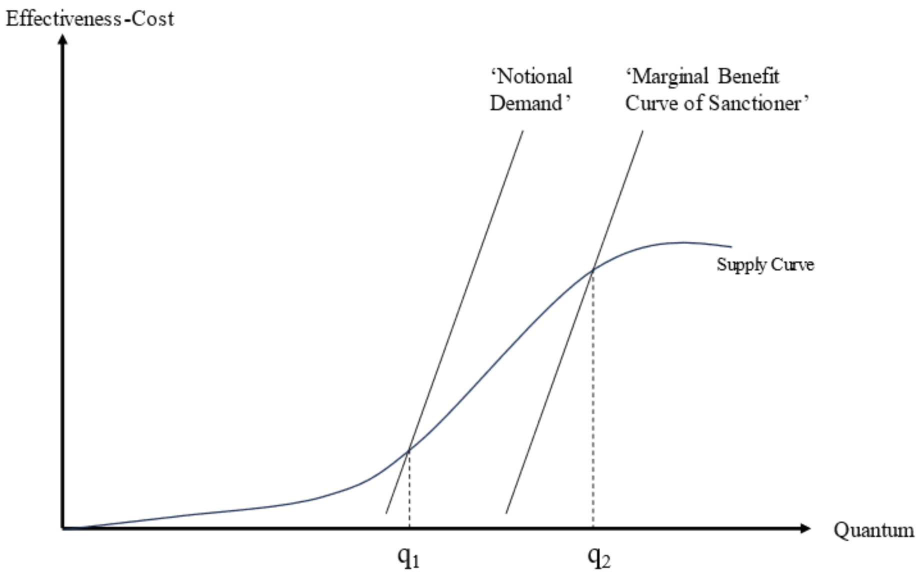
The observed/naïve payoff that the sanctioner seemingly maximises is B – D. The effective one for the sanctioner is B – D + E. The complete payoff for the sanctioner should be B – D + E – S. It is in the sanctioner's interest to internalise (the unobservable) E and ignore S; its demand for sanctions is higher than merely optmising over B – D. Researchers may not be giving the requisite weight to E while they bemoan that the larger number of sanctions by sanctioners in recent decades have not been commensurately successful. From the sanctioner's standpoint, underplaying S, or only applying a small weight, helps to preserve the overall attractiveness of its sanctions

[31] Further, a sense of alienation by third parties towards the sanctioner increases.

policy. More generally, a sanctioner can, of course, choose to apply specific weights on each of the components, B, D, E and S.

The upshot is that the sanctioner's effective *marginal benefit curve* for sanctions is to the right of the notional demand one if we plot effectiveness of sanctions minus cost (y axis) against quantum of sanctions (x axis) (Figure 4 below).

Figure 4: Marginal Benefit Curve of the Sanctioner



Supply of sanctions is determined by the sanctions technology. It is less effective by 'leakage' (courtesy white knights) and normal trade substitution. But more effective if direct economic harm to target through increment of an extensive array of instruments is drawn upon to, *inter alia*, drain away confidence from target's economy, viz., withdrawal of hard currency liquidity, downward impact on equity market valuation owing to announcement effects on international portfolio reallocations, nudge a credit rating downgrade, external commercial borrowing hindrances, etc. A pivot of the *effective sanctions supply curve* is feasible.

Has sanctions technology, at the margin, become less effective?

Overusing the US dollar correspondent banking node as a 'switch' on payments (on target and secondary sanctioned entities) has instigated many countries to *counter* *programme* by exploring alternatives over the last decade or so, which inevitably undercuts the US dollar's paramount currency status.

Discretionary *legal loophole/leakage* – akin to triple flip backs – in the sanctions and secondary sanctions architecture are a prerogative of a powerful sanctioner to mitigate self-harm for itself and its kindred pack. There are two recent examples:

- Russian oil exports of several million barrels per day are allowed to ensure that the global market clearing oil price is within *politically* tolerable limits of the US and the EU seeing domestic inflation in the West is a hot button electoral issue. Much as the EU depicts China and India as sanctions busters, the EU relies on third-country refiners, that legally buy Russian oil, to meet its demand for refined products; international financial payment sanctions for Russia have been kept ajar for this. India and China are the white knights for softening the unfavourable terms of trade effect that would come about with certainty if Russian oil did not reach global markets.
- Russia's exports of enriched Uranium have not been appreciably curbed as it is the world's largest supplier. Many NATO-affiliated countries depend on Russia for more than half of their enriched Uranium, and about a quarter of the commodity used by U.S. nuclear power plants is from Russia.
- In contrast, it has been reported that unpaid dividend income of India's public sector oil companies from their Russian upstream 'oil equity' investments, made over the years, has accumulated to around US$ 900 million. This is as a result of payment channel-related prohibitions by the US and the EU. Non receipt of this income, *inter alia*, affects investments by Indian oil companies and the government's budgetary revenue.
- Russia has 30 percent share in the production of rough diamonds, and India cuts 14 out of 15 of the world's rough diamonds. Diamonds of carat size 0.5 and

above that are imported by India from Russia[32] for cutting and polishing cannot be sold in the G7 and EU.

Explanation #2

Definition:

The accounting framework discussed previously presents an opportunity for rationalising the yardstick of success. Though a diplomatic aim is discrete and unique, the *intermediate* goals are economic in nature, which are measurable as a continuum. Assessment of success can be a *granularised* metric in line with how sanctions erode the target's economic capability.

The measurement of success needs to be recast. Degrading an economy is a *process*, not an event. It is tenable that the sanctioner evaluates success of the sanctions regime by an annual dispassionate appraisal of the diminishment – in relation to a baseline – of the sanctioned country's economy (external viability, defence spending, GDP, credit outlook (commentary and rating), nutrition levels, health indicators, life expectancy, confidence surveys, etc.). Economic outcomes detrimental to the target can justify the policy of increasing sanctions and secondary sanctions, and not a reversal of policy by the sanctioner in short order, notwithstanding that the target has not *yet* been brought to heel.

Explanation #3

Despite ineffectiveness, the cost of exit from policy by sanctioners could be too costly (politically?). Or, the dual that little is gained by ending sanctions. In other words, once a sanctions regime comes into effect (and cost has been incurred by sanctioner for setting it up), the (marginal) cost sustained by the sanctioner, arguably, is small.

Voters in sanctioning countries are unaware of the economic cost (in dollar terms) to sanctioned and third countries. Neither sanctioning governments nor

[32] Third country workarounds have been reported.

multilateral macro-financial institutions present and highlight relevant estimates so voters in sanctioning countries apathetically support what their governments do. The blowback of sanctions on victims is invisible, unlike in physical wars. Without information on economic outcomes of sanctions, voters, in effect, 'function in a void of indifference'.

Retain or shed a sanction?

A heuristic representation of the sanctioner's choice

Let V_t be the 'continuation value' to the sanctioner of a sanction on the target.

Consider the case where the sanctioner acts as if it were maximising in each period t, the expectation of the time-additive utility functional U_t below:

$$U_t = \sum_{i=0}^{\infty} \beta^i u(K_{t+i}), 0 < \beta < 1;\ u' > 0;\ u'' \leq 0;\ u'(0) = \infty$$

Where K_t are the sanctions on the target in period t and β is the discount factor.

We further use the following notation:

F_t is the harm to the target if a sanction is retained by the sanctioner. K_t and F_t are assumed to be linearily proportional to each other via the sanctions technology.

G_t is the sanctioner's payoff for *shedding* a sanction. It comprises of benefits from a reversal of countersanctions by the target on the sanctioner; plus elimination of self-harm; plus international goodwill; minus the loss of face.

ρ_t is the return to the sanctioner of a sanction on the target.

δ_t is the 'cost' to the sanctioner of leakage, expressed as per cent of harm to the target on account of the sanction (leakage undermines the value of a sanction to the sanctioner).

$(\rho_t - \delta_t)F_t$ is the benefit to the sanctioner of retaining a sanction.

Rational intertemporal choice by the sanctioner means that the continuation value of a sanction retained by the sanctioner is constrained by the 'Euler equation' below, where E_t is the expectation operator conditional on information at time t.

$$\frac{V_t}{F_t}u'(k_t) = E_t\left\{[F_t(\rho_t - \delta_t) + \max\{G_{t+1}, V_{t+1}\}]\,\frac{1}{F_{t+1}}\beta u'(k_{t+1})\right\}$$

The equation brings out that the determination of the continuation value, to the sanctioner, of a sanction on the target requires the tool of option pricing.

Retaining a sanction on the target for the current period means retaining the option of shedding it next period, should next period's payoff, G_{t+1}, exceed next period's continuation value.

Note that the 'strike price' that determines whether or not the option to shed is exercised next period, V_{t+1} , is itself uncertain at time t.

4. <u>Time to disentangle: Beyond Performative Posturing by Multilateral 'Guardians' (smog #2)</u>

International organisations like the IMF, whose bailiwick includes spillovers/externalities provide scant informative estimates; a look at G20 communiques of the last two years underscores the paucity of desire for transparency, no doubt settled by rarefied political arrangements at the global high table.[33] The G20 is almost apologetic on the topic of sanctions and its reverberations. Table 7 below captures the global body's reticence.

[33] Work of technocratic multilateral organisations is supposed to inform the dialogue at the G20 but there does not seem to be a prominent workstream on sanctions, or, it is well hidden, while there are numerous ideating/drafting groups on subjects of relatively peripheral worth.

Table 7: G20 communiques and sanctions

Date	G20 Presidency	Mention of sanctions	Length of statement/ communique (pages)
4th FMCBG Chair's Statement, October 2024	Brazil	0	1
3rd FMCBG Communique, July 2024	Brazil	0	12
Chair's summary 1st FMCBG, February 2024	Brazil	0	4
Final FMCBG, October 2023, Marrakesh	India	0	7
Leaders Declaration, September 2023	India	0	37
FMCBG Outcome Document and Chair's Summary, July 2023	India	1*	18
Leader's Declaration, November 2022	Indonesia	2**	19
4th FMCBG, October 2022	Indonesia	3***	7
3rd FMCBG Chair's Summary, July 2022	Indonesia	1****	4

FMCBG: Finance Ministers and Central Bank Governors

Extracts where sanctions are mentioned:

*Most members strongly condemned the war in Ukraine and stressed that it is causing immense human suffering and exacerbating existing fragilities in the global economy constraining growth, increasing inflation, disrupting supply chains, heightening energy and food insecurity, and elevating financial stability risks. There were other views and different assessments of the situation and sanctions.

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We continue to support the carve out of humanitarian activities from sanctions and call on all nations to support this aim, including through current efforts at the UN.

***A few of these members noted that the sanctions against Russia do not target food. One G20 member expressed the view that the war in the Ukraine and sanctions have impacted the global economy. One G20 member expressed the view that the sanctions are the main cause of the negative impacts on the global economy.

****One member expressed the view that the sanctions are adding to existing challenges.

Although tomes are written on policy spillovers and spillbacks by international macro-financial institutions, their explicit and dedicated research output on the *distinct* implications of sanctions, countersanctions, and the widespread fallout from secondary sanctions are, without exaggeration, missing in action.

It is noteworthy that on international splintering, a fashionable navel gazing indulgence of the intelligentsia, the IMF's management in its remarks in June 2024 on *Navigating Fragmentation, Conflict, and Large Shocks*, does not feel the necessity of deploying any of the following terms: sanctions, countersanctions, secondary sanctions, extraterritorial restrictions, spillovers, externalities. Remarkable omissions considering the title and the timing of the talk. By comparison, 'war' appears about two dozen times in the 15-page speech.

While accepting that economic sanctions' effects are macroeconomic in nature (directly for target and directly & indirectly for third parties) there is dearth of *separate* analysis and credible estimates of economic losses for the sanctioned, adverse commercial & economic implications for the secondary-sanctioned, and third-party victims (see Table 8 below).

Table 8: Relevant 'mentions' in IMF's World Economic Outlook

Date	Sanctions	Counter-sanctions	Secondary sanctions	Spillover(s) (endured by bystanders/ third parties in the context of sanctions and secondary sanctions)	Spillover effect(s) (endured by bystanders/ third parties in the context of sanctions and secondary sanctions)	Externality(ies) (endured by bystanders/ third parties in the context of sanctions and secondary sanctions)
October 2024	1	0	0	28(0)	0	1(0)
July 2024	0	0	0	3(0)	0	0
April 2024	1	0	0	179(0)*	1(0)	2(0)
October 2023	5	1	0	33(0)	1(0)	1(0)
July 2023	0	0	0	4(0)	0	0
April 2023	6	0	0	73(0) **	4(0)	0
October 2022	8	0	0	24(0)	4(0)	0
July 2022	4	0	0	9(0)	0	0
April 2022	35	0	0	68(0)#	11(0)	2(0)

*An entire chapter on spillovers, but not in the context of sanctions.

**Two chapters with sections on spillovers, but not in the context of sanctions.

Alludes to weaker demand in Asia from the Euro area because of the Ukraine & Russia war. Further, due to higher oil prices, domestic demand is also weak in Asia (e.g., Japan, India) (page 5). Otherwise, discussion is related to the COVID-19 lockdown.

By melding war with 'associated' sanctions (phrase used in the documents) the Fund's sleight of hand in its estimates of growth and trade implies that the war *and all* the sanctions are *one* source of shock and the ensuant diminution of welfare; fact is that they are not – sanctions and secondary sanctions are two classifiable policy choices by sanctioners, as is, to be fair, choice of war and countersanctions by the target.

Comprehensive and unbiased research on ramifications of economic sanctions, primary and secondary, is necessary to create technocratic space for review and evaluation. The IMF's failure to illuminate is either conscious obfuscation or unconscious oversight (deeply unsettling either way); the deficient work in this area means the precise *incidence* of the economic consequences of the sanctions framework is overlooked.[34] It is a plausible suspicion that it would be disagreeable for sanctioners to pinpoint this as it pertains to *distribution* of the welfare loss attributable to their policies.[35] Both wars and sanctions are a 'tax', but who bears how much of the burden of the latter is deemed unimportant, thus overlooked; the Fund sidesteps and bypasses obvious dimensions of sanctions in its research work. The embarrassing possibility of sanctions *enhancing* economic welfare of sanctioners may not be purely conjectural. While the task may not be easy, given how Integrated Assessment Models (IAMs) for implications of climate change (an undertaking more complex than channels related to economic sanctions) are constructed, estimating the effects of (ever increasing) sanctions is eminently doable.

It is interesting that towards the bottom of page 5 in the WEO April 2022 the authors write: "The fluid international situation means that quantitative forecasts are even more uncertain than usual. Yet some conduits through which the war and associated sanctions will affect the global economy seem relatively clear, even if their magnitudes are difficult to assess."

Nonetheless in the scenario box on page 25, the 'delta or partial derivative' of a further *change* in sanctions is estimated:

"The IMF's G20 model is used to explore the global macroeconomic implications of a scenario in which the sanctions on Russia arising from the war in Ukraine *escalate*

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[34] Conceptually the decomposition is straightforward. Use can be made of the following notation: the war/event/catalyst is x, a primary economic sanction on the target is y, and a secondary sanction on third parties is z (with modification y and z can be formulated as vectors, and a time dimension can be incorporated).
Say, W^T is a measure of the impact on the target, T (the sanctioned country):
$W^T = f(x, y, z)$
Total differentiation:
$dW^T = W^T_x(x, y, z).dx + W^T_y(x, y, z).dy + W^T_z(x, y, z).dz$; (where the subscript denotes partial derivative with respect to).
Let W^{Row} denote a (consolidated) measure of the impact on all other economies because of economic and financial interlinkages with the target, and execution of secondary sanctions:
$W^{Row} = f(y, z)$
Total differentiation:
$dW^{Row} = W^{Row}_y(y,z).dy + W^{Row}_z(y, z).dz$
Row can be trifurcated into sanctioner, developed countries, and emerging economies to delineate incidence.

[35] There is a long history of Compensating Variation and Equivalent Variation concepts applied to a variety of policy comparisons.

further (my emphasis). In the scenario sanctions are broadened mid-2022 to include additional embargoes on oil and gas and the disconnection of Russia from much of the global financial and trade system."

One can reasonably surmise that it is possible to calculate *exclusive* estimates of the effects of sanctions, countersanctions, and secondary sanctions, rather than conflate *all* the effects of the "war *and* (my emphasis) associated sanctions". The IMF has the wherewithal to do this work. The objectivity that it is supposed to bring to issues of externalities/spillovers behoves it to move ahead of functional pretension.

5. Concluding remarks

Until recently, sanctions have not been an appreciable part of Asia's political and diplomatic history, but given the continent's rise, its cooperation, and the corollaries from it, become important.

First, regardless whether sanctions have been successful or effective in helping to realise the terminal ambitions of sanctioners, it must be unequivocally acknowledged that sanctions and secondary sanctions are a sizeable and growing source of international (macro)economic uncertainty leading to concomitant volatility and instability for many countries and touching the global investment climate.

The pathways through which economic sanctions work/cause harm are not completely grasped. The relative(in)effectiveness of economic sanctions – an acknowledged 'stylised fact' of empirical researchers – combined with ever expanding sanctions and secondary sanctions can be explained by introducing externalities in the accounting, and accommodating granular intermediate economic thresholds as gauge for conceptually defining efficacious economic sanctions.

Secondly, the smog around sanctions and secondary sanctions for victims (many in emerging economies) and voters (in developed countries) needs to be lifted by dynamic estimates from impartial stakeholders on the implications, especially for those at the receiving end of curbs and threats. How many economies are affected in what manner? Presently, there is inadequate, easily understood, publicly available information. And the full and refined impacts are obfuscated. Who, amongst third countries, bears the cost of sanctions and secondary sanctions cannot be answered with the requisite accuracy; comprehensive and careful calculations are absent.

Thirdly, the Fund should unambiguously incorporate sanctions, countersanctions and secondary sanctions, as representing different – not necessarily wholly disassociated – drivers of policy spillovers. This is pertinent given sanctions are a headwind that does not subside, only strengthens over time.

Fourthly, the proclivity of the academic discussion on economic sanctions is US/G7-centric. A neo-colonial mindset – that it is *natural* to control the periphery's destiny – is betrayed.

Fifthly, the rise of China, which geographically straddles Asia and, through its strong ally Russia, Europe, is a profound additional facet. The land bridge enterprise of the Belt and Road Initiative (BRI) includes Africa (imaginably via the Sinai Peninsula). The clandestine support to diverse players that is facilitated by the BRI poses a form of regionally contiguous – depending on one's viewpoint – lifeline, or, calibrated domination.

Sixthly, tension in the sanctions arena may escalate soon as counter programming by countries to reduce dependence on the global numeraire currency moves forward, and steps by the US to counteract the trend will doubtless gain momentum with the new administration.

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