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INEFFECTIVENESS OF ECONOMIC SANCTIONS[†]

Same Song, Same Refrain? Economic Sanctions in the 1990's

By KIMBERLY ANN ELLIOTT AND GARY CLYDE HUFBAUER*

The role and utility of economic sanctions as a tool of foreign policy has been debated at least since the League of Nations was launched with grand hopes following World War I. In 1985, the Institute for International Economics entered this debate with the first edition of its comprehensive analysis of the use of sanctions in the 20th century. This research began in the wake of the grain embargo and pipeline sanctions against the Soviet Union. The second edition was released late in 1990, when the burning question was whether to continue with sanctions or to use military force to evict Saddam Hussein's army from Kuwait. The debate over the appropriate mix of sanctions and force against Iraq continues today, eight long years later.

The broader debate over the utility of economic sanctions also continues, but vast changes in the world since 1990 raise new questions. The Cold War is over, the Soviet empire has disintegrated, and foreign challenges to the United States have been starkly rearranged. While still searching for a post-Cold War paradigm for American foreign policy, the U.S. government has turned more frequently to economic sanctions in response to demands to "do something," about ethnic conflict, human-rights violations, drug trafficking, terrorism, or nuclear proliferation. The collapse of the Soviet Union also freed the United Nations (UN) from its Cold War strait-jacket, allowing it to intervene more aggressively in international affairs, including the imposition of mandatory economic sanctions nine times since 1990, compared to just twice prior to 1990. At the same time, the interna-

tional economy has become ever more integrated, with international trade and capital flows outpacing global output. This is a double-edged sword for economic sanctions since interdependence increases potential vulnerability to disruption of these flows while also increasing the opportunities for evasion.

Meanwhile, the academic literature on economic sanctions has exploded, also suggesting the need for a fresh look. Accordingly, more than two years ago, we initiated research on a third edition of *Economic Sanctions Reconsidered* (Hufbauer et al., 1999). We had hoped to have preliminary results by now, but the task has proved daunting; consequently, in this note we simply profile economic sanctions in the 1990's and enumerate the policy and methodological issues that will be addressed in our new edition.

I. Sanctions in the 1990's

Table 1 gives a snapshot of foreign-policy sanctions launched in the 20th century. Our study does not cover normal commercial reprisals, and our coverage probably misses several cases between countries of the second and third rank. That said, we have recorded 170 cases, starting with World War I and extending through the recent nuclear-proliferation sanctions against India and Pakistan, and New York's threat of Holocaust-related sanctions against Swiss banks. Fifty of the cases were launched in the 1990's, and are new to our third edition. Of these new cases, 36 were initiated by the United States, often in cooperation with other countries. In fact, contrary to conventional wisdom, only one-third of the 36 cases were unilateral U.S. initiatives. To be sure, several high-profile cases launched in the 1990's (such as nuclear sanctions against India and Pakistan), as well as a few inherited from the past (notably sanctions against Cuba

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TABLE 1—USE AND EFFECTIVENESS OF ECONOMIC SANCTIONS AS A FOREIGN-POLICY TOOL

Time period	Total number of cases	Number of successes	Successes as a percentage of the total ^a
<i>All Cases:</i>			
1914–1990	115	40	35
1914–1945	12	6	50
1945–1969	41	18	44
1970–1989	67	16	26
1990–1998 ^b	50	n.a. ^c	n.a.
<i>Cases Involving United States as Part of Sanctions Coalition:</i>			
1945–1969	30	16	53
1970–1989	49	10	21
1990–1998 ^b	36	n.a.	n.a.
<i>Unilateral U.S. Sanctions:</i>			
1945–1969	16	11	69
1970–1989	40	5	13
1990–1998 ^b	12	n.a.	n.a.

Source: Hufbauer et al. (1999).

^a These numbers will differ slightly in some periods from what a calculation using the numbers in the other columns would suggest. This is because assessments are not yet complete for several new cases, which are included in the total but not in the number of successes.

^b Cases added since the second edition was published in 1990, which covered episodes initiated through 1990.

^c Not available.

and Iran) were unilateral endeavors. But in episode-count terms, the United States was less a Lone Ranger in the 1990's than in the 1970's and 1980's.

We have not completed our case assessments, but preliminary findings suggest that, in terms of achieving their foreign-policy objectives, the 1990's crop of sanctions was about as successful (or unsuccessful, depending on one's perspective) as the crop dating from the 1970's and 1980's. Our success scale has two components, both judgmental: Was the objective achieved, at least in part? And how much did the sanctions contribute to a positive outcome? By this scale, roughly a quarter of the cases succeeded, at least modestly, in the 1970's and the 1980's, and about the same success (or failure) rate seems to have prevailed in the 1990's.

Although Table 1 does not record relevant economic statistics, three pieces of data should be mentioned. First, in terms of overall costs to target countries, the sanctions against Iraq stand out like Mount Everest, with annual costs probably exceeding \$10 billion; all other active cases, in the aggregate, probably cost target countries less than \$10 billion annually.¹ Second, in terms of overall GDP or trade magnitudes, the costs of mounting sanctions represent a very small part of the economies of sender countries. Third, however, when scaled against State Department, foreign-ministry, or foreign-assistance budgets, economic sanctions are highly significant; and the cost of some episodes to affected companies and communities in the sender countries can be severe.

Table 2 breaks down post-1970 cases by period and by the country/region of sender and target. Several points emerge from this profile. Other sender countries, besides the United States, have gotten into the sanctions act in the 1990's. However, several of the UN sanctions are weakly enforced arms embargoes, designed to curtail civil strife and genocide. Moreover, most European sanctions involve relatively minor aid cutoffs.

The targets of choice have also changed in the 1990's, reflecting in various ways the end of the Cold War. The Soviet Union or its allies were targets of Western sanctions (mainly led by the United States) 12 times in the 1970's and 1980's. In the 1990's, Western sanctions against the former Soviet Union (FSU) sharply diminished, but the new FSU states were subject to six sanction initiatives by Russia in attempts to induce more favorable economic or political terms from its newly independent neighbors.

The other striking changes are the decline in new cases targeting Latin American countries and the rise in new cases targeting African countries. In broad terms, this reflects the swing of Latin America to democratic gover-

¹ The "oil-for-food" humanitarian program allows Iraq to export up to about \$10 billion worth of petroleum annually, but the receipts must be placed in escrow accounts controlled by the UN. All purchases from those accounts are monitored by the UN to ensure that monies are used for approved humanitarian purposes only.

TABLE 2—SENDERS AND TARGETS IN SANCTIONS CASES INITIATED, 1970–1998

Country	1970–1989	1990–1998
<i>Primary Senders:^a</i>		
United States	52	25
Western Europe	7	19
Soviet Union/Russia	0	6
United Nations	0 ^b	11 ^c
<i>Targets by Region:</i>		
Africa	11	19
Asia	14	6
Western Europe	6	6
Latin America	19	9
Middle East	6	2
Soviet Union/FSU	12	8

Note: FSU = former Soviet Union; this category also includes Soviet bloc members.

Source: Hufbauer et al. (1999).

^a These numbers are based on cases in which a sender country played a leadership role. They do not include senders that cooperated in a sanctions effort but without taking a leading role. UN cases are not included in the count of cases initiated by individual sender countries.

^b Two UN cases initiated in the 1960's were ongoing in this period: Rhodesia and South Africa.

^c This count includes the threat of UN sanctions against North Korea in the mid-1990's and the authorized but not mandatory actions against the Khmer Rouge faction in Cambodia.

nance and the rising incidence of civil strife, despotic leadership, and large-scale killings in Africa. This shift in locus, from the U.S. backyard to the European backyard, is one factor in the decline in unilateral U.S. sanctions and the rise in European initiatives.

II. Policy Issues in the 1990's

The end of the Cold War dramatically altered the diplomatic chessboard. With the capitalist–communist battle all but over, other causes gained greater prominence. Old players faded, new players emerged, and theaters shifted. The end of the Cold War meant the diffusion of power, not only from Washington and Moscow to capitals such as Beijing, London, Paris, and Bonn, but also to congressional and subfederal players, and importantly, to nongovernmental organizations (NGO's). Without the constraints of the Cold War, the

United Nations has been energized to respond to a wider variety of perceived threats to international peace and security. Narrow constituency groups also find that they have relatively greater influence in the absence of a clear consensus on what constitutes the national interest.

The result has been the opening of fresh diplomatic fronts across a wide spectrum of issues: ethnic strife, civil chaos, human rights, terrorism, narcotics, and others. In the United States, NGO's often succeeded in mobilizing congressional or statehouse support for sanctions, even in the face of ambivalence or opposition from the foreign-policy establishment. Such pressures resulted in new or tightened sanctions against Iran, Libya, Cuba, Burma, Nigeria, and Sudan, as well as the recently threatened sanctions against Swiss banks.

Prior to 1990, the UN Security Council approved mandatory sanctions just twice: comprehensive economic sanctions against the white minority regime in Rhodesia, and an arms embargo against South Africa. Since then, the UN has mandated sanctions on nine occasions: against Iraq, the former Yugoslavia, Libya, Haiti, Somalia, Liberia, the UNITA faction in Angola, Rwanda, and Sierra Leone. In addition, the nations of Western Europe, which generally scoffed at sanctions during the Cold War and vigorously resisted U.S. pressures to impose sanctions against Iran, Libya, and Cuba, changed their tune when ethnic unrest struck too close to home, as in the Balkans, or roiled their traditional sphere of influence in Africa.

This proliferation of economic sanctions in the 1990's generated considerable backlash, not just in the United States but also in the United Nations and among U.S. trading partners. From the standpoint of the international community, the most distressing features of the 1990's sanctions launched by the United States were the secondary boycotts threatened or invoked against third parties that dealt with target countries. Equally troubling, the impetus for secondary sanctions increasingly comes not from the U.S. Congress, but from state and local governments with a potentially long list of targets. The executive branch has made efforts to soften the sharp edges of the Helms-Burton Act targeting Cuba and the Iran-Libya

Sanctions Act (ILSA), but it has thus far had little influence on congressional initiatives and has refused to challenge the constitutionality of state and local sanctions. In response, the European Union (EU) threatened to file a complaint in the World Trade Organization (WTO) against the Helms-Burton Act and both the European Union and Japan have requested formal WTO consultations over a Massachusetts law penalizing companies doing business in Burma.

Another important counterforce against U.S. sanctions policy is the business community, which mobilized under the banner of USA *Engage.² In addition to filing a lawsuit against the state of Massachusetts challenging the constitutionality of its sanctions law against Burma (and prevailing in Federal District Court), this coalition is also behind a bill introduced in Congress by Representatives Lee Hamilton (D-IN) and Phil Crane (R-IL) and Senator Richard Lugar (R-IN). Key elements of the bill, which seeks to reform the sanctions process and create barriers to their hasty imposition, include:

- (i) requirements for an analysis of the likely effectiveness and economic costs of imposing sanctions;
- (ii) consideration of alternative policy options, including multilateral initiatives;
- (iii) a presidential waiver for all congressionally passed sanctions;
- (iv) contract sanctity; and
- (v) an automatic two-year sunset, unless the President or Congress makes a positive decision to continue them.

The Lugar-Crane-Hamilton bill did not pass in the 105th Congress but was reintroduced with some modifications in both the House and Senate in March 1999.

Opposition to reform in this area is rooted in part in the increasingly important role of sanctions in satisfying domestic constituencies in the United States and other democratic countries. Many of the high-profile unilateral sanc-

tions were pushed by domestic interest groups and accepted only reluctantly, after persistent lobbying, by the executive branch. In the United States, the tone for this pattern was set by the Comprehensive Anti-Apartheid Act of 1986, which was approved by Congress over a presidential veto. In the 1990's, domestic constituencies again forced the administration's hand, resulting in new or expanded sanctions against Cuba, Iran, Libya, Burma, and Sudan.

The frequency of new sanctions cases in the 1990's, along with expanded scope and reach of many sanctions and the decreased flexibility accorded the President, has stirred new interest, especially in the business community, on the costs inflicted on the sender country itself. During the Cold War, it may have seemed unpatriotic to raise the issue of self-inflicted costs; but such reservations faded when less cosmic goals were sought, especially when the sanctions were launched by narrow but vocal domestic constituent pressures.

Together with others, we adapted a gravity model devised by Jeffrey Frankel and his colleagues to assess the impact of sanctions, at different levels of severity, on bilateral merchandise trade.³ The goal was to measure indirect as well as direct effects; for example, the chill that limited sanctions may create on trade in unrelated goods, or the "unreliable supplier" reputation for exporters of capital goods such as Boeing, Caterpillar, and General Electric.

In brief, limited sanctions were found to reduce bilateral two-way merchandise trade by an average of 27 percent, the reduction from moderate sanctions was 36 percent, and severe sanctions diminished bilateral trade flows by an average of 91 percent in the three years examined (1985, 1990, and 1995). All told, U.S. merchandise exports may have been reduced by \$15–20 billion in 1995 on account of sanctions. Parallel estimates could be made for other OECD countries.

As usual, these estimates must be qualified. They do not measure welfare costs for the sim-

² A description of USA *Engage, a list of members, and extensive materials on U.S. sanctions policy can be found on the coalition's website at (<http://www.usaengage.org>).

³ The original gravity model is described in detail in Frankel (1997); the adaptations and results are described in Hufbauer et al. (1997). The Hufbauer et al. working paper is also available on the IIE webpage at (<http://www.iie.com>).

ple reason that much of the lost trade was re-directed to other economic activity. Welfare costs probably do not exceed 10 percent of gross trade losses. On the other hand, the estimates do not reflect the impact on services trade. On a global basis, services trade flows are about 25 percent of merchandise trade flows, but conceivably they are more vulnerable to the indirect impact of economic sanctions. Tourism, for example, typically withers in the wake of unrest. Finally, the estimates do not capture the impact on portfolio capital and direct investment. It is easy to imagine that new flows would shrink dramatically with the imposition of sanctions.

Increased use of sanctions by the UN and concerns about the costs have also generated a backlash in that body. Particular concerns arise in two areas: the humanitarian consequences for women, children, and the elderly under comprehensive sanctions as in Iraq; and the costs of enforcing sanctions for front-line states, such as the Balkan neighbors of the former Republic of Yugoslavia during the Bosnian conflict. Both concerns have contributed to growing opposition to maintaining the sanctions against Iraq. That case has also focused attention on the broader question of how and under what circumstances UN-mandated sanctions will be lifted. The experience with Iraq, Yugoslavia, Haiti, and other recent cases has led to a "sanctions fatigue" among many UN members and a reluctance to impose broad new sanctions until the questions relating to humanitarian costs and collateral damage to front-line states are addressed.

On the other hand, horrifying ethnic conflicts in the Balkans, Africa, and elsewhere continue to generate interest in improving economic sanctions as a tool to promote international peace and security. In addition to looking for ways to ameliorate the costs of sanctions for innocent civilians and third parties, those interested in making multilateral sanctions more effective are questioning whether the UN has sufficient resources, authority, or expertise to monitor and enforce multilateral sanctions. Many in the UN and academic communities are also analyzing targeted sanctions (in particular, freezing the personal assets of political, military, and economic leaders in rogue states) to see whether

that offers a path toward more effective sanctions that are less blunt in their effects. It has yet to be shown, however, that this particular circle can be squared.

III. Methodological Issues

Accumulating experience, the policy changes described above, and the substantial new sanctions literature that has appeared over the past decade all suggest that a variety of methodological refinements may be needed. We expect to drop some variables while adding or refining others, and we foresee the need to define case observations differently and to use additional methods for analyzing the data.

First, the number of very lengthy cases (including Cuba, Libya, Iran, Iraq, and others) is growing. In such cases, the goals, the nature of the sanctions imposed, or other relevant conditions often change over time. Thus, while we will continue to define case studies as "episodes," encompassing all related sanctions against a particular target, we expect to have more cases that are divided into multiple "observations" in the database because they have analytically distinct goals or phases.

Second, we are refining several variables, including the definition of sender goals and their relative difficulty, and the relevant economic and political features of the target state. For example, we want to refine the categorization of sender objectives in order to better reflect those cases where the target is relatively more intensely interested in the outcome than is the sender. We will also separate the qualitative economic-health and political-stability variable into two parts, and we will add an additional variable on regime type from the Polity III data set developed by Ted Gurr of the University of Maryland (described in Gurr and Keith Jaeger [1995]). Finally, we plan to use the probit regression technique to analyze the statistical significance of the variables in explaining outcomes.⁴

⁴ We used the ordinary least-squares (OLS) technique to analyze the data in the first edition with very poor results. The binomial probit method is more appropriate for a dichotomous dependent variable such as success or failure.

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