Measuring Vulnerability to U.S. Foreign Economic Sanctions

FOCUSED SANCTIONS REDUCE COSTS TO BUSINESS

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Economic sanctions are an important instrument of U.S. foreign policy. While politicians look favorably on unilateral economic sanctions as a policy instrument, many scholars attribute significant long-term economic costs to the United States and have doubts about their effectiveness. We outline a simple approach to assess the vulnerability of target countries to sanctions in order to develop focused sanctions and reduce unnecessary costs to U.S. business, avoid the imposition of sanctions on countries when sanctions are unlikely to have the desired effects, and determine what other countries must join the United States in imposing sanctions if they are to be effective.

Since World War II, unilateral economic sanctions have become an increasingly important instrument of U.S. foreign policy. A study in 2002 showed that the United States has some form of sanctions on more than 75 countries (USA Engage, 2002). When applying sanctions, politicians feel that they are reacting to the target country’s unwillingness to cooperate with U.S. policy and that they are taking positive action to make the target country change its policies (Askari et al., 2003a). A recent example is the enactment of the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003 (Library of Congress, 2003). President Bush used his authority to restrict trade with Syria, ban Syrian airplanes from landing in U.S. territory, and ban U.S. FDI in Syria until Syria accedes to U.S. demands.

While many U.S. politicians look favorably on unilateral economic sanctions as a policy instrument, many scholars and researchers have serious doubts about their effectiveness. One concern is that sanctions fail to inflict appropriately focused pain on target countries to make them respond to the U.S. demands. This is because sanctions often inflict economic suffering on a target country’s average citizen rather than its leaders, who are the ones who could change their country’s policies. Another concern is the significant economic cost of sanctions for the United States. The reason for this divide between the popularity of sanctions among politicians and the skepticism among scholars is the fact that the real and comprehensive economic impacts of sanctions on target countries and on the United States are still largely unknown. This is mainly due to the fact that studies of U.S. economic sanctions have focused on either highly aggregated economic examinations or very-specific case analyses.

Although progress has been made in estimating the economic losses to the United States in the area of exports and imports, notably the work of Hufbauer et al. (1997) and Askari et al. (2003b), a reliable and a comprehensive quantification of the losses to the U.S. is still missing. For instance, using trade data from 1980 to 1999, Askari et al. estimated that, depending on the year, U.S. exports have been reduced by $14-$23.2 billion per year to sanctioned countries. But sanctions clearly cause other losses to the U.S. because of restrictions on capital flows, FDI, tourism, and other sources of U.S. income and output. Some of these losses (such as a missed opportunity in developing a major oil field) can be expected to persist even after sanctions have been lifted. Since the U.S. is likely to continue to rely on economic sanctions as a prominent foreign policy instrument, researchers and scholars must do a better job of measuring their economic consequences. In fact, without such a measurement, the true efficacy of economic sanctions cannot be assessed (Askari et al., 2003b).

In this paper, we outline the process of making a systematic, quantitative assessment of the economic impact of sanctions on target countries. This will help to devise more focused sanctions and thus to reduce the potential costs to the United States. It is important to point out at the onset that in order for such an approach to be useful, a number of other elements must be developed. In particular, “transaction cost” estimates have to be calculated for major commodity categories, and additional data for services and transfer payments have to be collected. Moreover, such an assessment should be done for as many countries as possible in order provide meaningful general conclusions. While it is beyond our scope in this paper to provide these comprehensive assessments, we lay out the specific framework for conducting them and provide a few case studies for illustration.

Economic Sanctions and the Global Economy

Economic sanctions can be classified along several dimensions, and one salient dimension concerns the nature of the rationale for a particular economic sanction. As described in Askari et al. (2003a), there are four distinct, though not necessarily mutually exclusive, rationale-based classifications for economic sanctions—purposeful, palliative, punitive, and partisan. Purposeful economic sanctions are intended by the sender to inflict economic hardship and thus coerce the target into changing objectionable policies. Palliative economic sanctions are imposed to publicly register displeasure with the actions or policies of the target, even though they may not have much impact on either the sender or the target. Punitive economic sanctions are intended to inflict harm on the target country without expectation of policy change by the