EUROPE AND SANCTIONS: Perspectives on Trade & Power

Presentation for the Progress Foundation
Zürich, October 20th, 2011

By Hosuk Lee-Makiyama
Director of European Centre for International Political Economy (ECIPE)

INTRODUCTION

The roots to the modern day sanctions can be traced back to the Cold War, and they are very much a policy innovation of these times. Since the Battle Act before the Korean War in 1949, the United States have led the use of sanctions throughout the post-War period through *Trading with the Enemy Act*, the COCOM restrictions on technology exports, and its longest (and perhaps most notorious) trade embargo, on Cuba. Sanctions were the preferred weapon of choice given the exclusive access to technology and capital of the West and the devoid of confrontation that ensured that the Cold War would remain cold.

The first multilateral sanctions by the UN were enforced against South Rhodesia in 1966 and South Africa three years later – they were both directed against segregationist hardened minority regimes, largely outside the remits of the Cold War (at least by the time of their imposition) why these sanctions passed the UN Security Council without vetoes. But these sanctions consolidated also the regimes. South Rhodesia was disposed after an armed conflict, while the apartheid regime did not dismantle itself for 25 years until it ran out of supporters (after Soviet's withdrawal from Sub-Sahara).

But the economic sanctions have not fallen out of fashion after the fall of the Berlin Wall – quite the contrary. There has been a constant proliferation of their use, and increasingly by European countries. UN and unilateral sanction are now applied to various subjects – including relatively respectable states, individuals and non-state actors; they are also used in a wider variety of situations – from resolving armed conflicts, dead-ends in political processes, non-proliferation of weapons of mass-destruction (WMD), antiterrorism and against drug trafficking – reflecting this era of asymmetrical threats.

Meanwhile, international trade has an ever-increasing importance for the economy. The cross-border trade in goods and services has increased from 13% in 1970 to almost 30% of the global GDP before the crisis (World Bank, 2010). The impact was even bigger on developing countries – their trade dependency surpassed the OECD countries in early 1990s, thanks to multilateral trade liberalisation under the auspices of the World Trade Organization

(WTO) complemented by unilateral reforms, tariff cuts for developing countries under the Generalized System of Preferences (GSPs) and some bilateral free trade agreements (FTAs).

Power in international relations is defined as the ability to coerce another country to pursue a policy against its will (or original intent). It is fair to say that the stronger economic ties between nations have led to stronger dependencies, which creates more opportunities to exercise political power, so-called economic statecraft. Furthermore, multinational corporations (MNCs) play unprecedented role for investments and employment. MNCs are accountable for 28% of world's GDP and most of them originate from the jurisdictions of the European Union, Switzerland or the US – or within countries who often are 'senders', meaning imposers of sanctions.

However, globalisation has also brought about a redistribution of relative powers with the re-emergence of China and BRICs (what Fareed Zakaria has branded the 'rise of the rest'). In the coming decade, 30% of world growth will come from China alone. This imbalance does not only create new tensions, but a drift towards a multipolar world that has a bearing on how trade transpose into power.

THE VIEWS ON EFFICACY OF SANCTIONS

The twelve entities currently on the sanctions list of the UN are authoritarian states or armed groups. None of them are modern democracies; seven are in the African subcontinent. They are by large outside this international trading system, and only two (Côte d'ivorie and Congo, D.R.) are members of the WTO, albeit in the periphery. The leading users of sanctions – the EU and the US – also impose unilateral sanctions without UN support. A core of their targeted countries overlap (e.g. Syria, Belarus, Burma and Zimbabwe) but they also pursue sanctions independently, especially in their regional sphere of interest (e.g. Cuba by the US or the enclave of Transnistria by the EU).

The efficacy of economic sanctions has been long-disputed by academics and practitioners alike. Their assessment is often complicated by the fact that sanctions are rarely used in isolation, often with the imminent threat of a more intimidating measure – use of force and military interventions. The objectives of the sanctions are also (perhaps deliberately) poorly defined, making it difficult to distinguish successes from failures. Historic cases have inconsistent outcomes, but there are some general conclusions that can be drawn from past sanctions:

First, sanctions have been seen as more effective when they are used against friendly countries, like the US sanctions against the UK during the Suez crisis that led to full compliance within a few weeks; second, they are more efficient against smaller, economically co-dependent nations (although this is disproved by sanctions against Cuba); third, sanctions tend to work when they are preludes to hard force, as in the Kosovo conflict; and finally, the aim of sanctions does factor in – whether the objective is compliance with trade rules, non-proliferation of WMDs or regime change, has an impact depending on the context, relation between the sender and the recipient and the degree of support, which greatly affects the outcome.

Given these pitfalls and limitations, it is no surprise that sanctions have failed in at least two-thirds of the cases (at best) according to an authoritative study conducted over several decades by Hufbauer, Schott et al. Moreover, sanctions sustained over extended period of time (e.g. South Africa, Cuba, North Korea or Zimbabwe) do not increase their impact but have often backfired as the regimes have consolidated their power base and supporters have 'rallied around the flag'. Sanctions are also a costly strategy. They often result in loss of trade in important raw materials for the sender countries, and sanctions strike hardest against the poorest (as often the case after trade restrictions) in the recipient countries: the rise in consumption prices have an immediate and disproportionately negative effect for those with lowest incomes.

'SMARTNESS' REDEFINED

Given these shortcomings of comprehensive trade sanctions, the use of selective or so-called 'smart' sanctions has increased since the mid-90s, and it was also promoted by the EU who entered the foreign policy arena around that time. These 'smart' sanctions are designed to target specific entities through embargoes on key commodities (such as gems, diamonds or timber that often bankroll conflicts), freezing of assets, or flight bans. Another measure is withdrawal of benefits, such as freezing development aid or suspending EU accession talks. Indeed, conditioning such 'carrots' on change of behaviour have similar punitive effects as de facto sanctions. The previous doctrine – illustrated by the aid to the African Caribbean Pacific (ACP) countries 'even if it was implementing policies contrary to development, human rights, rule of law' – was abandoned in 1995, and aid became conditioned on human rights (thanks to the Article 96 of the Lomé convention). Furthermore, the EU has also sanctioned human rights violations by withdrawing GSP tariff concessions for Burma, Belarus and Sri Lanka on the pretext of labour rights and lack compliance with ILO conventions. However none of the cases have lead to any progress towards the objectives sought.

The transition towards 'smart' sanctions has been consistent by the EU and the European countries, and all current EU sanctions outside the UN are either 'smart' or 'carrots'.

SANCTIONS AS POLICY FAILURES

The outcomes of the EU sanctions are not encouraging. None of its comprehensive trade sanctions currently imposed is unlikely to yield any success. Countries like North Korea, Zimbabwe and Burma are simply not responsive to sanctions. Military and authoritarian rulers are little convinced by economic pressure, soft powers or so-called 'European values'.

Meanwhile, some limited success of conditionality, especially against countries heavily dependent on foreign aid, e.g. Central African Republic, Ivory Coast, Fiji and Haiti. Also, both Turkey and Serbia complied with demands on human rights and extradition of war criminals after threats of suspending their EU accession talks. But 'carrot' have failed elsewhere – it had little impact on Guinea-Conakry, Liberia, Togo and Zimbabwe; also, every case of GSP withdrawal have led to non-compliance, partly due to the weak coverage of GSP sand their low utilisation rates.

Thus, the European experience with sanction have shown that a high degree of economic integration with the targeted countries does not ensure success. They cause very little economic damages, especially if they are 'smart', or lack universal backing. Finding necessary support is also increasingly difficult given the appetite for commodities and raw materials in the emerging markets – the UN sanctions against Syria were vetoed by Russia and China in the Security Council. Further to this point, China has surpassed the World Bank as the largest creditor in Africa (making a different point about efficiencies of markets vis-à-vis aid); the high-income countries are no longer technology monopolists or have exclusive access to financing; nor are they longer alone in having political capital – the EU contemplates blocking Ukraine's Association Agreement after the trial of Yulia Tymoshenko, but this only reorients Ukraine towards a customs union with Russia, Belarus and Kazakhstan instead. The logic behind sanctions are flawed in the new multipolar world, and they start to look increasing like Cold War relics.

Sanctions were also counterproductive when the EU has sought to deploy them as crisis management tools to end conflicts in Africa (e.g. Sudan, DRC, Ethiopia and Eritrea) and in Gaza. These sanctions were probably undertaken out of lack of other options, and even against better wisdom. This illustrates the fundamental problem of economic sanctions, namely that they are policy failures in themselves. No situation is ever supposed to escalate to sanctions as conditionality and mere threats are expected to work. Sanctions become dead-ends once there is no compliance, leaving military intervention as the only remaining option – which is most likely infeasible in most cases. This is why sanctions result in loss of geopolitical leverage as the recipients can simply call the bluff. Therefore, early abandonment of sanctions have become commonplace. Furthermore, sanctions are also lifted because their costs are unevenly distributed within the sender's economy, giving rise to internal tensions. For example, when Belarus' trade benefits under the GSP were suspended in 2006, its trade with Latvia and Poland contracted 33% and 26% respectively, while Germany actually increased its trade with Belarus.

EUROPEAN ECONOMIC STATECRAFT?

So if sanctions fail, why are they increasingly used, especially by the EU? In part, the proliferation of sanctions is due to the misperceptions and the relative success of conditionality in its aid against former colonies and the recently acceded member states (even noted by EU scholars by Portela), and the EU tends to study its own internal procedures when it designs future policies, while largely neglecting the external circumstances that made some of these cases work. There are also some delusions about the EU's 'soft powers' and their reach. The last institutional overhaul (the Treaty of Lisbon) created a foreign policy union without any unified political authority, and in name only. There is no European grand strategy or leitmotif of how Europe will redefine the present – and there is little demand for it. Few recognise the EU or other European states of having a substantive geopolitical footprint even in its vicinity – exemplified by its reactive stance on North Africa in recent years, and Srebrenica in the past. China and the US openly play divide and conquer amongst European states who seek a 'special relationship' with them.

For a foreseeable future, the EU will remain an economic union, pursuing economic goals, using economic instruments, such as trade agreements. Market liberalisation during the 80s and 90s and the creation of the Single Market and the European Economic Area (EEA) coerced the rest of the world to integrate their economies with Europe. Europe has the power to lead externally when it liberalises internally – integrationalism is the mainstay of Europe's geopolitical power, although economic crises and opportunities elsewhere have seriously undermined it.

Yet the discourse on civil and non-martial normative powers is rapidly spreading amongst EU institutions and European states, small and large. The Arab Spring has set off a rapid reversal of past principles in an apologetic rectification of embarrassing political links with the disposed dictators. Europe is now reversing from long-term engagement, openness and integration that spurred an evolution that eventually culminated in the end for the autarchies in Tunisia and Egypt. Instead, economic statecraft and sanctions are becoming the basis of EU bilateral relations. Such shortsightedness may be popular with the domestic constituencies, and there is very little dissuading European leaders from a broader use of unilateral sanctions. Despite their ineffectiveness, financial sanctions are easy to impose, and their costs and liabilities are often carried by third countries (such as Switzerland).

New concepts are also about to be introduced – The EU push for human rights conditions in its FTAs with the Mediterranean countries and India, the world's largest democracy, which will lead to a breakdown of the negotiations; the EU recently appended the list of strategic goods with dual use to include exports of telecom equipment and software. Chinese competitors (inarguably less concerned about their public image than European firms) will take their place; the EU also demands reciprocity on public procurement and is on the verge of a trade war over state subsidies; and more GSP preferences will be revoked as the developing economies threatens manufacturing jobs in the industrialised countries.

This world may be far from European ideals. But decoupling the economic links from the world could only lead to further loss of power and unequivocal loss of European political standing as its only possible outcome.