Introduction to the Issue on

How Sanctions Work - and Which Goals They Fail to Achieve

Chang Woon Nam

Economic sanctions have been widely used for foreign and security policy purposes to promote counterterrorism, counternarcotics, nonproliferation, democracy and human rights, conflict resolution, and cybersecurity. However, the dispute over their effectiveness has not yet been fully settled: many criticize that sanctions are often poorly designed and rarely succeed in changing the target country's behavior, while some proponents argue that they have become more effective over time and remain an important foreign policy tool.

Recently, a number of evidence-based studies have been conducted to better understand the impact of sanctions on economic growth, trade, and welfare, and the scope of research has been further expanded to include sectoral development of agriculture, energy, and mining, as well as other issues related to human rights, military spending, life expectancy, gender, and more. In this context, not only are the various economic activities to which sanctions apply (e.g., international trade, financial transactions, technology transfer, etc.) systematically examined, but the various types of sanctions (unilateral, multilateral, extraterritorial) are additionally considered. Due to ongoing geopolitical conflicts and instability, Western sanctions, especially against countries such as Russia, Iran, and China, will continue to play an important role in the international economic policy debate.

This issue of EconPol Forum brings together several interesting, evidence-based articles that examine the extent to which different types of sanctions have recently achieved their goals. They shed light on the major and immediate challenges faced by both target and sender countries, and the implications for other countries, while critically assessing past sanctions strategies and experiences. They also suggest some ways to increase the effectiveness of the policies and actions needed to make sanctions implementation more successful in the future.

According to *Jerg Gutmann, Matthias Neuenkirch,* and *Florian Neumeier*, there is overwhelming empirical evidence that sanctions can cause substantial economic harm to target countries, leading to a slump in GDP per capita and its components such as private investment, consumption, and trade. Furthermore, sanctions may cause severe collateral damage, as they harm all dimensions of human development of the target country's population while also undermining their political rights and civil liberties.

Although there are signs that their success rate is increasing, *Constantinos Syropoulos* and *Yoto V. Yotov* point out that most sanctions fail to achieve their intended political goals. While the economic impact on target states is severe and detrimental, the severity of this impact is mitigated by the possible diversion of trade toward third countries. In general, sender states do not suffer large sanctions-related losses, with the exception of the recent cases against Russia.

Drawing on the experience of the protracted conflict between the US and Iran, where the threat of Europe's loss of access to the US market was a powerful tool to restrict European trade with Iran, *Eckhard Janeba* warns of the potential danger of the geopolitical rivalry between the US and China spilling over into Europe via such extraterritorial sanctions. In this context, European countries need to invest in strategic sovereignty to prepare for the possible impact of the US-China geopolitical conflict.

Stefan Goldbach and Volker Nitsch assess financial sanctions, especially those imposed by the United Nations, as highly effective due to the lower risk of sanctions evasion and their strong and immediate negative impact on direct financial flows with the target country. In addition, there is limited evidence that financial sanctions cause collateral damage by reducing trade in goods and services.

In a theoretical context, sanctions may increase pressure to end a conflict if sanction costs are to persist throughout the conflict phase and be lifted only when the conflict ends; they must furthermore effectively and exclusively affect the target country for the duration of the conflict. However, *Kai A. Konrad* and *Marcel Thum* argue that this is less true for energy export embargoes, because oil that is not sold today, for instance, does not vanish and can be sold in the future, making declining sales revenues today an unsuitable gauge of the effectiveness of this kind of embargoes. A significant sanctioning effect can be expected if the ruling elite, for example in Russia, wants to extract energy resources as quickly as possible in the absence of sanctions and invest the proceeds safely abroad.

According to *Dario Laudati*, the direct economic impact of sanctions that extend over many years, as in the case of Iran, is increasingly severe in the form of lost production. In addition, there are indirect effects such as rent-seeking, resource allocation distortions, and general costs associated with efforts to mitigate and circumvent sanctions regimes. Furthermore, these long-lasting sanctions can have significant political and socio-demographic effects, as illustrated by the example of Iran's gender-based policies and its redistribution of educational resources.

Finally, *Mohammad Reza Farzanegan* examines the relationship between Iran's military spending and economic growth, incorporating the forward and backward linkages of the defense industry with the rest of the Iranian economy. He finds evidence that economic sanctions have reduced military spending in that country.

We hope you enjoy this Policy Debate of the Hour!