

AD-A092 201

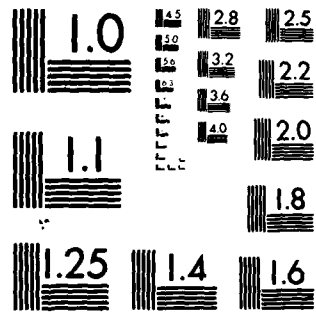
ARMY WAR COLL STRATEGIC STUDIES INST CARLISLE BARRACKS PA F/G 5/4
ECONOMIC SANCTIONS IN THE 1990'S. (U)
OCT 80 D L LOSMAN

UNCLASSIFIED

NL

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----

END
DATE
FILMED
1 85h
DTIC



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

AD A092201

STRATEGIC STUDIES INSTITUTE
US ARMY WAR COLLEGE
Carlisle Barracks, Pennsylvania

6 ECONOMIC SANCTIONS IN THE 1990's

by

10 Donald L. Losman

11 30 Oct 1980

12 16

DISTRIBUTION STATEMENT:
Approved for public release;
distribution unlimited

The views, opinions and/or findings
contained in this report are those
of the author and should not be
construed as an official Department
of the Army position, policy or
decision, unless so designated by
other official documentation.

~~SECRET~~

NOV 28 1980

A

A

390230

MT

DISCLAIMER

The views, opinions, and/or findings contained in this report are those of the author and should not be construed as an official Department of the Army position, policy or decision, unless so designated by other official documentation.

FOREWORD

This Futures Group paper analyzes the use of economic sanctions to achieve particular objectives. The author contends that despite past failures of economic sanctions they will most likely be used in the 1990's with significant military implications.

This paper was prepared as a contribution to the field of national security research and study. As such, it does not reflect the official view of the US Army War College, the Department of the Army, or the Department of Defense.



ANDREW C. REMSON, JR.

Colonel, CE

Director, Strategic Studies Institute

ECONOMIC SANCTIONS IN THE 1990's

cont.

Economic sanctions are formalized trade and financial penalties inflicted upon target nations for the purpose of coercing the latter into practices and behavior more in accord with the desires of the boycott-imposing governments. They are, in short, a nonmilitary form of coercion designed to obtain specific or generalized foreign policy objectives. American sanctions against Cuba, for example, were implemented for the purpose of either toppling the Castro regime or forcing it into more acceptable behavior. The recent sanctions against Iran were imposed for the purpose of freeing American hostages, while the economic measures taken against the Soviet Union have as their stated goal the removal of Soviet troops from Afghanistan. Sanctions also perform a symbolic function. They represent a warning to third parties to the effect that offending actions and policies may become costly; nations contemplating activities likely to be deemed unacceptable are thus put on notice that such actions may result in considerable economic hardships to them.

The 20th century experience with formal economic sanctions leaves one less than optimistic concerning the efficacy of such measures.¹ It is important at the outset to recognize that sanctions are indeed a tool, one employed to achieve particular political objectives. To be deemed successful, the objective must be attained. The process is clearly a simple and direct one, at least in theory. Trade and financial benefits are denied a target state, thereby causing it to sustain economic harm. From the perspective of the boycotters, the damage and dislocations caused should create sufficient domestic pressures upon the political authorities to force them into a changed policy posture. Obviously, then, to be successful the sanctions must impose serious economic penalties. However, even if such damage is rendered, the practical link between economic pressure and policy changes is neither automatic nor direct.

Two ingredients, then, are necessary for the successful use of economic sanctions. First, the target nation must suffer significant economic difficulties. Second, the nature of the domestic political system and regime must be such that economic pressures will indeed be translated into the desired political changes. The general impotence of formal economic sanctions has been attributable to failures in both regards: sanctions have often rendered only mild economic dislocations, and even when the costs have been serious, the domestic political systems have generally responded in fashions which have not furthered the goals of the sanction's initiators.

Economic vulnerability to sanctions depend upon a number of factors. The most important are:

- 1) the economic size of the target nations;
- 2) the economic size and number of the boycotting states;
- 3) the percentage of Gross National Product in the target state accounted for by foreign trade;
- 4) the nature, commodity composition, and concentration of trade;
- 5) the determination and ability of the boycotting states to effectively enforce the embargo;
- 6) the economic size and significance of allies (and potential allies) of the target state; and,
- 7) the target state's capacities for import substitution and diversification.

Obviously, small nations (in an economic sense) have greater vulnerability to sanctions. Further, the larger the number of boycotting states (and the more effective the boycott enforcement) and the more dependent--technically and otherwise--the target state is upon foreign markets and supplies, the greater the likely damage which sanctions will inflict. On the other hand, if the target economy is fairly sophisticated and flexible and if it can replace boycotting suppliers and markets, then the economic harm will be minimized. Cuba, for example, which was enormously vulnerable to sanctions,² was able to survive by its trade diversion and aid from the socialist bloc. Rhodesia was to

produce import substitutes internally. It also discovered that despite the global nature of sanctions against it, the enforcing states were so heterogeneous in their economic needs and political desires that embargo enforcement was sufficiently lax to allow much continued trade. In each case--indeed, in almost every sanctions situation--the target states do feel varying degrees of economic harm, but there is clearly a political dimension which allows for a "pain absorption" capacity.

This political dimension, centering around the sensitivity and responsiveness of the leadership to the economic disruptions, has generally been the factor most ignored by those imposing sanctions. To achieve the political goals desired, the economic pressures created by boycotts must be translated into concrete actions by the target state's decisionmakers. This process clearly depends upon several factors, mainly:

- 1) the domestic incidence of the economic damage;
- 2) the resolve or sensitivity of the politically influential population; and,
- 3) the nature of the target state's political system and the abilities, personal characteristics, and responsiveness of the political leadership.

Even if considerable economic damage is imparted, if these costs are evenly spread in the target economy or fall upon politically impotent groups, the desired political outcomes may not be achieved. Further, it must be recognized that the leadership--via budgetary and other tools--will have a meaningful ability to influence how the costs of sanctions will be borne. The adroitness of the leadership and the use of the mass media will also be important in determining the resolve of the body politic. Indeed, it is quite possible that the more damaging the sanctions become, the greater the capability of a charismatic leader to harden the resolve of the population and the political

elite. In such a case, sanctions appear to generate negative results since they make the attainment of the initial objectives even more remote. This is particularly the case when the identification by the target state's population with those employing sanctions is low or negative. Thus, sanctions against Cuba or Iran by what is perceived to be an imperialistic, meddling United States with whom neither Cubans nor Iranians have much positive identification are just as likely (or more so) to delay the desired political changes as to achieve them.

Current embargo efforts directed against the USSR and Iran seem, because of the various problems just cited, destined not to bear the desired political harvests. Indeed, there are many indications that these efforts have produced a hardening of political positions in Tehran and Moscow. Further, it is clear that these efforts have placed political strains on the Western alliance. Since commerce is a two-way street and the various Western nations have widely differing trade and economic circumstances, embargoes impact differently upon each boycotting state. Those feeling the greatest pinch will be most reluctant to cooperate, but at the same time will feel increased pressures from the embargo-initiating nation and those allies with far less to lose. It seems safe to conclude that economic sanctions in the 20th century (and this includes League of Nations' efforts) have been an impotent policy instrument.³

What, then, are the prospects for these measures a decade from today? Will the 1990's witness circumstances in which such endeavors will bear greater pay-offs or will the historic patterns tend to continue? Is it likely that the United States will become politically and economically vulnerable to such measures which might be wielded by Soviet bloc or Third World nations?

By the decade of the 1990's it is rather certain that the trend towards a "smaller," more interconnected world will have continued and intensified. One aspect of this trend has been the rapid increase in the exchange of goods and services among nations. Indeed, the value and volume of world trade has tended to grow faster than the constituent national economies, a positive factor in the economic growth of all nations. With the world's economies even more interconnected than today, the costs to sanctions-imposing alliances are likely to be greater and the differential impacts upon the boycotting states even more pronounced. It cannot be expected that unilateral sanctions will achieve their political goals. The economic measures must be on a collective basis. However, in a "closer" world economically, it will be even more difficult than today to gain agreement amongst allies. It is less likely, then, that collective sanctions will in fact be imposed. Further, without a significant multilateral effort, it is virtually impossible for them to succeed.

It is also worth noting that the sanctions being discussed are conceivably successful only against a relatively small or medium-sized nation. Large countries, such as the United States, the Soviet Union, and China will clearly be able to absorb the costs rather than bend to the will of outside powers. This is particularly true when one recognizes that the development of the mass media by the 1990's will give political leadership, in both large and small nations, much greater leverage in forging public opinion and affecting their populaces' degree of identification with the boycotting countries. Because of this, economic harm is less likely to be translated into the desired political outcomes.

Will industrialized countries such as the NATO states and Japan become more vulnerable to raw materials suppliers acting in concert, a la the OPEC

cartel? The answer, in all probability, is no, for two reasons. First, the increasing role of world trade will integrate all economies to an even greater degree. And because there are real costs to the imposing states, with these nations needing the exports of the industrial economies, the likelihood of a successful embargo against the western alliance is very low. This conclusion is reinforced by the expectation that various strategic stockpiles will, by the 1990's, be fully or almost fully developed. The existence of such stockpiles and sharing arrangements greatly diminish the success which could be expected from a denial of resources. Additionally, in the 1990's synthetics will be more fully developed. For these reasons, it appears that the economically advanced nations will be far less vulnerable a decade from now than today.

Nothing in this paper should be interpreted to suggest that there is no role for economic pressures--the carrot and the stick--in future diplomacy and foreign relations. This is very far from the case. Economic enticements, subsidies, market accesses and relative denials are all useful tools at the appropriate times. However, as George Ball once remarked, recourse to formal economic sanctions represents a failure in diplomacy--a nonviolent tool used when everything else has failed. The economic carrot and stick will continue to be dangled and manipulated, often with success; however, there are limits to what can be done via this means and success is most likely in behind-the-scenes negotiations. Once nations become separated on what appears to be a very basic issue or point, the use of formal sanctions, a public effort at economic isolation, will continue to result in the same frustrations and failures generated in the past.

There is one interesting, but seldom tried possibility.⁴ Sanctions have historically been passive or negative actions, basically the refraining from

open commerce. Current American efforts against the USSR are a typical case in point. Trade has been scaled down, although not totally eliminated. Total elimination remains a possibility, some idyllically believing that this threat or its implementation will be sufficient to quell Soviet adventurism in Afghanistan. However, a great economic power, such as the United States, has the additional option of placing sanctions on an active as well as passive basis. In the current situation, for example, the United States could have undertaken efforts to buy up all surplus grains around the world, hence far more effectively sealing the sanction's loopholes and far more significantly tightening the economic noose. Such preemptive buying of possible substitute supplies in all world markets would without question impart serious economic damage. Even with such actions, however, it remains a moot question as to whether or not the desired political outcomes would be achieved. Further, such an undertaking would not only be very expensive for the implementing nations, but would undoubtedly create political strains both within its alliance and with Third World nations. The political costs, then, would be very great. And because such an endeavor has no historical precedent, it is somewhat speculative to assess its likely success. However, in light of the more familiar pattern of past sanctions, one cannot be highly optimistic. Nonetheless, it is a possibility yet to be tried.

Simply because historical experience and economic analysis have consistently shown sanctions to be ineffective, it is not reasonable to conclude that such measures will not be attempted during the 1990's. On the contrary, history is replete with examples of discredited policies being resurrected and repeatedly proving their own lack of merit. Are there, then, military implications associated with the possible use of sanctions during the 1990's? Two or three possibilities appear obvious. First, if the problems which separate

two nations become so great and insoluble as to cause one to initiate sanctions, the likely inability of the economic measures alone to achieve the desired result would create pressures for a tightening of the economic compulsion or other actions. Whereas embargoes are considered a pacific tool in international relations, blockades and search and seizure on the high seas are not. A frustrated state dissatisfied with its lack of progress via sanctions may indeed be led to employ these additional practices. In fact, there is today in the United States considerable talk of this very possibility with regard to the Iranian situation. There has been a long discussion in international law concerning the significance of such acts. Many see such an extension as tantamount to an act of war, thereby bringing into consideration the entire gamut of military possibilities. In deciding to implement such acts, it is therefore only prudent to consider the worst case situation and make suitable preparations.

It is also possible that a sanction effort could result in revolution within a target state. If the economic damage imparted is significant, yet the political authorities refuse to capitulate, the political situation may erupt into bloodshed within that nation or along its borders. Under such conditions, it is likely that outside aid, either in terms of resources, funds, or proxy armies, will be supplied by the various external powers having an interest in seeing a specific outcome or mode of conflict resolution.

Lastly, if sanctions of some form are employed by some nations in the 1990's there is a potential for conflicts arising from the limited ability of small or poor nations to absorb the costs which may either directly or indirectly affect them. If, for example, a Middle East war were to bring about another oil embargo of the West, the limitation of supplies would drive world petroleum prices upward. The rich nations, in such a scenario, would still

have the economic ability to procure reduced supplies, despite the high cost. The poor nations would not. Many are still reeling from the first "oil shock," with mounting debts and balance of payments problems. Their likely financial positions in the 1990's may make it impossible for them to compete for artificially limited materials. In such a case, it is not inconceivable that a starving nation with considerable military capability might take it upon itself to seize the resources it believes to be vital to its existence. Under this scenario, an intrusion into the Persian Gulf, for example, may be as likely to come from India as it is from the USSR.

To sum, the historically proven limitations of economic sanctions are likely to prevail through the decade of the 1990's. Indeed, it is likely that those limitations will be even greater by that time. Nonetheless, the decade may still witness a number of sanction endeavors and there are clearly military and national security implications associated with such actions.

ENDNOTES

1. See Donald L. Losman, International Economic Sanctions: The Cases of Cuba, Israel, and Rhodesia, Albuquerque: University of New Mexico Press, 1979, and James Barber, "Economic Sanctions as a Policy Instrument," International Affairs, July 1979.

2. See Losman, Chapter 3.

3. For a recent assessment, see Hearings Before the Subcommittee on International Finance of the Committee on Banking, Housing, and Urban Affairs, U.S. Embargo of Food and Technology to the Soviet Union, United States Senate, 96th Congress, January 22 and March 24, 1980, pp. 165-214.

4. During World War II, the Allies attempted to "preemptively" purchase Swedish Wolfram. Increased Swedish production essentially negated the effectiveness of the Allied effort.

UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER ACN 80027	2. GOVT ACCESSION NO. AD-A092 201	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) ECONOMIC SANCTIONS IN THE 1990's	5. TYPE OF REPORT & PERIOD COVERED	
	6. PERFORMING ORG. REPORT NUMBER	
7. AUTHOR(s) Dr. Donald L. Losman	8. CONTRACT OR GRANT NUMBER(s)	
9. PERFORMING ORGANIZATION NAME AND ADDRESS Strategic Studies Institute US Army War College Carlisle Barracks, PA 17013	10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS	
11. CONTROLLING OFFICE NAME AND ADDRESS	12. REPORT DATE 30 October 1980	
	13. NUMBER OF PAGES 14	
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office)	15. SECURITY CLASS. (of this report) UNCLASSIFIED	
	15a. DECLASSIFICATION/DOWNGRADING SCHEDULE	
16. DISTRIBUTION STATEMENT (of this Report) Approved for public release; distribution unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number) Economic sanctions; 1990's; embargo; blockades; military implications.		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) Economic sanctions are a tool employed to achieve particular political objectives. The 20th century experience with formal economic sanctions leaves considerable doubt about the efficacy of these measures. This paper points out, however, that historical lack of success with sanctions does not mean that this tool will not be used in the 1990's. — cont next page		

DD FORM 1473 1 JAN 73 EDITION OF 1 NOV 68 IS OBSOLETE

UNCLASSIFIED
SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

20. ABSTRACT (continued)

cont

Inherent in the use of sanctions are several military implications. First of all the failure of sanctions can lead to implementing stronger measures such as blockades and search and seizure. If the sanctions are effective, then they could be responsible for internal strain which could lead to revolution or a declaration of war.

The use of sanctions requires the user to keep in mind his objectives and to have thought out the follow-on actions both when the sanctions are effective and when they are not. → to p.1

END

DATE
FILMED

8/

DTIC