

A Brief Review of the Effectiveness of Economic Sanctions

By Edgar Morgenroth

Business School, Dublin City University,
Dublin, Ireland



While economic sanctions such as trade embargoes have a long history reaching back hundreds of years, their use has increased since World War II, and over recent decades sanctions seem to have become an increasing feature of foreign policy¹.

While economic sanctions are often considered to be largely confined to trade sanctions, there have been a wide variety of sanctions implemented. The Global Sanctions Data Base² classifies sanctions into 6 different types, namely trade sanctions, financial sanctions (e.g. limiting access to international payments mechanisms), travel restrictions, arms sanctions, military assistance sanctions, and “other” sanction, (including sanctions on aid or transport. In addition, multinational firms often choose to withdraw from sanctioned countries even where there is no legal requirement to do so, and firms also voluntarily cease to supply some markets.

In the wake of the full-scale war by Russia on Ukraine, and with the more aggressive rhetoric by China regarding Taiwan, the use of sanctions has been the subject of some discussion. Two particular aspects of sanctions that have been debated in recent times, are whether sanctions are effective and to what extent they actually have a negative impact on countries that impose sanctions, both through the sanctions directly but also through retaliation by the sanctioned country. This has also raised concerns about international value chains and dependence on trade with countries that might be sanctioned in the future.

In order to assess the effectiveness of sanctions one needs to first identify precisely what the objectives of any sanctions regime is.

While the reason for sanctions is usually explicitly stated, their ultimate aim is often less clear. For example, the EU has a webpage³ outlining the now very

1. see Morgan, T. C., Syropoulos, C., and Y. Yotov (2023) “Economic Sanctions: Evolution, Consequences, and Challenges” *Journal of Economic Perspectives*, Vol. 37(1), pp. 3-30.

2. see Syropoulos, C., Felbermayr, G., Kirilakha, A., Yalcin, E. and Y. Yotov (2023) “The global sanctions data base–Release 3: COVID-19, Russia, and multilateral sanctions.” *Review of International Economics*, forthcoming, published online. Syropoulos, C. et al (2023) op. cit.

3. See <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/>



extensive sanctions against Russia and Belarus that were imposed in the wake of the Russian full-scale attack on Ukraine in 2022, on which the objectives of the sanctions are not explicitly stated anywhere. The aim could be to force Russia to withdraw from Ukraine, to make it more difficult for Russia to conduct the war, to increase the cost of the war for Russia, to impose costs on the Russian population so that they might put pressure on their leadership to stop the war, to signal to Russia that the EU strongly disapproves of the war, and so on. Of course, the aim could be a combination or indeed all of the above.

UN resolutions appear somewhat clearer. For example, Resolution 1737 (2006)⁴ on sanctions against Iran is very clear that they are being introduced in response to Iran's uranium enrichment activities, and while the resolution naturally uses legal language, most people would recognise that the aim is to stop Iran developing a nuclear weapon.

Given the sometimes opaque objectives of sanctions, it is not surprising to find much debate about their effectiveness in public discourse. However, there is a body of literature which has considered the effects of sanctions. Here one needs to distinguish between the effects on the sanctioned country, both in terms of the foreign policy objectives and the economic impact on the country, from those on the sanctioning country. The distinction between foreign policy and economic effects further adds to the difficulty in determining effectiveness. Furthermore, research has found that domestic economic issues also lead to a higher probability of sanctions being imposed on other countries so another objective could simply be to divert from these⁵.

A detailed analysis of sanctions from 1950 to 2022 found that the number of sanctions that met their stated objectives increased until the mid-1990's after which time the share of sanctions that were deemed to have been successful dropped significantly, with on average 42% of sanctions being deemed successful over the full period⁶. Thus, more than half the sanctions that were taken into consideration have been unsuccessful, and that share is nearer 100% over recent years. As one would expect, multilateral sanctions are found to be more effective than unilateral ones and the most effective sanctions are those imposed by the UN. Also unsurprising is that well-targeted sanctions such as travel restrictions and financial sanctions were more effective than more general trade sanctions.

Another recent study found that the sanctions imposed on Russia following that country's annexation of the Ukrainian Crimea and the invasion into Donetsk and Luhansk reduced real income in Russia by 0.3%. The same study projects that the most recent sanctions on Russia will reduce income by up to 4%⁷. Russia retaliated with counter sanctions, and these were found to have reduced trade by \$42 billion in the first year-and-a-half following their imposition⁸. Research on

4. <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N06/681/42/PDF/N0668142.pdf?OpenElement>

5. See Attia, H (2023) "Divert when it does not hurt: The initiation of economic sanctions by US presidents from 1989 to 2015", *Review of International Economics*, forthcoming, published online.

6. See Morgan et al (2023) op.cit.

7. Flach, L., Heiland, I., Larch, M., Steininger, M., and F. Teti (2023) "Quantifying the partial and general equilibrium effects of sanctions on Russia", *Review of International Economics*, forthcoming, published online.

8. See Miromanova, A., (2022) "The effectiveness of embargoes: Evidence from Russia", *World Economy*, Vol. 46, pp. 906-940.



the effect of sanctions on exporting firms has also been carried out. A study of the impact on Danish firms of sanctions on 62 countries found that the impact on firms is very heterogeneous depending on sanction type, countries sanctioned, and the stated objective of the sanctions⁹.

The impact of embargoes or retaliatory sanctions can be particularly disruptive for sanctioning countries where a significant share of key trade is involved. This was exactly the situation many EU Member States found themselves following Russia's full-scale invasion of Ukraine in 2022. Before that time, Germany for example imported about 55% of its gas from Russia. Many commentators issued stark warnings at the time that an embargo on Russian energy imports would lead to a deep recession in Germany. However, research done at the time showed that with appropriate policy interventions the impact could be kept to a contraction of GDP by less than 3% and likely closer to 2%¹⁰, which ultimately proved closer to the outcome than the doomsday predictions from some within industry and the unions. The policy interventions included immediate preparation for an embargo, changes to the rationing system and the acceptance of higher energy prices for an extended period which would necessitate helping those citizens and businesses most affected. The German government managed to find alternative gas supplies and managed to fast-track LNG (Liquid Natural Gas) terminals. Additionally, consumers and industry reduced their demand in response to higher prices.

Another topic that has received some attention is the fact that sanctions can potentially be circumvented. Indeed, there has been some evidence that commonly applied sanctions have lost their effectiveness overall¹¹. According to one study there was no evidence that Russia was breaking Western sanctions in the 2002 to 2019 period, but there was some evidence that China did¹². The bypassing of sanctions is not difficult if only a relatively small number of countries implement sanctions against a country. If the sanctioning countries continue to trade with other unaffected countries, then these can become the intermediary for trade between the sanctioning and sanctioned countries. This is more likely if third countries have well-established trade links to the sanctioned country. It is thus not surprising that significant shifts in trading patterns between Western countries, third countries, and Russia in relation to goods sanctioned following the Russian full-scale invasion of Ukraine have been recorded¹³.

In Summary, sanctions have become an increasingly important foreign policy tool, but their effectiveness has been declining. Nevertheless, sanctions can have significant impact on the sanctioned countries, but can also negatively affect the sanctioning country. In the case of Russia some estimates suggest that the

9. Jäkel, I., Østervig, S., and E. Yalcin (2023) "The effects of heterogeneous sanctions on exporting firms: Evidence from Denmark", *Review of International Economics*, forthcoming, published online.

10. Rüdiger Bachmann, David Baqaee, Christian Bayer, Moritz Kuhn, Andreas Löschel, Benjamin Moll, Andreas Peichl, Karen Pittel and Moritz Schularick (2022) "What if? The Economic Effects for Germany of a Stop of Energy Imports from Russia", CESifo EconPol Policy Report 36.

11. See Morgan et al (2023) op.cit.

12. Gutmann, J., Neuenkirch, M., and F. Neumeier (2023) "Do China and Russia undermine Western sanctions? Evidence from DiD and event study estimation", *Review of International Economics*, forthcoming, published online.

13. Chupilkin, M., Javorcik, B., and A. Plekhanov (2023) "The Eurasian Roundabout: Trade Flows Into Russia Through the Caucasus and Central Asia", *EBRD Working Paper* No. 276.



economic impact on Russia is between 15 to 30 times larger than on the West¹⁴. Their impact on firms in sanctioning countries is very heterogenous which implies that it is difficult to soften the blow on domestic firms from sanctions on other countries. This is becoming more important than ever with the increasing use of sanctions and arguably increased geopolitical tensions mitigating the potential effects of sanctions. One way to achieve this would be to reorganise supply chains to rely more on trade with 'friendly' countries or domestic production, which ultimately comes at a cost.

Edgar Morgenroth is Professor of Economics at the Dublin City University Business School and a member of the IIEA Economists and UK Working Groups.

14. Hosoe, N., (2023) "The cost of war: Impact of sanctions on Russia following the invasion of Ukraine", *Journal of Policy Modelling*, Vol. 45(2), pp. 305-319.

The Institute of International and European Affairs (IIEA) is Ireland's leading international affairs think tank. Founded in 1991, its mission is to foster and shape political, policy and public discourse in order to broaden awareness of international and European issues in Ireland and contribute to more informed strategic decisions by political, business and civil society leaders.

The IIEA is independent of government and all political parties and is a not-for profit organisation with charitable status. In January 2021, the Global Go To Think Tank Index ranked the IIEA as Ireland's top think tank.

© Institute of International and European Affairs, November 2023

Creative Commons License

This is a human-readable summary of (and not a substitute for) the license.

<https://creativecommons.org/licenses/Attribution-NonCommercial-ShareAlike> 4.0 International (CC BY-NC-SA 4.0)

You are free to:

- Share - copy and redistribute the material in any medium or format
- Adapt - remix, transform, and build upon the material
- The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

NonCommercial — You may not use the material for commercial purposes.

ShareAlike — If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original.

No additional restrictions — You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.



The IIEA acknowledges the support of the Citizens, Equality, Rights and Values (CERV) Programme of the European Union



The Institute of International and European Affairs,

8 North Great Georges Street, Dublin 1, Ireland

T: +353-1-8746756 F: +353-1-8786880

E: reception@iiea.com W: www.iiea.com