Economic sanctions can have a major impact on the neighbors of a target nation, research finds

February 28 2024, by Vincenzo Bove, Jessica Di Salvatore and Roberto Nisticò

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After Ukraine was invaded in February 2022, countries and major corporations around the world quickly responded by trying to inflict financial pain on Russia through economic sanctions.

As Putin's war rages on, opinions vary as to how effective those sanctions have been. But their enforcement shows how they are still widely considered to be a useful tool of coercive foreign diplomacy.

Exerting economic pressure on a target country to achieve a specific political or strategic goal remains a commonly used measure. Since 1966, the UN Security Council has established 31 sanctions regimes around the world, in places including Sudan, Lebanon, Iran and Haiti. The EU even has an online map of all the countries where it has imposed various types of sanction.

In terms of their effectiveness, plenty of research has explored this, revealing strong evidence that sanctions reduce the economic activity of a targeted nation.

But what about the potential for unintended consequences of sanctions on their neighbors? What happens to a nation if it borders a country being punished by members of the international community?

Our recent research, examines the effects of economic sanctions on 177 countries which had neighbors under sanctions at some point between 1989 and 2015.

We found that, on average, neighboring countries experienced a significant decline in trade—around 9%—following the imposition of economic sanctions nearby. In most cases, proximity to a country under economic sanctions brings disruption to trading routes and relationships. It also leads to extra transportation and transaction costs.

Previous research reveals further evidence of this effect. There are studies which show how economic sanctions hurt neighbor countries due to the great disruption they inflict on trading routes and relationships with suppliers or customers. For example, 21 countries reported economic hardship as a result of the sanctions imposed on Iraq.

So sanctions imposed on a country to damage its economy often tend to do economic harm to its neighbors. But not always.

In some of the cases we looked at, sanctions actually have a positive effect on neighboring countries.

For example, following economic sanctions against Haiti in 1987, the Dominican Republic saw an increase in import trade. The same benefit—in both cases possibly due to cross-border trafficking—was experienced by Kenya when Somalia was hit with sanctions in 1992.

Even among a group of countries sharing a border with the same targeted state, we observed varied responses. Following the sanctions imposed on Yugoslavia in 1991, Albania experienced a sharp increase in imports, while Bulgaria initially witnessed an increase, followed by a decline for the subsequent three years, and then a rebound over the following six years.

Unintended consequences

It seems then that economic sanctions can create significant opportunities for neighboring countries as global manufacturers need to relocate their production facilities out of the target state. Some companies in Russia are said to be looking for ways to move their activities to neighboring countries such as Kazakhstan.

We found that sanctions can also benefit neighboring countries by providing them with an opportunity to trade on behalf of the target country, or smuggling goods across the border.

In this way, EU sanctioned goods could be re-routed through third countries and then shipped to Russia. There is evidence that countries not necessarily bound by the sanction regime, such as Kazakhstan and Kyrgyzstan, have increased their trade with Ukraine's invader.

Overall then, while economic sanctions can be effective in pressuring the targeted country, our findings indicate that they can have unintended consequences such as harming innocent bystanders.

By thoroughly examining those potential consequences, politicians can attempt to strike a balance between pursuing foreign policy goals and taking into account their broader economic effects. Recognizing these effects should be part of imposing sanctions in the first place—and would help create more robust policies to ensure that they are effectively implemented.

Provided by The Conversation

Citation: Economic sanctions can have a major impact on the neighbors of a target nation, research finds (2024, February 28) retrieved 29 April 2024 from https://phys.org/news/2024-02-economic-sanctions-major-impact-neighbors.html