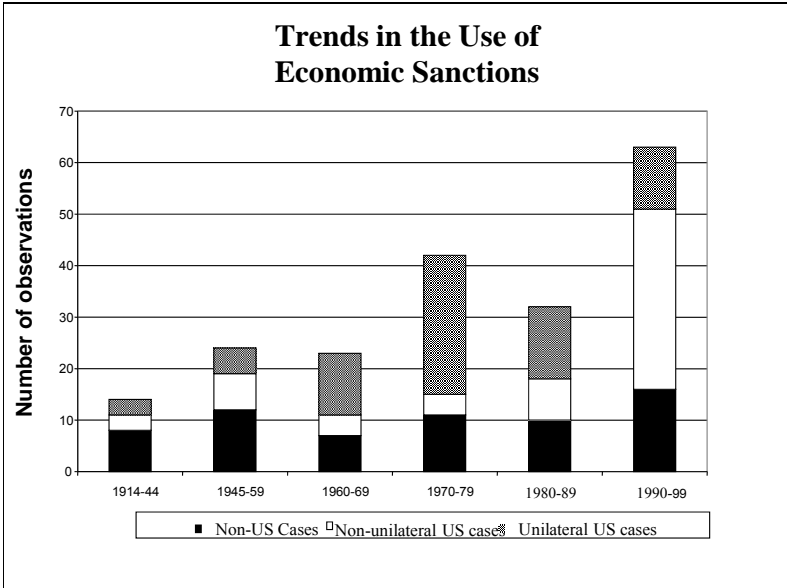


**ECONOMIC SANCTIONS IN A GLOBAL ECONOMY**

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### Who hits...

	1970-89	1990-99
<b>US</b>	55	37
<b>EC/EU</b>	9	19
<b>USSR/ Russia</b>	0	6
<b>UN</b>	1	12

### ...and who gets hit?

	1970-89	1990-99
<b>Africa</b>	9	17
<b>Asia</b>	15	10
<b>Lat. America</b>	20	11
<b>Middle East</b>	8	4
<b>USSR/ FSU</b>	5	8

### **For sanctions to succeed**

**Costs of defiance**                      **>**                      **Costs of Compliance**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Direct cost of sanctions</li> <li>• Escalation threat</li> <li>• Relations with sender and third parties</li> <li>• Political response in target</li> </ul> | <ul style="list-style-type: none"> <li>• External security</li> <li>• Internal security and stability</li> <li>• Political well-being</li> <li>• Personal well-being</li> </ul> |
|--|---|

### **Success rates for US sanctions**

**1945-1969**                      15/28 = 54%

**1970-2000**                      28/99 = 27%

### **Sanctions diminish commerce, both for targets and senders. This is costly because international trade and foreign direct investment matter for economic growth**

- An increase of 10 percentage points in the merchandise trade to GDP ratio raises GDP per capita by 5%.
- The same coefficient probably applies to commercial services trade.
- An increase of 10 percentage points in the FDI to GDP ratio may raise GDP per capita by as much as 10%.

### Armenian Trade has Grown Fast Since 2000 (\$ millions)

	1996	1998	2000	2002	2004	2005
<b>Exports</b>	290	221	300	504	723	974
<b>Imports</b>	862	902	885	987	1,349	1,801
<b>Total</b>	1,152	1,123	1,185	1,491	2,072	2,775

Source: Direction of Trade Statistics

### Armenian GDP Growth has also Performed Very Well

	1996	1998	2000	2002	2004	2005
<b>GDP (US\$ millions)</b>	1,599	1,892	1,912	2,377	3,219	3,782
<b>Per capita GDP (US\$)</b>	422	498	503	741	992	1,140
<b>Real GDP growth rate (%)</b>	5.9%	7.3%	6.0%	13.2%	10.1%	13.9%

Source: International Monetary Fund, World Economic Outlook Database, September 2006

### But Armenia's Trade with Immediate Neighbors Remains Small

(percent of total merchandise trade, imports plus exports, 2005)

<b>Immediate Neighbors</b>	<b>9.1</b>
Azerbaijan	0.0
Georgia	2.4
Iran	4.2
Turkey	2.5
<b>Other major partners</b>	<b>73.8</b>
EU	38.3
US	9.7
Russia	13.0
Israel	7.8
Ukraine	5.0
<b>All others</b>	<b>17.1</b>

Source: Direction of Trade Statistics

### And Armenian Trade and FDI Compare Poorly with other Crossroad Countries

	Population (millions)	GDP (billion US\$)	Mechandise Trade (imports plus exports as percent of GDP)	Inward FDI stocks (as percent of GDP)
	2005	2005	2003-2005	2005
Armenia	3.0	4.9	72%	33%
Jordan	5.4	12.9	130%	40%
Panama	3.2	15.5	126%	65%
Singapore	4.4	116.8	414%	159%

Source : World Investment Report 2006 and WTO website

### Political Goals of Economic Sanctions in the Caucasus Region

#### Turkey vs. Armenia (1989 - )

- Withdraw Armenian forces from the Nagorno–Karabakh region between Armenia and Azerbaijan.
- Disclaim preamble to the Armenian constitution which refers to the 1990 Declaration of Independence that in turn speaks of “Western Armenia” and “recognition of the genocide of 1915”.
- Disclaim Mount Ararat as the symbol of the Armenian state.
- Armenia to recognize *de jure* the existing Turkish–Armenian border, established by the Treaty of Kars.

#### Azerbaijan vs. Armenia (1989 - )

Withdraw Armenia forces from the Nagorno–Karabakh region.  
Accept the proposal that Nagorno-Karabakh will be allowed a high degree of autonomy but will remain part of Azerbaijan.  
Armenia to cease using the foreign aid to enhance its military force.

### **Lessons from Sanctions History for Turkey and Armenia**

- The likelihood that Turkey will achieve its political goals with economic sanctions against Armenia is small.
- The likelihood that Azerbaijan will achieve its political goals by economic sanctions against Armenia is non-existent.
- However, trade barriers of all kinds (tariffs, quotas, sanctions) create vested interests that invoke every available argument to perpetuate the barriers.
- For a crossroads country, the economic damage from measures that cut off trade with neighboring nations is severe.

### **Lessons from Sanctions History for Turkey and Armenia (*cont'd*)**

- In the 1960s, Singapore had bitter memories of Malaysia. In the 1990s, Jordan had little friendship with Israel. Even today, Panama has a cool relationship with Colombia and the rest of Central America.
- Nevertheless Jordan, Panama and Singapore all value commerce over a foreign policy based on political hostility. Their neighbors reciprocated.
- Can Turkey and Armenia follow the same path? What about Azerbaijan and Armenia?