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Economic Sanctions Do Not Achieve Political Objectives

The recent sanctions on Russia with the objective of slashing its export earnings to thwart its war efforts, have in fact led to Russia posting a record current account surplus in 2022

SAURABH CHANDRA

History tells us that economic sanctions do not achieve political objectives, but for one instance, when economic and political pressure led to the withdrawal of Anglo-French forces from the Suez Canal area in 1956.

Economic sanctions, however, do cause considerable distress. Damage is both direct and collateral. In an interconnected world, the ripple effect of such sanctions percolate across economies. Western sanctions on Russia, post Ukraine invasion, have pushed the world to the brink of recession. Déjà vu the oil crisis of 1973. The sanctions continue. So does the war.

Oil, as the world's most traded commodity and also because of its economic and military importance, is a favourite weapon of economic sanctions. It has become the world's most politicised and volatile commodity.

On July 26, 1941, the US froze Japanese assets in the US. This was followed by an embargo on oil and gasoline exports. More than 80% of Japan's oil was being sourced from the US. Negotiations failed. The deadlock was broken by the Japanese attack on Pearl Harbour on December 7, 1941. This became the immediate cause for the US to enter World War II.

In 1951, Iran took over all installations of the Anglo Iranian Oil Company. The British government owned 51% of its equity. Britain retaliated by imposing an embargo on oil exports by Iran and on export of goods to Iran. The Shah of Iran fled the country. The result was severe economic distress. However, a

VARANI SAHU

change in regime could be effected by a military coup, sponsored by the CIA and MI6, which restored Shah to power in 1953.

In 1956, Egypt nationalised the Suez Canal. Both Britain and France had equity stakes in the Suez Canal Company. On October 29, 1956, Israel invaded the Egyptian Sinai peninsula, followed by the advance of Anglo-French forces. President Eisenhower threatened to sell US government's pound sterling bonds. Britain's request for assistance from IMF was rejected, ostensibly under US pressure.

Saudi Arabia imposed an oil embargo against Britain and France. The US refused to meet the supply shortfall, till Britain and France agreed to a withdrawal. Reeling under the impact of a run on the pound and shortage of petroleum products, Britain announced ceasefire on November 6, 1956. The Anglo-French forces left the Canal area a month later, perhaps, the only time when economic pressure paid dividends.

In 1967, following the Israel-Arab war, Saudi Arabia, Kuwait, Iraq, Libya and Algeria banned oil shipments to the US, UK and West Germany. This attempt to weaponise oil failed. The US, Iran and Venezuela stepped in to meet the shortfall.

In October 1973, oil producing Arab countries imposed an embargo on oil shipments to the US, the Netherlands, Portugal, Rhodesia and South Africa for their support to Israel during the Yom Kippur war. It led to widespread economic distress caused by a steep price rise. However, it failed to alter political support of the West for Israel.

Sanctions against Iran have been imposed by several countries during the last four decades. The Iranian regime continues with little change in its ideological orientation. Despite claims to the contrary, its uranium enrichment programme also continues.

If economic sanctions do not achieve their avowed purpose, why are they repeatedly weaponised?

A basic psychological trait drives people in power to demonstrable action in a crisis, irrespective of whether it yields the desired results. Short public memory ensures that few questions are asked if such decisions fail to deliver.

Policy-making is often influenced by powerful pressure groups. Economic sanctions on Iran, Venezuela and Russia have sent the hydrocarbons lobby in the US laughing all the way to the banks. All oil and gas exporting countries have vested interest in continuance of supply shortages, induced by the Russia-Ukraine war.

Western nations talk about a rule-based order. The unstated purpose of this order is to perpetuate their hegemony. Sanctions are often imposed to preserve this order — overlooking the fact, that sometimes a decision taken to fix a problem may worsen it — known as the Cobra effect. Recent severe sanctions on Russia with the objective of slashing its export earnings to thwart its war efforts, have in fact led to Russia posting a record current account surplus in 2022.

It is time to look at alternative mechanisms to prevent conflicts from arising or bring them to a speedy resolution. This would require nations and blocks like NATO to curb their hegemonistic instincts. The UN has failed to deliver in the past and it is time to re-invent it but there is little incentive for the elite to change the existing order, because it works for them. Chances are that we would continue to see more of the same in times to come. As Friedrich Hegel said "The only thing we learn from history is that we learn nothing from history".

The Writer is Ex-Petroleum Secretary

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