Knowledge, evidence and learning for development

Impact of Economic sanctions on poverty and economic growth

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Question

What is the impact of sanctions on poverty and economic growth? Consider global evidence and then focus down on Sudan.

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1. Overview

Economic sanctions have become a popular tool in international politics, with the US being the largest actor in imposing sanctions. The aim of sanctions is to ensure government compliance with the imposer's interests and are often viewed as more humane than military intervention. However, economic sanctions are also criticised for not achieving their objective and for having a negative impact on areas such as human rights, democracy, poverty, healthcare, and basic living conditions. This rapid review synthesises findings from rigorous academic, practitioner, and policy references, focusing on recent and seminal works with the aim of highlighting the impact of sanctions on poverty and economic development. This review examines the wider impact of sanctions globally in order to create a better understanding of the role that sanctions play in Sudan and to counteract the fact that there are minimal studies focused on the impact of sanctions in Sudan itself. It is important to note that the majority of studies on sanctions are quantitative and thus involve many case studies to prove an overriding theory and do not cover much specific detail. For this reason there are not many studies of the impact of sanctions on Sudan specifically, however there is data to be extracted on poverty and the economic growth, which can be contextualised using the quantitative studies.

The majority of the studies for this report highlight the negative impact that economic sanctions have on the average member of the population, whilst arguing that elites generally find ways to negotiate the sanctions. Moreover, the studies also demonstrate the failure of sanctions to reach their desired result in most cases, and when paired with the human suffering they enact they are often seen as comparable to armed interventions, but without the same success rate in regime change. Mack and Khan (2000, p. 280) succinctly summarise this point in their summary of the sanction literature:

> The only real disagreement in the contemporary sanctions literature relates to the degree to which sanctions fail as an instrument for coercing changes in the behaviour of targeted states. No study argues that sanctions are in general an effective means of coercion, although individual sanction regimes can and sometimes do succeed.

They do however go on to argue that targeted sanctions have a lesser negative impact on the wider population, but are also less likely to work. This is not to say that there are not those who claim that sanctions work, as Marinov (2005) argues that sanctions increase the baseline risk of the leader losing power by 28%. However, the author does not justify whether the 28% increase outweighs the local cost.

Key findings are as follows:

- Economic sanctions lead to an increase in the poverty gap and deprived sections of the population feel the most impact.
- For the most part sanctions fail to achieve their aims and elites manage to negotiate the adverse effects to a far greater level than poorer citizens.
- Sanctions have a damaging effect on income inequality and impact ordinary people more than the sanctioned country’s leaders.
- Sanctions tend to harm rural and non-industrialised areas more, as resources are refocused in power and production centres.
- Economic sanctions have a negative impact on the cost of reconstruction and economic growth following the lifting of the sanction(s) or regime change.
- Sanctioned regimes often attempt to magnify the sanctions' negative effect on the economy to prevent the population from revolting.
- Between 1976 and 2012 UN sanctions led to a 25.5 percent aggregate decline in GDP per capita of the sanctioned countries (Neuenkirch & Neumeier, 2015).
- The negative impact that sanctions have on economic growth affect women, minority communities and other marginalised groups to a greater extent.
- Sanctions have a significant negative impact on the living standards and humanitarian situation of the population in the sanctioned state.
- Sanctions in Sudan have not led to the regime changing its actions and approach.
- Poverty is used as a tool in Sudan to control the population and blame is placed on those who enact the sanctions.

- Sanctions in Sudan have impacted the aid process leading to less aid getting through which exacerbates poverty.
- Although oil exporting has led to economic growth in Sudan, overall economic development is low and there is a disparity in the distribution of wealth from oil.
- Poverty as well as lack of services and opportunities are still significant issues in Sudan and women feel the impact to a greater extent.
- In Sudan the cycle of economic hardship, misrule and conflicts, which are partly a result of the sanctions, manifest to defeat the core purpose of the sanctions.

2. Sanctions and Poverty

This section examines the impact that sanctions have on poverty, as well as the issues closely related to poverty. Both quantitative and single case studies are used to give a clearer understanding of the wider, as well as the specific, impact of sanctions on poverty.

Poverty Gap

In a quantitative study of US sanctions between 1982–2011 Neuenkirch and Neumeier (2016) find that US sanctions adversely affect the poor and lead to an average 3.8 percentage point increase in the poverty gap (the average shortfall from the poverty line of USD 1.25 PPP a day) in comparison to a controlled group where the dynamics were as similar as possible to the countries being sanctioned. Moreover, Neuenkirch and Neumeier argue that these sanctions fail to achieve their aims in 65 to 95 percent of the cases in which they are imposed and that it is the poorest that suffer the most through their implementation, rather than the elites that the sanctions aim to target. Through the economic damage of the sanctions, a significant impact is felt by the public: GDP per capita decreases at an increased rate, exports and imports decrease, international capital decreases, and inflation increases. Due to the already fragile economies of sanctioned countries, the sanctions run the risk of leading to an economic collapse, which in turn leads to greater impoverishment. As import and export focused sectors are more affected by economic sanctions and these sectors tend to hire low-skilled workers, deprived groups in society are affected more by sanctions (Neuenkirch & Neumeier, 2016). The increased poverty in sanctioned countries in conjunction with the pressure on resources that sanctions create magnifies the poverty, as the wealthy have more access to resources such as medicine, oil, etc., in turn leading to an increase in the disparity of the living standards (Sen, Al-Faisal, & AlSaleh, 2013).

Also examining the impact of sanctions on the poverty gap, but through using the case study of Iraq, Alnasrawi (2001) gives a clearer understanding of the specific adverse effects that sanctions have on the ground. Whilst acknowledging other factors, such as the Iran/Iraq War and the air bombing campaign, Alnasrawi argues that economic sanctions in Iraq had a significant impact on the economy and had a particularly negative effect on the population leading to widespread poverty. According to Alnasrawi the sanctions led to a decline in life expectancy, nutritional standards and a loss of more than two-thirds of the country’s GDP. Additionally, the sanctions led to exorbitant prices, unemployment, an increase in school drop-out rates and mass emigration of skilled workers. In turn, there was a widening of the poverty gap as certain elite groups were given access to lucrative foreign trade transactions outside of the sanctions. Moreover, the government ceased providing social services to lower income groups. All of these elements greatly impact the cost and period of reconstruction and economic growth following the lifting of the sanctions or regime change (Alnasrawi, 2001). With the benefit of hindsight we now know the sanctions on Iraq did not lead to regime change or a more democratic government and military intervention was eventually required to remove Saddam Hussein.

Similarly, using a single case study (North Korea) Lee (2016) finds that sanctions increase the poverty gap between urban and rural areas. Lee argues that rather than changing the behaviour of the regime, sanctions increase inequality at a cost to the already marginalized hinterlands. Thus, centres of power, as well as manufacturing cities and mining areas gain economic activity at the cost of other areas, as resources are reallocated when the country relies more on natural resources for production and trade.

Income Inequality

Closely linked to the poverty gap Afesorgbor and Mahadevan (2016) examine the impact of sanctions on income inequality. Using quantitative analysis of 68 states targeted with sanctions in the time period spanning from 1960 to 2008, Afesorgbor and Mahadevan argue that the imposition of sanctions has a damaging effect on income inequality. Using empirical evidence they demonstrate that the imposition of sanctions has unintended consequences and usually affects the general population more so than the sanctioned country's leaders. Moreover, their study demonstrates that the impact of sanctions is more severe on income equality when sanctions span over a longer duration. More worryingly, Afesorgbor and Mahadevan argue that even when sanctions are lifted, addressing the widening income equality becomes difficult, compounds the issue of the economic recovery, and negatively impacts the process.

3. Sanctions and Economic Growth

Although closely connected to poverty, this section examines the broader impact that sanctions have on economic growth, as well as the issues that are more closely tied to poor economic growth than poverty.

Regime's Response

According to Oechslin (2014) regimes targeted by sanctions often do not try to counteract the impact of sanctions, but rather follow policies that magnify the sanctions' negative effect on the economy with the aim of preventing the population from revolting. He argues that the state intentionally deteriorates the economic productivity in order to increase the economic hardship of the population so that any revolt proves costly for citizens. Although the sanctions impact the elite, due to their strong economic starting position, funds hidden around the world and international collaborators, it is the local population who feel the impact the most. That said, Oechslin argues that the regime will look for ways out of the sanctions, which will either be to find a suitable exile opportunity or to carry on with its strategy until the sanctions end. There were 57 cases of sanctions for the purposes of regime change identified by Oechslin between 1914 and 2000 and of these only 12 of them (21 percent) are judged as being partly successful. However, in 37 cases (65 percent), the sanctions were lifted without achieving the goal, whilst the remaining eight were still ongoing in 2000. Therefore, sanctions lead to a decrease in the economic growth by both their implementation and the regimes response, yet statistically have a very poor level of success (Oechslin, 2014).

Sanctions and Gross Domestic Product (GDP)

Presenting more specific evidence of the impact of sanctions on economic growth, Neuenkirch and Neumeier (2015) – in a quantitative analysis of UN and US sanctions using a sample of 160 countries of which 67 experienced economic sanctions over the period 1976–2012 – argue that economic sanctions have a significant negative impact on GDP growth. Their study finds that UN sanctions have a greater negative impact with an average decrease of the target state's annual real per capita GDP growth rate of more than 2 percentage points. These effects last for a period of 10 years and lead to an aggregate decline in the target country's GDP per capita of 25.5 percent. Moreover, comprehensive UN economic sanctions that include embargoes affecting the majority of economic activity lead to a GDP growth reduction of more than 5 percentage points. Whereas, US sanctions have a lesser negative impact with an average decrease of the target state's GDP growth of between 0.75–1 percentage points and this detrimental impact on growth lasts for seven years and accounts for an aggregate decline in GDP of 13.4 percent (Neuenkirch & Neumeier, 2015).

Impact of Sanctions on Women

These two large dataset studies clearly demonstrate the negative impact that sanctions have on economic growth, whereas Drury and Peksen (2012) analyse the impact of the fall of economic growth, due to sanctions, on women. In their quantitative study of 146 countries, 71 of which experienced sanctions between the time period 1971 to 2005, they analyse 811 sanction years (15.4 percent of the data) and 3362 non-sanction years (84.6 percent of the data) in order to give clear results. In their article they argue that economic sanctions have a negative impact on women's access to economic and social status, as well as on the traditional patriarchal norms and attitudes, which lead to greater violations of women's rights. Moreover, Drury and Peksen demonstrate that sanctions have negative gender-specific consequences and that women bear the burden of the sanctions at a higher level. Thus, not only do sanctions lead to women experiencing a higher level of economic burden, they also lead to women's rights decreasing.

Destroying the Economy

Although the sanctions in Myanmar have since been lifted, scholars were particularly critical of the negative impact that US sanctions had on the economy and the living standards of the population. For instance, Rarick (2006) argues that although the citizens of Myanmar would have welcomed democracy, what they wanted more than anything was economic development. Rarick describes Myanmar at the time as having failing educational and healthcare systems, a collapsed private banking sector, unreliable and very sporadic power generation, rapidly rising prices of basic goods, an increasing percentage of malnourished children, rising cases of diseases such as tuberculosis, malaria and HIV, and increasing numbers of young women being forced to cross into neighbouring countries to work in the sex trade. According to Rarick, the only thing that sanctions succeeded in was destroying the country. He goes on to question the rationale of destroying a country if the proposed reason for sanctions was to save it.

Opposite Effect

Using the case study of Cuba, Francis and Duncan (2016) argue that sanctions had the opposite effect and that instead of removing links between Cuba and the Soviet Union, they actually strengthened them. They go on to argue that sanctions punished the people they were intended to help while leaving the Cuban leadership relatively unscathed. For Francis and Duncan, if the goal is for a free and democratic country then opening trade with the country is the optimal means towards achieving this, as when economic institutions become more inclusive, the political institutions will also be compelled to become more inclusive. They argue that European and Canadian countries' relationships with Cuba led to double digit growth rates in the tourism industry, which stimulated the economy and this preceded the government's decision to legalize the private ownership and sale of homes, cellular phones, and cars, as well as softening the restrictions on internet use. Thus, according to their study, it was trade, rather than sanctions, that led to a change in the government's policies.

4. Other Effects of Sanctions

This report has largely focused on the impact of economic sanctions on poverty and economic growth, however it is important to note that there are many other adverse effects, particularly with regards to the humanitarian situation of the target state. These are important to highlight, as the majority of the studies examined for this report link these negative effects to the increase in the poverty gap and the worsening economy of the sanctioned states. The various studies highlight the negative impact sanctions have on the availability of food and clean water, access to medicine and health-care services, life expectancy and infant mortality, human rights, political stability, and democracy (Neuenkirch & Neumeier, 2016). In order to give a clearer understanding of the link between the impact that sanctions have on economic factors and the decline of the humanitarian situation, a few cases are examined more closely below.

Repression

In a quantitative study of 157 countries for the years between 1976 and 2001, Wood (2008) argues that sanctions lead to an increase in state-sponsored repression. In these cases repression is used to prevent the defection of core supporters and to stifle dissent in the face of declining economic conditions or growing opposition support. The article suggests that multilateral UN sanctions contribute to greater increases in repression than do unilateral state sanctions. Both Wood and Mueller and Mueller (1999) argue that military and arms sanctions are more effective than economic sanctions, as they cause the population no harm.

Democracy Levels

In a quantitative study of 102 countries between the years 1972 to 2000, Peksen and Drury (2010) found that sanctions worsen the level of democracy. Their dataset included both sanctioned and non-sanctioned countries chosen for being less democratic and nondemocratic, as not to bias the results. They argue that economic hardship caused by sanctions can be used as a strategic tool by the regime to consolidate power and weaken the opposition. Moreover, the sanctions create incentives for the political leadership to restrict political liberties.

Terrorism

Using a sample of 152 countries for the period 1968 to 2004 Choi and Luo (2013) examine the correlation between economic sanctions and the rise of terrorism. Their study argues that economic sanctions intensify the economic suffering of the poor to a far greater extent than the rich and thus the imposition of economic sanctions serves as a trigger for frustrated poor people to turn to terrorist violence. Choi and Luo argue that the poor become violent only when additional external shocks such as economic sanctions push them over the edge. This is further exacerbated by the fact that the sanctioned leaders often manipulate the poor toward terrorism by portraying sanctions as a threat to sovereignty and well-being.

5. Sudan

There are very few studies specifically focused on the impact of sanctions in Sudan on poverty and economic growth. However, using the evidence from the research above, it is possible to gain a better understanding of their impact based on research that focuses on poverty and the economy in Sudan.

Impact of Sanctions

Due to numerous human rights violations, crimes against humanity, and state sponsorship of terrorism, Sudan has been facing sanctions since 1997, yet human rights violations, war crimes, and undemocratic governance continues, whilst the humanitarian situation has deteriorated. Many of the points highlighted in the studies above are true for Sudan. For instance, the government of Sudan uses poverty and starvation as a tool to control the population, whilst the elites have managed to negotiate the sanctions through the sale of oil to their allies (Prendergast & Brooks-Rubin, 2016). For instance, Sudan has close economic relations with China, linked to China's need for Sudan's oil, which has allowed the regime to circumvent sanctions whilst the population is still affected (Nour, 2014). To put this into perspective, it is estimated that the regime spends less than four percent of its annual official budget on public health and education combined, whilst spending over 60 percent on the military and security sector. Moreover, the regime in Sudan blames the poor economy and living standards on sanctions. The impact of sanctions also extends to those delivering aid in Sudan with many complaining of the difficulties of the process, which often leads to less aid getting through (Prendergast & Brooks-Rubin, 2016).

In one of the few academic articles written specifically on the impact of sanctions on Sudan, Aluoch (2015) argues that there are significant negative outcomes from sanctions, as the targeted individuals hold the political and economic levers of the country. Thus, instead of leading to compliance the sanctions have resulted in poor military and economic choices by the regime, such as increased expenditure on arms and the increase of conflicts. As a result, between 2011 and 2013 inflation on fuel and food was at 65 per cent, the economy contracted at a rate of –11.2 per cent, there was also a shortage of supplies and public services, high rates of unemployment among the educated youth, and a lack of foreign reserves. Whilst at the same time oppression of the population and opposition continued through the military. Aluoch goes on to argue that the economic hardships as a result of the sanctions have confined freedom and limited the space for advocacy and activism for fostering change. Thus, the cycle of economic hardship, misrule and conflicts manifest in defeating the core purpose of the sanctions.

Impact on Economy

Sanctions in Sudan have had a major impact on economic growth, with the exception of the oil industry, which is controlled by the regime, however lowering oil prices have even made this source of income precarious. Therefore, although technically there has been economic growth, due to Sudan being one of the newest significant oil producing countries in the world and the third largest oil producer in Sub-Saharan Africa, the finances from this are controlled by the regime and are not filtered down to the population. Thus, the rest of the economy has suffered and Sudan has become an oil-based economy with very little diversification and with finances controlled by the elites (Nour, 2014). There is very little investment in Sudan due to the significant risk for little gains, thus Sudanese entrepreneurs are far more likely to invest in the thriving national economy of neighbouring Ethiopia. Compounding the poor economic situation, the majority of the working, professional and middle classes have left the country (Prendergast & Brooks-Rubin, 2016). Although the sanctions have been counteracted in one way through oil trade with allies, the sanctions have still had a negative impact on the economy particularly with the lack of access to foreign technologies and the lack of funding for the development of local technologies. It is estimated that less than 1 percent of GDP is spent on research and development, whilst the average and median of the dependency ratio on foreign technology are 0.84 and 0,85 respectively (Arabi & Abdalla, 2013).

Poverty Gap

The poverty gap in Sudan is extremely high and the poor are more than twice as likely to suffer from a complete lack of basic services (education, health, electricity, water, and sanitation) and more than 40 percent of the poor in Sudan have no access to adequate public services. As the lack of services in Sudan are often regionally focused, this correlates with Oechslin's (2014) hypothesis that the government will often ensure that sections of the population are impoverished to prevent them from revolting. Whilst, similar to Drury and Peksen's (2012) quantitative study on the impact of sanctions on women, Elsheikh and Elamin (2016) argue that the poverty gap in Sudan is larger amongst women and that women's economic empowerment is extremely low in Sudan.

Current Economy

The economy has improved drastically in Sudan in comparison to the 1990s, which is largely down to oil exports, however the finances are not distributed fairly. Nonetheless, this has led to a decrease in poverty. Since the secession of South Sudan there has been the loss of oil revenue which accounted for over half of the government's revenues and 95 percent of its exports. This has led to reduced economic growth and resulted in double-digit consumer price inflation. Moreover, the drop in oil prices has also affected the economy, which has led to some diversification towards agriculture[1]. That said, it is estimated that 44.8 percent of the population lives beneath poverty line, with poverty rates higher in rural areas (55 percent) than in urban areas (28 percent). Whilst high unemployment rates of 17 percent, as well as low employment opportunities, contribute to the economic disparity found in many regions of Sudan

[1] 1 http://www.worldbank.org/en/country/sudan/overview#1

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Key websites

- World Bank Sudan: http://www.worldbank.org/en/country/sudan
- Rural Poverty Portal: http://www.ruralpovertyportal.org/country/home/tags/sudan

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