

# How Targeted Measures Are Changing the Global Economy: Three Scenarios for the Future

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## ABSTRACT

The invasion of Ukraine by Russia has prompted Western nations and their allies to impose extensive sanctions. This is yet a further example of how economic interdependence has been utilised as a weapon to address security challenges. This frequent, and often aggressive, utilisation of sanctions can decisively affect the functioning of globalisation. There are three most likely scenarios. Firstly, the increased use of extraterritorial sanctions affecting business climates and trade relations will lead to the fragmentation of the global economy. Second, the markets will find ways to contain the risks due to economic and political disruptions due to the imposition of economic sanctions and, therefore, the *status quo* is likely to prevail with only a gradual or minimal impact on global trade dynamics. Third, the value of a global economy would inspire a new world order wherein sanctions would not be as frequently used as today.

*European Union | USA | Sanctions | Foreign trade | FDI*

**keywords**

# How Targeted Measures Are Changing the Global Economy: Three Scenarios for the Future

by Francesco Giumelli\*

## Introduction

The invasion of Ukraine has sparked a strong reaction from Western countries. The United States, the European Union, Japan and other allies have adopted a long list of sanctions that some have defined as “unprecedented”.<sup>1</sup> Irrespective of whether the claim is accurate, these two years of restrictive measures have brought the focus back onto how certain states weaponise economic interdependence to address security concerns. The notion of weaponisation of economic interdependence became popular a few years ago to depict how the United States relies on the central role of the dollar for political purposes.<sup>2</sup> Thus, the case of Russia has reignited a debate that, in fact, has been ongoing for years now and bears severe implications for international trade and the global economy.

This paper discusses how sanctions have evolved in the last two decades and what the main obstacles to their implementation/effectiveness are. The main objective is to provide a reflection on how the global context of trade and investment, especially with a view to transatlantic cooperation, can be affected by the evolving practice of sanctions. This paper explains how the growing role of non-state actors,

<sup>1</sup> Peter Rutland, “How Putin Has Shrugged off Unprecedented Economic Sanctions over Russia’s War in Ukraine – for Now”, in *The Conversation*, 21 February 2023, <https://theconversation.com/how-putin-has-shrugged-off-unprecedented-economic-sanctions-over-russias-war-in-ukraine-for-now-199718>.

<sup>2</sup> Henry Farrell and Abraham L. Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion”, in *International Security*, Vol. 44, No. 1 (Summer 2019), p. 42-79, [https://doi.org/10.1162/isec\\_a\\_00351](https://doi.org/10.1162/isec_a_00351).

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the increasing legal challenges surrounding the adoption and implementation of sanctions and the ever more visible problem of sanction circumvention contribute to the fragmentation of the global political economy. I have identified three scenarios for the future of sanctions that may affect the choices of the United States and Europe. The three scenarios consider how sanctions can be used in the future in view of the fragmented global economy and envision that more cooperation and awareness building across the Atlantic is advisable.

The paper is divided into four sections. First, I describe what sanctions are and who can adopt them. Second, I present the various reasons that have triggered the utilisation of sanctions, with a few examples from the experience of the United Nations, the United States, the EU and others. Third, I outline three challenges for the adoption of sanctions. Finally, I summarise my main argument and reflect on three scenarios in which the evolving governance of sanctions may affect the future of trade relations in the United States and Europe.

### 1. Sanctions in contemporary perspective

Sanctions are measures that aim at limiting access to benefits to certain targets. The restriction can regard resources that cannot be replaced at all, that would be costly to replace, that would be easy to replace as well as resources that do not need to be replaced because they can be considered irrelevant to a political process.<sup>3</sup> Such resources can be economic, but also political, reputational and they can also target personal freedoms, such as the possibility to travel to European cities for shopping.<sup>4</sup>

The most well-known sanctions are economic and financial restrictions, but there are also travel limitations, arms embargoes and other diplomatic measures. Economic boycotts target the exchange of specific goods that cannot be sold and/or transferred to targets. They can be total prohibitions, but they can also take the form of enhanced export checks, as in the case of dual-use technologies. Indeed, one of the most common forms of sanctions is to require that certain products added to a dual-use item list cannot be exported without authorisation (export license) from a national competent authority. The provision of services, which is a central element in knowledge economies, should be added to the list of 'needs' that can be denied. Financial restrictions encompass a wide range of policy options, from the freezing of assets owned or controlled by listed individuals to the prohibition to transfer

<sup>3</sup> Margaret P. Doxey, *International Sanctions in Contemporary Perspective*, London, Macmillan, 1987; Thomas J. Biersteker, Sue E. Eckert and Marcos Tourinho (eds), *Targeted Sanctions. The Impacts and Effectiveness of United Nations Action*, Cambridge, Cambridge University Press, 2016; Francesco Giumelli, *Coercing, Constraining and Signalling. Explaining UN and EU Sanctions after the Cold War*, Colchester, ECPR Press, 2011.

<sup>4</sup> David Cortright and George A. Lopez (eds), *Smart Sanctions. Targeting Economic Statecraft*, Lanham, Rowman & Littlefield, 2002.

funds, provide loans and make/receive investments. Arms embargoes are limited to weapons, spare parts and services that are directly used for military use. Travel bans deny benefits that originate from traveling across countries, which could be either for political reasons (i.e., plan a terrorist attack) or personal ones (i.e., doing shopping in Paris).

Sanctions can be adopted by a wide range of actors that populate the international system.<sup>5</sup> The most well-known cases are international organisations that have responsibility for peace and security, such as the United Nations Security Council, and states, among them certainly the United States and, recently, also Russia and China. Regional organisations are also very active in resorting to sanctions either against their own members, such as the African Union (AU), or against third parties, such as the EU.<sup>6</sup> The war in Ukraine has reminded us also of the role that the private sector can play, as over one thousand companies have decided to leave Russia even though they were not forced to do so.<sup>7</sup> Similarly, private boycotts are in place against companies that have shown support for Israel.<sup>8</sup>

The targets of sanctions are predominantly individuals, companies and specific economic sectors and not Nations.<sup>9</sup> Whereas most would remember the case of the full UN embargo on Iraq in the 1990s following the latter's invasion of Kuwait, the situation in which an entire economy is placed under a comprehensive embargo is very rare. Targets today tend to be the actors directly responsible for policies that are deemed to be problematic, such as members of governments, mayors, police members as well as individuals who benefit from the existence of a particular regime, such as the 'Russian oligarchs'. While the autocratic leader of Iraq and the former Yugoslavia, Saddam Hussein and Slobodan Milošević, were placed individually under sanctions only after they were no longer in office, blacklisting heads of states and governments is now an accepted practice: North Korea's Kim Jong-un, Syria's Bashar al-Assad, Sudan's Omar al-Bashir, Iran's Ali Khamenei, and, more recently, Russia's Vladimir Putin. Companies that deal with commodities that are key to the legitimacy of an elite in power as well as goods or technologies that are relevant to the state capacities are often also the object of international sanctions. Financial institutions can also be targeted as facilitators of trade and activities benefiting specific individuals and strategic economic sectors. Sanctions can still have an impact on individuals and groups not targeted, but this should

<sup>5</sup> Peter A.G. van Bergeijk (ed.), *Research Handbook on Economic Sanctions*, Cheltenham, Edward Elgar, 2021.

<sup>6</sup> Elin Hellquist and Stefano Palestini, "Regional Sanctions and the Struggle for Democracy: Introduction to the Special Issue", in *International Political Science Review*, Vol. 42, No. 4 (September 2021), p. 437-450, <https://doi.org/10.1177/0192512120968109>.

<sup>7</sup> Jeffrey Sonnenfeld, "Over 1,000 Companies Have Curtailed Operations in Russia—But Some Remain", in *Yale School of Management Stories*, 28 January 2024, <https://som.yale.edu/node/263692>.

<sup>8</sup> "The App Helping People Boycott Brands Supporting Israel", in *Al Jazeera*, 9 April 2024, <https://aje.io/n70j6g>.

<sup>9</sup> Francesco Giumelli, "Understanding United Nations Targeted Sanctions: An Empirical Analysis", in *International Affairs*, Vol. 91, No. 6 (November 2015), p. 1351-1368, DOI 10.1111/1468-2346.12448.

have been minimised in the designing phase or unintentional.

## 2. The triggering causes of sanctions

International sanctions are political tools adopted in a state of exception, therefore they are intended to allow states to take decisions in derogation to the set of norms, conventions and regulations that they would have to normally follow. Whereas the definition of state of exception was limited to high security issues, such as war and terrorism, sanctions are today used to address a wide range of crises and global issues,<sup>10</sup> such as human rights violations, democracy promotion, institutional consolidation, cyber threats and organised crime just to name a few.<sup>11</sup> This overview demonstrates the various types of crises for which international sanctions have been adopted, showcasing their flexibility and their application in increasingly broad and diversified contexts.

One of the most common contexts in which sanctions are used is during armed conflicts. Traditionally, sanctions have been associated with military campaigns, involving the interruption of trade to weaken the economies of countries in conflict. The recent wars in Ukraine, Yemen and elsewhere have led a number of international actors to adopt various restrictions with a view to halting the violence. The G7+ countries have targeted over two-thousand actors in Russia in response to the unlawful invasion of Ukraine. Notably, the G7+ have also authorised an 'oil price cap' to reduce the profits that Russia generates from the sale of oil to international markets.

Unconstitutional changes of government or state failures have also been addressed with sanctions. The AU is resorting to sanctions primarily to tackle government takeovers or coups d'état, such as in the cases of Guinea-Bissau and Comoros, with the latter also supported by the EU.<sup>12</sup> The Economic Cooperation Organisation of West African States (ECOWAS) has also resorted to heavy sanctions resembling total embargoes, at least in principle, with the suspension of trade and the closure of borders, against its own members Burkina Faso, Mali and Niger. Marking a resumption of cooperation at the Security Council, which had not seen new sanctions imposed since 2016, sanctions have been used to address the institutional collapse of formally recognised institutions in Haiti and the takeover arranged by a group of criminal organisations.<sup>13</sup>

<sup>10</sup> Francesco Giumelli, *Le sanzioni internazionali. Storia, obiettivi ed efficacia*, Bologna, Il mulino, 2023.

<sup>11</sup> Bruce W. Jentleson, *Sanctions: What Everyone Needs to Know*, Oxford, Oxford University Press, 2022.

<sup>12</sup> Mikael Eriksson, "Supporting Democracy in Africa. African Union's Use of Targeted Sanctions to Deal with Unconstitutional Changes of Government", in *FOI Reports*, No. FOI-R--3000--SE (2010).

<sup>13</sup> UN Security Council, *Resolution 2653 (2022)*, [https://undocs.org/S/RES/2653\(2022\)](https://undocs.org/S/RES/2653(2022)).



Sanctions can be used to support the consolidation of emerging institutions after a conflict or to enforce peace agreements and ceasefires. We have seen, for instance, restrictive measures imposed by the UN to support international judicial proceedings, such as in the cases of the International Tribunal in Lebanon and Sierra Leone, and by the EU in democratic transitions such as Egypt, Tunisia and Ukraine.<sup>14</sup> Restrictive measures impose asset freezes and travel bans on members of the previous ruling parties to ensure that they neither undermine the new governments nor embezzle public resources.

Another type of crisis that has seen the adoption of international sanctions concerns human rights violations and international crimes. Although this has been a triggering cause for sanctions and interventions in the past, such as in Rwanda and the former Yugoslavia, an interesting recent development is the so-called “Magnitsky list”, after the name of a Russian human rights lawyer who died while in police custody in Russia.<sup>15</sup> This is an example of what it became to be known a ‘horizontal regime’, namely a permanent sanctions regulation that delegates authority to the government to list individuals who are deemed in violation of the main theme that inspired the creation of the regime, in this case it would be human rights violations. After the decision made in the US to establish a “Magnitsky list”, others actors such as the EU and Canada followed suit and adopted standing regulations that impose a travel ban and an asset freeze on whoever is accused of certain human rights violations across the world.

The non-proliferation of nuclear and chemical weapons is another area where sanctions are widely used.<sup>16</sup> Various rounds of US, UN and EU sanctions have been imposed on Iran to prevent it from diverting its nuclear programme to military use and on North Korea to punish its decision to withdraw from the Nuclear Non-Proliferation Treaty and build an atomic arsenal. The complexity of the sanctions architecture – which involves dozens of economic sectors and hundreds of actors combined with the extraterritorial application of US measures – has made it extremely difficult to distinguish targeted and comprehensive measures for companies and firms embedded in the global financial system. Economic restrictions have reached a very detailed level. At the same time, the range of sanctions in place has kept financial institutions away from authorising any transactions with the targeted countries. Chemical weapons have also been the subject of a new horizontal regime imposed by the EU after the assassination attempt on Alexei Navalny in 2020.

<sup>14</sup> Thomas J. Biersteker, Sue E. Eckert and Marcos Tourinho (eds), *Targeted Sanctions*, cit.

<sup>15</sup> Charlotte Beaucillon (ed.), *Research Handbook on Unilateral and Extraterritorial Sanctions*, Cheltenham/Northampton, Edward Elgar, 2021.

<sup>16</sup> Michael Brzoska, “The Role of Sanctions in Non-Proliferation”, in Oliver Meier and Christopher Daase (eds), *Arms Control in the 21st Century. Between Coercion and Cooperation*, London/New York, Routledge, 2013, p. 123-145.

Sanctions are also adopted to counter transnational threats such as international terrorism, cyber threats, illicit drug and human trafficking and other criminal activities. The United States, along with the UN, the EU, and the United Kingdom, has resorted to sanctions to address lower intensity security threats, as transnational criminal organisations and terrorist groups often rely on the illicit trade of natural resources such as oil to finance their activities. Therefore, sanctions can be used to disrupt such financial flows and weaken these organisations. Measures of this sort typically include travel bans and asset freezes for the specific individuals/organisations involved.

Finally, sanctions are foreign policy instruments imposed to achieve objectives of national interest. The recent US-China confrontation on semiconductors and 'disruptive' technologies took a sanction turn when the United States decided to limit the sale of advanced chips to China to maintain a strategic advantage for as long as possible.<sup>17</sup> The EU is considering doing the same, but in the meantime China has already responded adopting an export ban on rare metals,<sup>18</sup> which are crucial for defence and high-end technological products. The EU has also resorted to 'EU interests' to justify the imposition of sanctions in cases such as Turkey.<sup>19</sup> The dispute with Turkey has been over unauthorised drilling activity of hydrocarbons off the coast of Cyprus that would affect EU interests.

In conclusion, international sanctions are used to address a wide range of crises and global challenges, from political and military instability to human rights violations and the proliferation of weapons of mass destruction. While their use may be controversial and their success debatable, sanctions remain an important tool in foreign policy and the management of international crises.

### 3. Emerging challenges from the imposition of sanctions

As the world becomes increasingly interconnected and complex, the landscape of international sanctions has evolved, presenting a host of new challenges. This section delves into the current obstacles facing international sanctions, focusing on the growing role of non-state actors, legal challenges stemming from public-private overlaps and the necessity of large coalitions to offset circumvention.

<sup>17</sup> Chris Miller, *Chip War. The Fight for the World's Most Critical Technology*, New York, Scribner, 2022.

<sup>18</sup> Siyi Liu and Dominique Patton, "China Bans Export of Rare Earths Processing Tech over National Security", in *Reuters*, 22 December 2023, <https://www.reuters.com/markets/commodities/china-bans-export-rare-earths-processing-technologies-2023-12-21>.

<sup>19</sup> Francesco Giumelli, Fabian Hoffmann and Anna Książczaková, "The When, What, Where and Why of European Union Sanctions", in *European Security*, Vol. 30, No. 1 (2021), p. 1-23, <https://doi.org/10.1080/09662839.2020.1797685>.

### 3.1 Growing role of non-state actors

Targeted sanctions require a deep understanding and knowledge of both the society where the targets are located and their whereabouts.<sup>20</sup> This information is not always in the hands of the governments that need to compile the lists, and therefore competent authorities seek collaboration with actors who have more information. Intermediaries such as financial institutions, shipping companies, as well as experts such as accountants and lawyers consequently gain a prominent role in sanctions implementation.<sup>21</sup> Financial institutions could have the necessary information to identify (and hopefully timely block) transactions aimed at purchasing material to plan terrorist attacks. Shipping companies and insurance firms may have a clearer view of the network(s) that could serve the purposes of targeted individuals and companies. And individual experts provide technical expertise and advice.

There has been a *de facto* delegation of authority from state to non-state actors in the implementation of sanctions that deserves further investigation.<sup>22</sup> Firms and companies have the responsibility of assessing the risks associated with certain transactions. They do not have full and perfect information about the whereabouts of the targets and targeted sectors they deal with and need to engage in constant due diligence. For instance, the ultimate beneficial owner of a payment is not always evident from the information provided in a payment request, therefore it is up to a bank to assess whether the transaction is likely to be hiding an attempt at circumvention. The provision of a service or dual-use equipment, once again, could end up supporting the development of a nuclear programme or boosting the repressive capacity of a military regime. The service/equipment provider is therefore responsible for investigating the nature and intentions of the buyer.

In today's interconnected world, non-state actors such as terrorist organisations, transnational criminal networks and rogue entities operate across borders, exploiting legal loopholes and utilising sophisticated financial networks to evade sanctions. One prominent example is the case of terrorist financing, where organisations like the Islamic State (ISIS) and Al-Qaeda have exploited global financial systems to fund their operations. Despite concerted efforts by the international community to disrupt their funding, these groups have continued to adapt, utilising cryptocurrency, money laundering and illicit trade

<sup>20</sup> Francesco Giumelli and Michal Onderco, "States, Firms, and Security: How Private Actors Implement Sanctions, Lessons Learned from the Netherlands", in *European Journal of International Security*, Vol. 6, No. 2 (May 2021), p. 190-209, <https://doi.org/10.1017/eis.2020.21>; Anja P. Jakobi, "Non-State Actors and Global Crime Governance: Explaining the Variance of Public-Private Interaction", in *The British Journal of Politics and International Relations*, Vol. 18, No. 1 (February 2016), p. 72-89, DOI 10.1111/1467-856X.12064; Oldrich Bures and Helena Carrapico (eds), *Security Privatization. How Non-Security-Related Private Businesses Shape Security Governance*, Cham, Springer, 2018.

<sup>21</sup> Michael Levi, "Lawyers as Money Laundering Enablers? An Evolving and Contentious Relationship", in *Global Crime*, Vol. 23, No. 2 (2022), p. 126-147, <https://doi.org/10.1080/17440572.2022.2089122>.

<sup>22</sup> Francesco Giumelli and Michal Onderco, "States, Firms, and Security", cit.



to evade detection. Similarly, transnational criminal networks engaged in drug trafficking, human trafficking and arms smuggling pose significant challenges to the effectiveness of international sanctions, especially because their services are offered to targets to circumvent the sanctions themselves. These criminal enterprises operate with agility, leveraging technology and exploiting regulatory gaps to circumvent sanctions regimes. Furthermore, the proliferation of alternative financial channels, including cryptocurrency, offshore banking and informal trade networks has enabled sanctioned entities to bypass traditional banking channels and evade detection. These illicit channels provide avenues for money laundering, terrorist financing, and procurement of prohibited goods, undermining the effectiveness of sanctions regimes.

In sum, non-state actors affect not only sanctions outcomes, but also the shape of supply chains and investment flows if they plan to avoid risks for sanctions compliance requirements in the future.

### *3.2 The extension of sovereignty through sanctions*

One of the key emerging trends in sanctions governance is the increasing attempts by governments to extend the effect of domestic legislations beyond their own borders. This is driven by multiple causes, but one of the main ones is certainly the frustration of governments to see sanctions circumvention flourishing thanks to the differences of legal frameworks in place in various countries. In order to counter that, governments have increasingly decided to punish violators of their own laws even when actions are committed outside of their own territory. The central, and ever more present, role of firms and companies in implementing sanctions has been an easy way for national authorities to enhance sanctions effectiveness, *de facto* extending the long arm of their bureaucratic reach well beyond their boundaries. This novelty fundamentally changes the way international markets work. While firms could count on the geographical location of one operation to predict what to expect, they could be now caught between opposite requests from competing national authorities. In many cases, businesses may be subject to conflicting legal requirements, with one jurisdiction imposing sanctions while another mandates compliance with commercial contracts or data protection laws. Firms and companies will have, then, decide 'which side to pick' in a sanctions' context. This reduces the efficiency of international institutions and it increases the uncertainty over the impact that sanctions can have on targets and on the outcome of international crises.

The extraterritorial reach of certain sanctions regimes, particularly those imposed by powerful states such as the United States, has raised concerns about sovereignty and jurisdictional overreach.<sup>23</sup> The imposition of secondary sanctions

<sup>23</sup> Arnold Aaron and Daniel Salisbury, "Going It Alone: The Causes and Consequences of U.S. Extraterritorial Counterproliferation Enforcement", in *Contemporary Security Policy*, Vol. 40, No. 4 (2019), p. 435-458, DOI 10.1080/13523260.2019.1595882.

targeting foreign entities engaged in business with sanctioned countries has elicited objections from allies and trading partners, further complicating the legal landscape.

The United States started to implement and enforce sanctions violations beyond their own territory in the 1990s, but this approach has been also mimicked by other sanctioning actors. Recently, the EU seems to have embarked on a similar path with regard to sanctions circumvention in the case of Russia. This is even more telling given the EU's strong criticisms of US extraterritorial sanctions over time as demonstrated by the sanctions imposed on the United States in 1996 for the cases of Libya and Cuba and the attempt to safeguard the Joint Comprehensive Plan of Action (JCPOA) with the creation of the Instrument in Support of Trade Exchanges (INSTEX) after the Trump Administration decided to leave the agreement. Russia and, especially, China may decide to follow the same path contributing to the uncertainties under which firms and companies operate in international markets.

This context further exacerbates the risks perceived by private stakeholders in determining and deciding their business strategies.

### 3.3 Large coalitions to offset circumvention

The effectiveness of international sanctions hinges on the ability of the enforcing coalition to maintain cohesion and prevent circumvention by targeted entities.<sup>24</sup> The recent media coverage of increased export flows towards, for instance, Turkey or central Asian countries have caught the attention of many to the point that sanctions are deemed useless. However, whereas many would consider sanctions ineffective because it is easy to circumvent,<sup>25</sup> the 'original sin' is not to be found in sanctions, but in the failed diplomatic attempt to create a large coalition that would make sanctions more impactful. In other words, as sanctions regimes become more complex and multilayered, being able to rely on large coalitions willing to collaborate is an essential component of a sanctions' strategy.

One of the primary challenges lies in the formation of a large coalition of states willing to enforce sanctions consistently and robustly. Divergent national interests, economic dependencies, and geopolitical rivalries often impede the formation of such coalitions, allowing targeted entities to exploit gaps and inconsistencies in enforcement efforts.<sup>26</sup> However, the growing uncertainties felt by the private sector combined with the widening gaps between states' interest contribute to collective

<sup>24</sup> Lisa L. Martin, *Coercive Cooperation. Explaining Multilateral Economic Sanctions*, Princeton, Princeton University Press, 1992.

<sup>25</sup> Brian R. Early, *Busted Sanctions. Explaining Why Economic Sanctions Fail*, Stanford, Stanford University Press, 2015.

<sup>26</sup> Brian R. Early, "Unmasking the Black Knights: Sanctions Busters and Their Effects on the Success of Economic Sanctions", in *Foreign Policy Analysis*, Vol. 7, No. 4 (October 2011), p. 381-402, DOI 10.1111/j.1743-8594.2011.00143.x.

action problem that is not only affecting the security landscape, but it is slowly trickling down to the economic one as discussed in the scenarios below.

#### 4. Conclusions: Three scenarios emerging from the fragmentation of the global economy

The proliferation of sanctions has been a visible phenomenon in the past two decades. This has been made possible by the evolving nature of the instrument, both in terms of who could be targeted and when it would be appropriate to use sanctions. On one hand, targeting individuals, firms, and economic sectors has made sanctions usable towards a much longer list of targets. On the other hand, targeted sanctions are no longer perceived as a radical foreign policy measure, which has facilitated their adoption to address crises of lower security profiles such as human rights, democracy promotion, and organised crime.

The extensive use of sanctions, also known as the weaponisation of interdependence, can play an important role in shaping the future of globalisation. We can envision three scenarios.

The first scenario is that the proliferation of sanctions could contribute, if not determine, the fragmentation of the global economy. The extensive use of extraterritorial sanctions, possibly by several actors of the international system, can contribute to a business climate that is dependent on politically sensitive risk assessments. Given the depth of sanctions policies seen in the last two decades, offshoring decisions are now being replaced with decisions to relocate to nearby areas (nearshoring) or to friendly countries (friendshoring). This means that businesses decide to invest primarily in those countries that would have a low chance of being concerned with sanctions compliance requirements. This process started with the US extraterritorial application of sanctions, but the decisions of the EU and China, among others, to pursue similar sanctions strategies are likely to make the situation even more complicated. The fragmentation would be a consequence of increased confrontation across major political actors; therefore, more coordination would be likely between the United States and Europe, and trade relations would occur mostly within blocs with chokepoints across them.

The second scenario is one where sanctions may continue as they are now, but the fragmentation process would either not take place or be a very slow transition that would not critically affect the risk assessment of trade and investment relations. The United States would continue to play a central role in the sanctions landscape, which would be met with pockets of resistance from other major actors of the international system, including but not limited to the European Union. In this scenario, for instance, we could also see more attempts to explore alternative financial payment systems, such as digital currencies and credit card payment systems, but diverging interests would fail to produce a coherent front and provide an alternative to the existing financial and economic architecture of the global

economy.

Finally, a third, more optimistic scenario would be one where the major actors of the international system, namely the United States, Europe, and China, would find a new agreement over the key principles upon which the international system would be based (i.e., non-intervention, fundamental rights, etc.). The 'new world order' would certainly affect sanctions, and a shared understanding of when it would be possible to use them. Investment decisions would consequently incorporate it, and it would be expected that sanctions should not play a key role in assessing the risk of engaging in trade relations with other parties elsewhere.

In any scenario, national competent authorities need to enhance coordination and build more capacities to reduce the delegation of authority towards the private sector. At a political level, like-minded governments should be able to overcome their differences and agree on timing and listing decisions about sanctions. For instance, even the lists of Russian individuals targeted by US, UK, and EU authorities do not overlap, which creates opportunities for sanctions circumvention.<sup>27</sup> A coordinated effort should also occur on the monitoring and enforcement side of the story. The vast adoption of sanctions against Russia brought the circumvention problem back on the table of public regulators and we have seen unprecedented moves also from European Institutions. For instance, the notable examples are the EU Freeze and Seize Task Force set up by Eurojust<sup>28</sup> and some coordinated initiatives to investigate sanctions evasion jointly at the international level.<sup>29</sup> However, circumvention techniques are still known and too little has been done to tackle the problem.

Additionally, there is a strong collective action problem that is caused by excessive delegation of authority from governments to the private sector. Non-state actors need to make substantive decisions about targets, but they lack the necessary information, which needs to be collected independently from both state authorities and other private actors. Thus, for instance, a bank has to perform the same due diligence than other banks over a customer that is approaching them at the same time. This duplication of tasks is structural and very inefficient, so public authorities should investigate ways to address this issue. Additionally, non-state actors also lament the lack of transparency of the public decision-making process, which further increases the uncertainties in making export-oriented decisions, whether they are related to trading or investing.

<sup>27</sup> Stephanie Baker and Tom Maloney, "Half of Russia's 20 Richest Billionaires Are Not Sanctioned", in *Bloomberg*, 30 March 2022, <https://www.bloomberg.com/graphics/2022-russian-billionaires-sanctioned-ukraine-war>.

<sup>28</sup> Eurojust website: *EU Freeze and Seize Task Force*, <https://www.eurojust.europa.eu/eu-freeze-and-seize-task-force>.

<sup>29</sup> "Netherlands Arrests Three for Illegal Exports to Russia", in *Reuters*, 23 January 2024, <https://www.reuters.com/world/europe/netherlands-arrests-three-illegal-exports-russia-2024-01-23>.



## How Targeted Measures Are Changing the Global Economy: Three Scenarios for the Future

The extensive utilisation of targeted sanctions has affected the landscape of the global political economy and is likely to be a realm where major global powers confront each other. At the same time, the frequent adoption of restrictive measures requires further coordination among governments and poses serious legal challenges to the way in which international markets function every day. We ought to continue monitoring the situation to assess whether sanctions could become a driver of cooperation or conflict in the next decade.

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