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Trading Pressures: Deeper Insight into Export Controls and Sanctions' Impact on the United States and Global Trade Markets

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By

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Dedication

First and foremost, I want to dedicate this paper to my parents, Norma Alvarracin and Julio Guaman. My senior project is a culmination of my education at Bard College. Ultimately, I would not be here today without their endless encouragement, care, and love. They are forever my role models, and I hope to make them proud with my future accomplishments.

Next, I would like to dedicate this to my original best friends, my sisters, Katherine and Sinthya, for the memories, love, and competitive nature we share. Having been raised with two wonderful and intelligent people developed a tendency to compete. I would not be at this stage of my education and professional career without them. I am extremely grateful for the endless number of calls and texts we have sent since I went away to study.

Lastly, I want to give a special thanks to all the friends, such as my fellow LASO co-heads, I have made along the way, who have made my time at Bard College a memorable experience. I dedicate this project to our ability to blend determination with relaxation, which has been crucial in reaching this point. I am glad to have surrounded myself with good people, and I cannot wait to see what we end up doing after graduation.

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Abstract

This paper explores the evolving landscape of the global trade market and trade dynamics by evaluating the effects of economic sanctions. The paper analyzes the subject via data collection projects and research material, such as research papers, news articles, and journal articles. The results convey that economic sanctions have adverse effects that reverberate beyond the intended target, thus causing initiatives that reshape the global economic landscape. In addition, the analysis demonstrates that challenges arise for countries that popularly use trade controls, such as the United States, whose total share of the global market has decreased, alongside the rise in foreign superpowers and regional economic blocs. The future of the international market remains uncertain; however, the growth of new economic powers, like China, South Korea, Brazil, and India, potentially accelerates economic realignment and reduction in the global economic dominance of the United States.

Table of Contents:

Introduction | Economic Sanctions and Shifting Trade Dynamics

Trade controls, such as economic sanctions, were developed as tools to influence global trade and foreign policies, without the need for military force. Sanctions and export controls have grown in popularity, being viewed as a peaceful alternative to guide the hands of foreign nations and remain a popular practice among governments, especially in the United States of America. Although sanctions are intended to be peaceful alternatives to other tactics of influence, these measures carry inherent risks. Impacting not only the targeted nations but also the sanctioning economies themselves. The repercussions of such actions ripple through various sectors of the global market and therefore raise concerns among business leaders and policymakers alike about the coercive and detrimental nature of the trade instrument. To understand the repercussions of sanctions, it is of utmost importance to acknowledge the dynamics at play and the evolving global market landscape, where emerging economies now hold a larger percentage of the growing global economy.

In today's world, there are economic superpowers beyond the United States. Specifically, China, India, Germany, and more have risen to enjoy a larger share of the global market. Interestingly, with the rise of the global economy, there is a notable decline in the U.S. share of the global economy since 1960[1]. The following research aims to explore the extent to which US economic sanctions, implemented since 2000, have led to trade diversion from the US by non-target countries and the strategies employed by these countries to counteract such measures.

Trade diversion occurs when an economic entity's trade endures a shift from efficient exporters towards others that are deemed less efficient due to higher opportunity costs and a lower comparative advantage[2]. This shift can be attractive due to the total cost of goods

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[1] (Bhutada, Govind. 2021)
[2] (Tejvan Pettinger 2019)

becoming less expensive under agreements with lower trade barriers, such as sanctions. Nevertheless, these market shifts will not only affect the US economy but also foster the rise of new trade hubs and alter geopolitical alliances. These shifts can be heightened through the imposition of sanctions, which inadvertently weaken the sanctioning nation's economic position, fostering concerns among domestic industries and policymakers. For instance, non-target countries are cautious about the unpredictability associated with US trade policies. Therefore, the rise of other powers could lead to trade diversion because of the potential growth available in alternative markets, thereby reshaping global trade patterns.

Through an analysis and examination of current research, this paper seeks to examine the intricate relationship between economic sanctions and trade diversion. By doing so, I aim to provide insights into the effectiveness of US economic policies and their implications for global trade dynamics. In particular, countries targeted by sanctions will ultimately resort to various strategies to mitigate the adverse impacts of such measures, inevitably having to reduce the influence of the sanctioning party. Therefore, along with mitigation tactics, the possible reputation as an unreliable trade partner, and the ensuing trade diversion prompts a reevaluation and development of alternative methods to current trade strategies, such as sanctions, and diplomatic relations. As we navigate this complex terrain, it becomes evident that the repercussions of economic sanctions extend far beyond their intended targets, shaping the future trajectory of the sanctioning, target, and third parties position in international trade and diplomatic relations.

Section I | The Principles of Sanctions

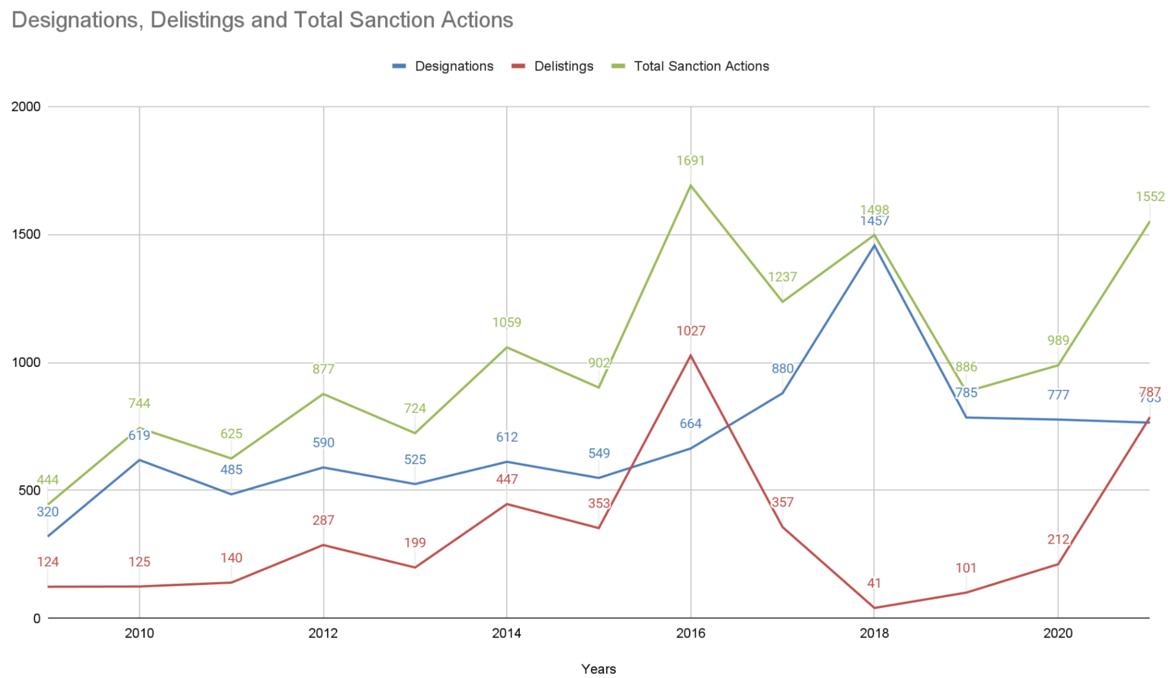
The Evolution and Functionality of Economic Sanctions

Utilized as a strategic instrument in economic warfare, financial and trade sanctions fulfill multiple political objectives, such as showcasing determination, conveying political goals, responding to actions by other nations, inducing behavioral modifications, deterring unfavorable activities, and diminishing military strength[3]. Moreover, this mechanism is efficient in the sense it can alter trade and investment by targeting specific industries and entities of various sizes. The trade tool can be employed to target specific sectors such as finance, energy, weaponry, technology, and critical infrastructure of other nations. The tool is intended to coerce their recipient into foreign mandates and agendas by damaging the foreign economy, thus it is utilized as an alternative to direct military interference [4].

Various economic powers utilize financial and trade sanctions because they have been proven to be a useful mechanism for exerting foreign policy[5]. These tools have evolved into complex instruments popularly employed to manipulate global trade dynamics and foreign policy agendas. As observed in Figure 1, the Center for a New American Security (CNAS) sanction data-tracking project from 2009 - 2019, depicts the rise in popularity of sanctions since the early 2000s by the nation that most popularly and consistently utilizes the mechanism, the United States. For context, Figure 1 was developed by gathering CNAS' research and synthesizing them into a single graph.

[3] (Shambaugh, G., 2023)
[4] (Crozet and Hinz, 2020)
[5] (Masters, Jonathan. 2019)

Figure 1: Total U.S. Sanctions Designations and Delistings by Year, 2009–2021[6]



Nevertheless, the trade control instruments exercise a certain level of precarity due to their negative effects on various parties. As explained on Table 1, these controls include the use of embargoes, tariffs, quotas, and export and import restrictions, and are mostly beneficial to the sanction-imposing country. To further heighten the understanding of sanctions, it is important to denote the concept of the free market. Adam Smith (1793 - 1790) introduced the concept that the free trade market is an economic entity that supports natural competition among rivals, the natural fall and rise of supply and demand, and most importantly, is free from government control. Sanctions rival the concept of a free market because, throughout all its forms, it is a form of government intervention. The mechanism is a tool intended to cause economic harm and has demonstrated a discouragement of economic interaction between states, and the reduction of

[6] ("Sanctions by the Numbers: U.S. Sanctions Designations and Delistings, 2009–2019," n.d.); ("Sanctions by the Numbers," n.d.); ("Sanctions by the Numbers: 2021 Year in Review," n.d.)

gains from free trade[7]. As previously mentioned, economic sanctions take on various forms, while also differing in the level of severity. The mechanism is categorized into three tiers, Tier 1 is diplomatic sanctions, Tier 2 is sanctions targeted to individuals and entities, and Tier 3 is economic sanctions implemented across the target[8].

Table 1: The Varying Types of Trade Controls Instruments:

Important Terms	Definition and Context
Embargoes	An embargo is a legal ban imposed by a government or economic bloc to restrict the import or export of certain goods or services to or from specific countries or regions.[9] Embargoes vary in scope, ranging from general bans on all commerce to stricter restrictions targeting specific goods, such as those contributing to military power or oil exports. While embargoes often permit the export of essential goods for humanitarian purposes, they may include escape clauses allowing limited exemptions under specified conditions[10].
Tariffs	Tariffs are costs, such as taxes, which are imposed a specific type of imported or exported goods[11]. These costs are typically implemented by governments to protect domestic industries from foreign competition or to generate revenue. This mechanism is designed to

[7] (Avetisyan, Misak G, and David Lektzian. 2017)
[8] (Altiparmak et al. 2023)
[9] (“Is a Quota a Tariff?,” n.d.)
[10] (Shambaugh, G., 2023)
[11] (“Is a Quota a Tariff?,” n.d.)

	raise the price of imported goods to the level of existing domestic prices or above[12]. Furthermore, they can be specific, meaning they are assigned a fixed amount per unit of the imported or exported goods, or ad valorem, meaning they are calculated as a percentage of the value of the goods.
Quotas	This type of trade control is government-imposed and targets the amount of goods that can be imported or exported within a specific period[13]. Unlike tariffs, quotas set limits on trade [14]. It serves various purposes such as protecting domestic industries or managing trade imbalances.
Export Restrictions	These restrictions limit the *export* of certain goods or technologies from a country. These controls, developed by governments, can take on various forms, such as export controls, export licensing requirements, and export bans[15]. These controls tend to be imposed for reasons such as maintaining national security[16], protection of natural resources, or compliance with international agreements[17]. They aim to regulate the outflow of goods or services from a country and may be applied to certain commodities or destinations.

[12] (Economics Online, 2019)
[13] ("Is a Quota a Tariff?," n.d.)
[14]("Quota Definition | Britannica Money," n.d.)
[15] (Lamprecht, Zola. 2023)
[16] (International Trade Administration 2023)
[17] ("Export Control Basics," n.d.)

Import Restrictions	This form of restriction is implemented to control the flow of *imports* of specific goods or services into a country[18]. Import restrictions can include tariffs, quotas, licensing requirements, or quality standards which are imposed by the importing country. In addition to targeting specific commodities, the controls are applied selectively to varying countries of origin or trading partners.

Economic Sanctions in Practice

The Characteristics of Sanctioning Powers

To continue studying topics concerning economic development, we must acknowledge the limitations placed upon nations due to economic exploitation, colonialism, slavery, and global economic policies, that do not always favor the development interests of less powerful nations, therefore, leading to economic imbalances. Nevertheless, countries' behavior and use of sanctions differ based on their economic strength. Economically weaker nations are less likely to sanction countries, unless they provide political benefits. Alhassan, A., Sabzehmeidani, A. S., Taha, A. I., & Haseki, M. I. (2023) discovered that for developing countries, imposing limited sanctions, such as partial embargoes targeting specific sectors or groups can actually reduce their economic growth. In addition, they found that other forms of sanctions can potentially increase their economic growth, suggesting a limited ability to benefit from the use of sanctions. Economically weak countries will not sanction a trading partner they rely on because it constrains their markets. They will take advantage of the situation when the theoretically

[18] ("17.3 Restrictions on International Trade" 2016)

powerful and sanctioning economic nation is willing to provide benefits and a better relationship with the large power, in return to following the terms set in the trade controls.

The ability to impose sanctions is a strategic tool wielded primarily by major economic powers, owing to their substantial economic resources, geopolitical influence, and diplomatic leverage. Among these powers, we find nations, such as the United States, China, Russia, and Germany, who have capitalized on focusing on the industries they have comparative advantages in. The comparative advantage theory has a strong presence in the history of globalization of markets. Furthermore, it is of utmost significance to note that sanctions have the innate ability to affect nations by constraining industries and their ability to heighten their performance levels. To further elaborate, in the 19th-century economic theory, David Ricardo argued that countries benefit from trade with one another by focusing on producing items they are deemed as the best craftsmen and have a comparative advantage while buying the objects they are not great at making from other countries. This theory helped to develop the reliance and interconnectedness between countries.

Furthermore, in the early stages of development, smaller and less economically advanced countries often face significant hurdles in developing their infrastructures to enter the international market as a rival competitor to well-established parties. Limited access to capital, technology, and resources can hinder their ability to compete in the global marketplace and exert influence on international affairs. These constraints in the beginning stages of economic development can explain how certain countries remain impoverished and underdeveloped. For example, many developing countries rely heavily on primary industries such as agriculture and natural resource extraction; however, they may not offer the same level of economic leverage as more advanced sectors like manufacturing or technology. This reliance on primary industries can leave these nations vulnerable to external economic shocks and shifts in global commodity prices, further exacerbating economic challenges.

From the intricate nature of economic sanctions to the impacts on multiple parties, it becomes evident that the power to impose sanctions is a strategic tool wielded primarily by major economic powers. These nations possess the resources, influence, and diplomatic leverage necessary to design, enact, and enforce these controls effectively. However, it is essential to further examine how the issuing of sanctions affects the sanctioned parties themselves.

Given their status as economic superpowers and geopolitical leaders, it is imperative to center our analysis on countries such as the United States, China, Russia, and Germany. These nations are capable of issuing sanctions and hold a significant stake in global trade and diplomacy. By focusing on these nations, we can gain valuable insight into how sanctioning impacts the economics and geopolitical strategies of these key players. These large powers successfully affect the global trade market dynamics because of their ability to deal with multiple foreign powers. The relationship shared among significant economic powers is based on a mutually beneficial exchange of goods and services. The trade relationship between parties has been developed over decades; therefore, resulting in an "efficient" and cooperative trade network. It is difficult to address these relationships as completely efficient because we have observed that the interconnectedness of the global economy can lead to disastrous moments, such as the 2007-2008 Global Financial Crisis. The housing market bubble inevitably demonstrated that the linkage of global financial systems can cause severe global economic repercussions. Nevertheless, these affluent countries are resilient and demonstrate an aptitude to adapt to changing economic conditions. However, further research depicts that the sanction-issuing power combats self-inflicted inefficiencies. The restrictiveness of sanctions disrupts all involved parties' terms of trade, thus obstructing free trade principles and relationships. Terms of trade refer to the measure of a country's export prices relative to its import prices[19]. The measure is often depicted as a ratio. To further elaborate, if the measurement is positive then this portrays that a unit of export can afford to buy more imports thus it signifies that living standards within the nations are improving[20]. A positive effect conveys that imported goods appear to be cheaper to consumers. On the other hand, a negative effect represents a downturn in a country's overall trade activity. The overall nation will experience a decrease in the purchasing power of imports in terms of exports, thus consumer consumption will be affected[21].

Section II | The Effects of Sanctions on Sanctioned Countries

Introduction

In diplomatic conflicts, sanctions have demonstrated their capacity to influence foreign powers' perspectives on military decisions, human rights protection, counterterrorism efforts, and domestic industries. Understanding the common and varied impacts of economic sanctions is essential for policymakers and analysts alike. Beyond their diplomatic implications, sanctions possess an innate ability to affect the global trade market, setting off cascading economic effects across interconnected nations.

As mentioned in *The Effect of Economic Sanctions on Domestic Production, Trade and Transportation of Sanctioned Goods* by Misak Avetisyana and David Lektzianb, "Countries that use sanctions attempt to design them in a way that the costs will mainly be borne by the targeted country with relatively smaller costs to the sender economy," demonstrating the complexity and

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[19] (Review of *Terms of Trade*. 2024)
[20] (Pettinger 2018)
[21] ("Terms of Trade Indexes: U.S. Bureau of Labor Statistics," n.d.)

strategic nature of sanctions as a foreign policy tool. The trade mechanism implicitly aims at exerting pressure through economic costs on targeted nations while minimizing repercussions on the imposing country's economy. By comprehending the repercussions of sanctions on targeted nations, stakeholders can better assess the efficacy, costs, and potential unintended consequences of employing such measures in international relations.

In this section, I delve into the multifaceted effects of economic sanctions, with a particular focus on their impacts on targeted nations. Previous studies have approached this phenomenon through diverse qualitative methods. The dynamics of sanctions often prompt targeted countries to rapidly adapt and restructure themselves to reduce economic constraints, a behavior observed as well in the sanction-issuing nations. These changes between imposing and targeted countries highlight the evolving nature of international economic relationships in an era filled with geopolitical tensions and strategic competition.

Economic Contraction

Assessing Sanctions' Impact on Target Nations

All parties involved must confront the trade constraints imposed by sanctions and will often implement various measures to protect themselves and their interests. The magnitude of these impacts varies depending on the size and level of development of the target nation. Regardless of the target size, the trade mechanisms begin their impact by focusing on the target country's domestic economy, trade levels, income, and consumption power.

A notable consequence of sanctions is economic contraction within the targeted country[22]. These negative consequences are heightened through possible currency depreciation of

[22] (Gutmann,Neuenkirch, and Neumeier 2023)

the sanctioned country. A depreciating currency leads to higher import costs, inflationary pressures, and reduced purchasing power for consumers. With decreased economic activity and disrupted trade, inevitably national income declines, thus affecting businesses, workers, and households. This reduction in income leads to financial strain and reduced spending capacity within the domestic market's population. As prices of imported goods rise due to trade restrictions, consumers may face challenges in accessing essential goods and services, leading to reduced consumption levels and changes in spending behavior.

Under sanctions, access to international markets becomes restricted, foreign investment declines, and trade is disrupted. These trade shocks lead to decreased GDP growth and increased unemployment. Exports from targeted countries may decline due to barriers in accessing international markets, further impacting trade dynamics and economic performance.

In regards to wealthy nations, we observe that when they are deeply integrated into the global trade network, the effects can be severe and have far-reaching implications for the global economy. By sanctioning large economic powers, it will disrupt trade by having to shift focus from remaining in market equilibrium to shifting production forces' goals, which might undermine the goals of third-party economies. For smaller and less developed economies with limited industrial infrastructure, the economic consequences of sanctions can be dire. These smaller nations rely heavily on the external markets their businesses are attached to. Therefore, upsetting the forces that run the external markets can reduce the progress accomplished by the smaller market player. Whether small or large nations are targeted, they will face the subsequent loss of trade activity that leads to various parties' development of tactics to protect themselves, mitigate, or take advantage of the effects of the trade controls. The targeted nations will make up for their losses by either imposing costs on their nation or their remaining trading partners.

Nevertheless, trade sanctions result in alterations to trade and transportation expenses, subsequently affecting the relative competitiveness of imports and exports.

Furthermore, the decreased economic activities resulting from import restrictions resulted in a disruption of trade levels followed by a reduction in the targeted nation's global market share. The levels of trade typically decrease due to import restrictions imposed by sanctioning countries. Import restrictions on targets will manifest in various ways, with one significant aspect being the price effects on goods and services within the targeted nation. Researchers find that the limited availability of foreign goods and services, results in shortages and higher prices for certain commodities. The increase in domestic prices will initially strain consumers' purchasing power because of the target nation's inability to react immediately and the reduced access to foreign products. Business, Central banks, and policymakers may respond to such developments in the market through monetary and fiscal policies to manage inflationary pressures.

Therefore, the higher prices of goods could lead to negative economic phenomena such as Cost-Push Inflation, Exchange Rate Effects, and Demand-Pull Inflation. An exchange rate effect occurs as the local currency loses value or depreciates relative to foreign currencies. Consequently, the cost of imported goods and raw materials rises, contributing to overall inflationary pressures in the economy. The nation's overall consumption basket will reduce in size as their money can no longer afford them their pre-sanctions living standard. Moreover, demand-pull inflation may occur as consumers compete for the limited supply of goods, driving prices higher. As mentioned above, shortages of essential commodities may lead to increased demand for available goods, thus driving prices higher. The surge in demand, coupled with constrained supply, further exacerbates inflationary pressures, creating tougher challenges for policymakers in managing price stability and maintaining macroeconomic equilibrium.

Furthermore, the inflationary pressures caused by higher import costs can trigger various types of inflation. Inflation refers to the sustained increase in the general price level of goods and services in an economy over time. It erodes the purchasing power of money and can have significant impacts on consumers, businesses, and the overall economy. In addition to price effects, sanctions also impact the market share of the targeted nation on a global scale. The disruption to trade levels due to import restrictions leads to a reduction in the targeted nation's global market share. As access to international markets diminishes, exports from the sanctioned country may decline, further exacerbating the economic strain.The decline in market share can have long-term implications for the sanctioned nation's economic competitiveness and growth prospects. With limited access to global markets, industries may struggle to maintain their foothold, potentially leading to stagnation or decline in output and innovation.

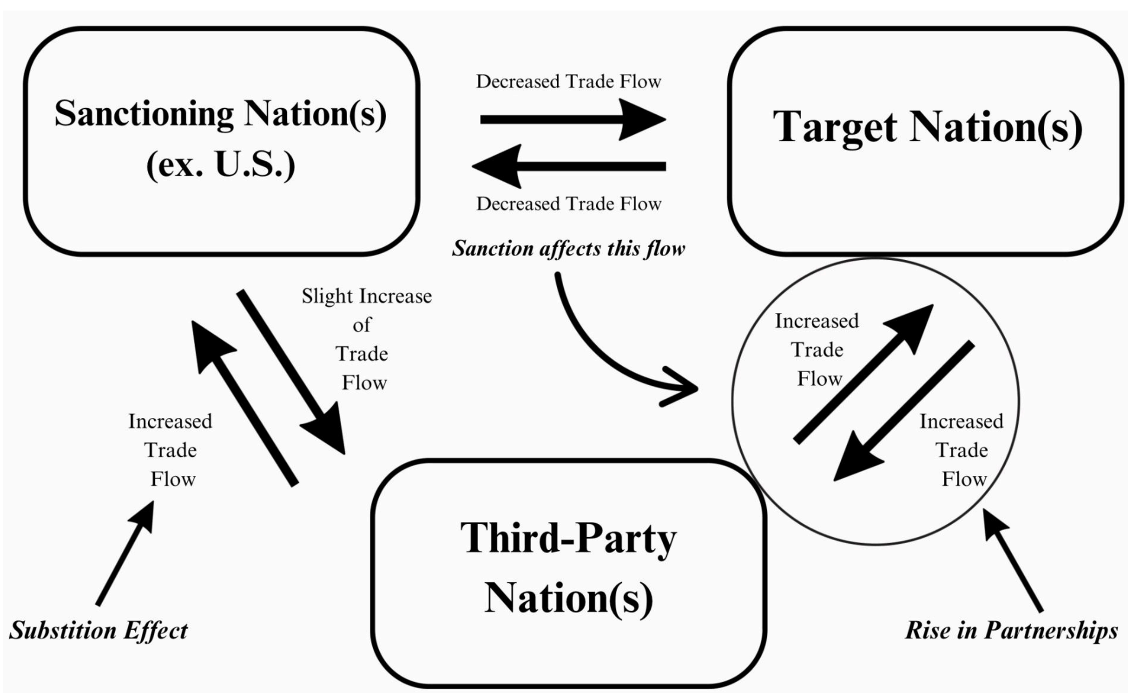
In worst-case scenarios, the spike in prices and reduction in income potentially lead to the exacerbation of resource scarcity within the sanctioned nation. This effect can lead to broader social and humanitarian effects, even though most sanctions implemented nowadays do not reduce the export of essential goods and services into countries. To elaborate, essential goods and services are food, medicines, and more; however, non-essential restrictions potentially constrain growth and exacerbate issues. Restrictions on imports of critical goods such as food, medicine, and technology can lead to shortages and impact the well-being of the population by constraining future growth. Reduced access to essential goods and services for industries, coupled with economic hardships, can contribute to increased poverty, unemployment, inequality, and social unrest. In particular, trade controls affect vulnerable populations due to the reduction in income and job availability, which leads to a reallocation or reduction of funds to buy essential goods and services. The sudden arrival of these negative consequences forces the targeted country to adapt. Under the pressures of economic turmoil and a decrease in the trade of terms available, the sanctioned nations adapt through various means.

Economic Resilience in the Face of Sanctions

Strategies and Implications

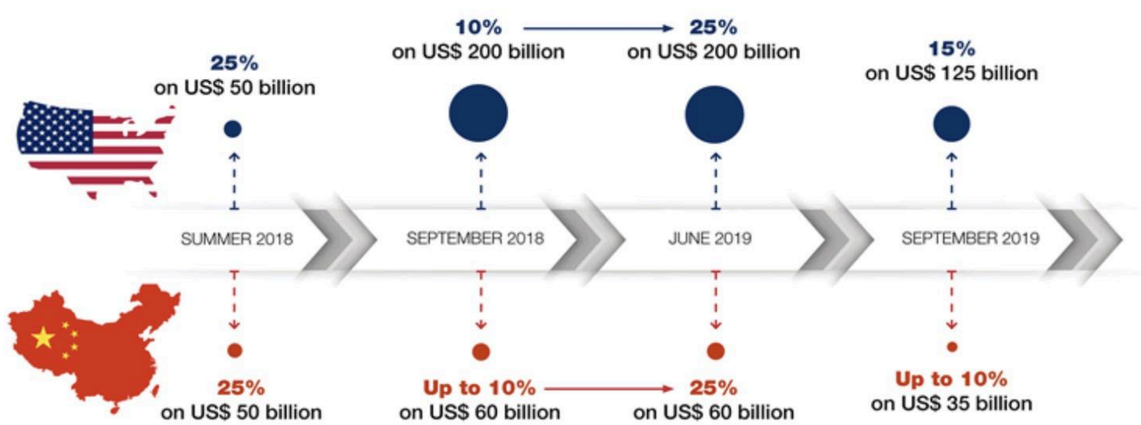
Over the long term, the targeted country's economy demonstrates an ability to undergo significant transformation. To counteract the effects of sanctions, targeted nations may endeavor to develop alternative supply chains for sanctioned goods and enhance domestic production capacities. Targeted nations can begin to implement new activity in their trade pathways as seen on Figure 2. Nevertheless, to mitigate the economic strain, targeted countries develop tactics that mitigate the economic strain on their homes, with either a short-term or long-run perspective.

Figure 2: A Disruption in Trade Dynamics from the Perspective of the Targeted Nation



In the short term, targeted nations resort to tactics that vary in scope and expense. These range from various degrees based on the areas targeted by the sanction. For instance, central banks and policymakers play a crucial role in mitigating the adverse effects of sanctions on the economy. In response to rising inflationary pressures, the targeted country may implement monetary and fiscal policies aimed at stabilizing prices and managing economic volatility. These interventions could include sanctioning the rival economy, adjusting interest rates, implementing targeted subsidies, or implementing fiscal stimulus measures to support domestic industries and consumers. By taking proactive measures, policymakers seek to alleviate the financial strain on households and businesses, while simultaneously attempting to create the correct conditions for economic resiliency and recovery. A common response of target countries is to issue their own sanctions towards the initial sanctioning country, as conveys on Figure 3. It sends a political message and creates a common ground of economic consequences. However, the effectiveness of these interventions depends on various factors, including the target country's economic power, the severity and duration of sanctions, the domestic economic context, and the level of international cooperation.

Figure 3: Evolution of the US-China Trade War[23]



[23] (Nicita, Alessandro. 2019)

As previously mentioned, higher import costs creates inflationary pressures which manifest in various forms, such as cost-push inflation. Cost-push inflation occurs when businesses face higher production costs, such as disruptions to the supply chains and increased import prices from trade restrictions. To maintain profit margins, businesses pass on these higher costs to consumers through higher prices for goods and services, exacerbating the financial burden on households. This intensifies the financial burden on households, reducing their purchasing power and leading to a decline in real wages.

An alternative and complex solution has been attempted by powers such as the European Union with their use of the Euro. Experiments have taken place to reduce reliance on the dollar in an effort aimed at bypassing the limitations imposed by financial sanctions. In 1944, the US dollar became the global reserve currency as a result of the formation of the International Monetary Fund (IMF) and the World Bank[24]. Although it is difficult, foreign countries can resort to using alternative currencies. By reducing reliance on the dominant currencies affected by sanctions, such as the U.S. dollar, countries may increasingly transact in alternative currencies such as the euro, yuan, or cryptocurrencies. This act of monetary departure reduces the influence of the main economic power such as the United States.

Another response from targeted countries to trade restrictions is to prioritize the development of domestic industries to reduce dependence on imported goods and services affected by sanctions. The initial strategy implemented involves an increase in domestic production of targeted goods as an effort to enhance economic self-sufficiency. Occasionally, nations with large reserves of money and efficient government powers can take on the challenges of loss of trade activity by subsidizing various industries. The subsidization allows the

[24] (Siripurapu and Berman 2023)

government to reduce the impact and costs on their domestic population. It allows a grace period for countries to implement changes, adapt, and survive the future as a sanctioned nation. The following tactic is observed in the popular sanction target of the United States, the People's Republic of China.

Case Study of China

On April 10, 2020, the general secretary of the Chinese Communist Party, Xi Jinping declared China's vision of the future to focus on a technological self-sufficient economic power, while simultaneously ensuring the dependence of the United States on advanced Chinese' technology[25]. After imposing sanctions against China, both parties experienced significant trade loss, with China's imports decreasing by 25% from US$ 130 billion in the first half of 2018 to about US$ 95 billion in the first half of 2019[26]. However, when America sanctioned Chinese firms and industries, the foreign market did not immediately begin to experience the eventual reduction of export prices due to the loss in exports to China, which absorbed a part of the cost of tariffs[27].

To increase the rate of development of domestic industries, the government tends to subsidize specific public and private sectors. We observe that when targeted countries promote growth in their domestic industries, it reaches beyond pursuing advantageous market opportunities. There is a focus from the Chinese government and leaders' to reduce and eradicate all chokepoints and headwinds caused by the underdeveloped Chinese markets, specifically the semiconductor sector. The implementation of these monetary industrial policies results in the central government bearing the financial burden. In 2014, the Chinese government exercised

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[25] (Palmer, 2023)
[26] Ibid.
[27] Ibid.

these economic practices through the development of the $35 billion National Integrated Circuit Industry Fund shared with the public sector[28]. Additionally, the government in power reduces the barriers to entry and extra costs by including tax breaks, government grants, equity investments, and low-interest loans[29].

Despite the target nations facing economic pressures, their goals shift towards a long-term view with the development of ways to maintain economic stability and resilience. There must be a reduction in the affluence of the powerful and coercive nation. To accomplish such goals the nations must reduce interdependence and reliance on economic power, while shifting reliance to their economy. These countries must become competitive in various sectors that parallel the advantages held by the sanctioning country. Additionally, the targeted country will attempt to forge closer economic ties with alternative countries or regions, possibly leading to a concentration of powers in a new economic trade bloc.

Additionally, if the surge in domestic activity of the target nation is insufficient then the sanctioned nation will be more inclined to seek alternative trading partners to compensate for the restricted trade and capital affected by the sanctions.[30] To the sanctioned countries, trade partner diversification offers a path to mitigate the impact of reduced trade. These economies search for alternative markets and partners, resulting in more opportunities made available to non-targeted parties. We must recognize that the ability of sanctioned nations to continue trading and build-up partnerships is limited and contracted. Through their trade controls, the sanctioning powers leverage their political strength by spreading a warning to non-targeted countries about the potential consequences, if they are found trading with the sanctioned powers.

[28] (Palmer, 2023)
[29] Ibid.
[30] (Avetisyan, Misak G, and Lektzian. 2017)

Based on geographical factors, there is an inclination for sanctioned countries to rely on the goods and services from their domestic economy, or goods and services from neighboring nations. The reduced distance between trading partners and neighboring partners should be capable of reducing import and export costs for both parties. Theoretically, the reduced distance between trade partners should reduce costs such as shipping prices, if the economies have developed an efficient transportation system. In addition, the effectiveness of sanctions may diminish if the targeted country successfully implements the necessary adjustments to sustain its economy without relying on the specific sanctioned goods.[31] These workarounds demonstrate the adaptive responses of targeted countries to economic sanctions, enabling them to navigate and mitigate the challenges posed by restrictive measures imposed by sanctioning countries. The development of new trade partnerships could create a snowball effect, which begins to attract more partners if the initial partnership is beneficial. Furthermore, we observe in today's space the emergence of these structures.

By attempting multiple mitigation efforts, the sanctioned country will adapt to the reduction in trade with the sanctioning party. The desire to make up for the reduction in trade will move the targeted nation to either submit to foreign demands, or resort to exploring the global trade market for countries hoping to create stronger alliances. Targeted countries may form strategic alliances or enter into agreements with other nations or international organizations to offset the economic impacts of sanctions. For example, large economic powers such as Russia and China demonstrate an ability to combat the loss caused by the Western economic sanctions, as well as attempt to hold on to their remaining global market share. These sanctioned powers have resorted to increasing their alliances and thus exports to countries such as India, France,

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[31] Ibid.

Germany, and others. This method proves to be strong, at least for some time, as these alliances can provide access to essential resources or markets.

Case Study of Russia

As an example, Russia is a country in the spotlight for starting a war against Ukraine. The Russian market is large and provides energy (oil and petroleum products, gas, coal), rolled steel, ferrous and nonferrous metals, and minerals.[32] Their products are tied to large economies like China, India, and the European Union. Over the decades, the Russian nation demonstrated coercive and implementation of inhumane tactics of territorial conquest. Therefore, when Russia began the war against Ukraine, foreign powers mandated their withdrawal and cease-fire by implementing various sanctions. Their war, fueled by Ukraine's historical past as a territory of the USSR, and not Russia, created a route for the European Union and the United States to restrict the inflow and outflow of traded goods.

These export goods are of high value and are involved in various industries, thus creating a negative effect that spreads to other parts of the world. Russia needs a market for their goods especially after being denied and banned from a portion of it. Therefore, they can attempt to sell goods and services at a bargain. The countries that the Russian country/target nation can continue to trade with will become a trade partner of the utmost importance. The sanctioned nation would thus provide these partner nations with benefits that go even above what is made available to them in the long run with the sanction-issuing nation. A reduced cost in price, along with strategic investments and contracts.

The Russian power will be forced to reinforce the political and economic ties that are available to them. Although the United States has coercive power, its reach cannot lead to the

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[32] (Russia Foreign Trade - Export and Import," 2019)

enforcement of rules and guidelines that will inevitably ruin nations, and their inhabitants. Their goal is to pressure these nations to return to a state of stability and follow guidelines. The United States issued sanctions that banned partners in the European Union from accessing petroleum and gas resources that are necessary to continue their economy running. The chokehold on the Russians led to headwinds for foreign sectors and businesses, who now need to find new providers. Assuming that prices have increased for countries that are not trading with the sanctioned nation, then there will be a growing interest in the targeted nation's goods. The simple act of reducing Russian services and selling them to a select few eventually demonstrates an attractiveness to not strictly following the US sanction.

As new trade patterns become customary and domestic production capacities strengthen, the sanctioned economy evolves to favor the trade patterns that emerge during the period of sanctions rather than reverting to pre-sanction norms. The surrounding smaller nations potentially resort to latching on to the targeted nations, and either distance themselves from the United States market or play both sides. We observe this phenomenon of distancing occurring in the case of Georgia and Russia.

On April 17, 2024, the Georgian parliament passed the "foreign agent" law. The following bill of "Transparency of Foreign Influence" forces civil society organizations that receive more than 20% of their funding from external forces to be monitored[33]. These organizations will then be identified as pursuing the interests of foreign nations, and thereby are allowed to be monitored and fined by the Georgian government. As depicted by UCL Georgian Society, the law "aims to suppress, intimidate, delegitimize, radicalize, public stigmatize, and demonize NGOs.[34]"

[33] (O.C. Media 2024)
[34] (Georgian Society Club 2024)

Although there have been multiple peaceful protests occurring outside the parliament building in the capital of Tbilisi, the Georgian government seems reluctant to forgo the bill to satisfy their trade partner, Russia. Furthermore, we observe the resentment from powers, such as the UK, EU, and USA, towards Georgia's attempt to strengthen their ties to Russia[35]. If Georgia passes the law, it will cement Russian ties in the country, which reduces the possibility of the nation integrating themselves into the European Union[36].

Inevitably, these forms of actions could potentially occur more often. It is in the best interest of Russia and China to create an attractive hub that results in trade diversion effects from third-party countries. These adaptation efforts typically incur immediate costs as the targeted economy adjusts to the new constraints imposed by sanctions. Conversely, if alternative sources for sanctioned goods are unavailable, the effects of sanctions are likely to endure for an extended period. During the active sanctions, these smaller and economically weaker targeted nations could experience a loss in economic power to invest in themselves due to their reallocation of funds to buy expensive goods or services. In such cases of a failure to adapt, the sanctioned government may resort to deflecting blame onto the sanctioning nations for any resulting economic hardships. This observation aligns with the findings of Avetisyan and Lektzian research on the impact of economic sanctions on domestic production, trade, and transportation of sanctioned goods, which highlights the importance of understanding the diverse strategies employed by targeted countries in response to sanctions. Their study sheds light on the complex dynamics at play and provides valuable insights into the short-term and long-term consequences of sanctions on targeted economies.

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[35] (Avadaliani 2023)
[36] ("Georgians Protest against What They Call 'the Russian Law'" 2024)

While workarounds can help alleviate immediate pressures, they also contribute to reshaping global economic dynamics and challenging the efficacy of unilateral sanctions over the long term. However, research indicates there is limited evidence of lingering effects, and in some cases, trade patterns might return to normal after sanctions are lifted[37]. Cuba, for instance, has positive residuals, suggesting that sanctions might not have a long-term impact on certain countries. Countries may return to trading normally with other partners in under two years. Sanctioning countries could potentially retract sanctions and begin trading activity again with the once targeted nation; however, these countries will have been transformed, with a new understanding of mitigating sanctioned-induced economic contractions.

Conclusion

Sanctioned nations respond to these challenges with resilience, employing diverse strategies such as trade diversification, domestic industry development, and forging alternative trade partnerships to mitigate the adverse effects. Case studies like Russia underscore the complex interplay between sanctions and economic adaptation, highlighting the evolving nature of international trade dynamics in the face of coercive economic measures.

Despite immediate costs and disruptions, targeted nations demonstrate adaptability and ingenuity in navigating sanctions-induced constraints. While short-term workarounds reshape global economic relationships, the long-term efficacy of unilateral sanctions remains a subject of debate. Research suggests that trade patterns may revert to normalcy post-sanctions, albeit with transformed dynamics and lessons learned in mitigating economic contraction. Understanding the nuanced impacts and responses to sanctions is crucial for policymakers and scholars as it

[37] (Avetisyan, Misak G, and Lektzian, 2017)

heightens our understanding of the complex interdependencies within the global economic landscape. By examining diverse strategies employed by sanctioned countries, we gain valuable insights into the dynamics of international trade and diplomacy in an era marked by geopolitical tensions and economic coercion.

Section III | The Effects of Sanctions on Third Parties

Introduction

The impact of sanctions is not solely contained within the target nations and the sanction-issuing nation, the repercussions experienced in one part of the world can have ripple effects across other regions, thus shifting the global trade market. It is important to note that the repercussions felt by nations will range from severity, and possibly will not be affected. Specifically, the effects trickle down in various ways to third-party countries, forcing them to adapt to the emergence of new trade dynamics. Non-sanctioned countries may need to navigate the arising trade and diplomatic challenges with strategic considerations arising from the imposition of sanctions.

Moreover, as nations grapple with the repercussions of export controls and sanctions imposed by the United States, further studies suggest that such measures have multifaceted impacts. Sanctions can impact financial markets and investment flows globally. Non-sanctioned countries may face fluctuations in currency exchange rates, changes in investor sentiment, or disruptions in capital flows due to the broader economic implications of sanctions on targeted nations. Third-party countries may also experience indirect economic consequences, such as changes in commodity prices, availability of goods, or investment flows, as a result of sanctions imposed on other nations. The consequences brought on by sanctions will reshape geopolitical relations and alliances. Therefore, the trade mechanism can influence foreign policy decisions and international cooperation efforts. In certain cases, sanctions can further exacerbate humanitarian or security challenges in third-party countries. For example, if sanctions lead to regional instability or economic hardships in neighboring countries, it can affect the flow of refugees, regional security dynamics, or humanitarian aid efforts. Consequently, third-party countries' trade patterns experience trade disruptions; from the perspective of third-party nations, the sanctions result in unexpected repercussions, forcing their hand to adapt, and an influx of new opportunities for their market power to expand. The extent to which the US economic sanctions divert trade has been studied using observed data, assumptions, and differing methodologies, depicting the miscalculations and results in the benefits of the implementation of sanctions.

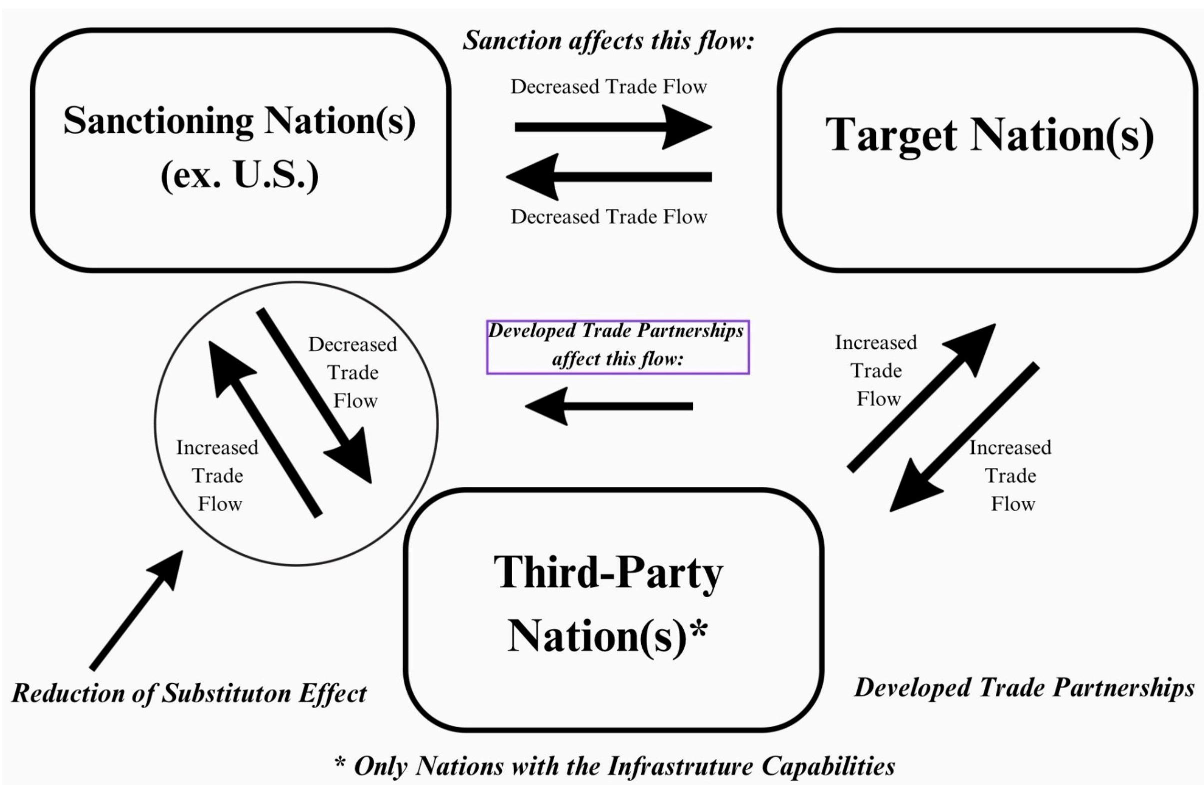
Harnessing Geoeconomic Shifts

Strategies for Third-Party Advancements

From the perspective of third-party nations, a nation's implementation of sanctions creates the environment necessary for third parties to begin flourishing and find new advantages and opportunities. As previously explored, sanction-issuing countries are capable of responding to the constriction of trade by negotiating new trade deals with partner countries, increasing their domestic production of targeted products, or facing the consequences of the unavailability of products.

Research on the effects of sanctions conveys the development of an alternative direction for developing nations, a path with a particular focus on a potential growth in economic strength and interest to fill up the loss of trade left behind by the sanctioned party. Therefore, non-target countries can benefit from sanctions imposed on target countries in the long-run, cementing their place as reliable trade partners. All while the sanction-issuing states and sanctioned parties' economies experience larger negative consequences. However, other research on the effects of sanctions portray the creation of a path for developing nations to grasp the opportunity of becoming a significant trading partner for the United States, as displayed in Figure 4. Focusing on the trade path between the sanction-issuing nation and the non-targeted country demonstrates the third parties' ability to increase their share of exports traveling into the United States trade flow. In the example of the United States Tariffs on China, the trade confrontation resulted in the US's search for substitution effect of trade partners. Consequently, large countries with qualities such as spare supply capacity with available trade infrastructure profited off of the sanctions[38].

Figure 4: A Disruption in Trade Dynamics from the Perspective of the Third-party Nations



[38] (Nicita, Alessandro, Section 4, 2019)

In a study conducted by Alessandro Nicita for the United Nations Conference on Trade and Development (UNCTAD), Nicita examined trade diversion effects resulting from United States tariffs on China, and shed light on which countries have benefited from this shift in trade dynamics and to what extent. The analysis, conducted at the HS 8-digit level, compares import data from the first two quarters of 2019 with those from the same period in 2018, considering products subject to both phase one and phase two tariffs collectively. The HS 8-digit level is a detailed label for products traded between countries. It's part of a system used worldwide to categorize goods. This label allows products to be sorted into specific groups, giving a clear picture of what's being traded. This detailed classification helps governments, businesses, and researchers understand trade patterns better, set tariffs, and make decisions about international trade.

Moreover, the researchers' analysis delves into identifying the countries that have capitalized on the trade war, leveraging observed data, and certain assumptions for quantification. The research assumes that any decline in U.S. imports from China under phases one or two is solely due to tariff imposition, while observed increases in imports from other countries under the same phases are also tariff-induced. This assumption is validated by econometric analyses demonstrating that U.S. imports from China decreased only in the presence of tariffs, while imports from other countries increased solely for tariffed products. Nicita's analysis unveils considerable variance in trade diversion effects across countries and sectors, with larger economies and those with spare supply capacity benefiting the most. Additionally, we find that easily substitutable products could find markets in the U.S. during global trade tensions, even if their initial exposure to the U.S. market is limited.

Further research indicates that industries affected by higher U.S. tariffs on Chinese products showed a greater rise in exports from Mexico to the U.S. following the trade tensions, compared to industries facing lower tariff increases[39]. Within Wang and Hanaan (2023), they explore the impact of economic sanctions and trade tensions on international trade flows, drawing from international political economy theories. It contrasts the effects of threatened sanctions versus actual imposed sanctions using empirical data spanning from 1960 to 2009. The study finds that while imposed sanctions decrease trade between sender and target countries, the threat of sanctions increases trade from sanction issuing to other countries due to stockpiling by economic agents to mitigate potential adverse effects.

Additionally, the article discusses Mexico's trade diversion effects during the U.S.-China trade tensions and U.S. sanctions on Russia, finding that Mexico experienced a positive trade diversion effect in its exports to the U.S. during these periods. In addition, researchers found in Figure 5 that various non-target nations increase in exports towards the U.S., thus incentivizing these nations to exploit the trade diversionary tactic. Notably, they find that existing trade agreements and geographical proximity play pivotal roles. For instance, the Taiwan Province of China emerges as a major beneficiary, particularly in the office machinery and communication equipment sectors[40]. Mexico and the European Union also see substantial gains, primarily in agricultural-food and machinery sectors[41]. While in Vietnam, the Republic of Korea, Canada, and India witnessed smaller yet significant benefits[42]. The study attributes these effects to changes in U.S. tariffs on Chinese goods, decreases in U.S. imports from China, and product substitutability.

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[39] (Wang, Mengqi, and Swarnali Ahemd Hannan. 2023)
[40] (Nicita, Alessandro. 2019)
[41] Ibid.
[42] Ibid.

Figure 5: Trade Diversion Effects in the US Market by Economy and Sector, First Semester 2019 (Millions US dollars)[43]

Trade Diversion Effects in the US Market by Economy and Sector, First Semester 2019
(Millions US dollars)

	OFFICE MACHINERY	MACHINERY VARIOUS	ELECTRICAL MACHINERY	CHEMICALS	COM. EQUIPMENT	METALS AND ORE	PRECISION INSTRUMENTS	AGRI-FOOD	TRANSPORT EQUIPMENT	FURNITURE	TEXTILES AND APPAREL	OTHERS	TOTAL
Taiwan (Province of China)	2830	122	287	5	491	205	183	6	14	55	8	11	4217
Mexico	420	407	876	127	0	373	166	599	456	99	47	0	3570
European Union	108	739	422	324	0	96	371	215	285	0	66	55	2681
Vietnam	60	8	400	134	1106	130	18	14	52	665	4	10	2601
Japan	63	997	0	342	10	62	0	21	1	0	12	32	1540
Canada	39	307	110	0	416	83	62	21	76	0	0	83	1197
Korea (Rep. of)	568	99	68	95	13	52	2	19	117	5	48	29	1115
India	18	68	83	243	0	181	23	23	6	27	41	42	755
Thailand	0	124	25	243	0	58	0	0	4	22	4	1	481
Brazil	0	191	27	129	9	71	7	4	11	0	4	0	451
Russian Federation	0	0	19	143	0	54	0	56	1	0	0	74	347
Malaysia	12	0	12	40	0	50	76	0	1	58	2	1	251
Turkey	0	23	12	17	31	89	9	13	5	11	14	1	226
Indonesia	0	29	27	0	42	25	4	0	1	0	2	0	129
Australia	0	5	0	23	13	0	4	16	2	26	3	3	95
Argentina	0	22	1	8	0	27	0	9	0	3	1	3	75
South Africa	0	3	3	30	0	0	4	13	0	5	2	0	60
Pakistan	0	0	0	5	0	0	1	3	0	2	25	0	37
Rest of the World	179	82	89	272	10	78	261	33	0	3	583	25	1616
Total Trade Diversion	4297	3226	2461	2179	2142	1635	1190	1065	1031	981	866	371	21443

In conclusion, the study underscores the importance of considering supply linkages and product substitutability in analyzing trade diversion effects during geopolitical shocks. Consequently, we observe that an economic power's substitution of its sanctioned trade partners with alternate nations causes an inevitable loss of trade and partnership with the sanctioned country. The obstruction of free trade to and from the sanctioned to targeted provides a foreign market in need of trade partners. Inevitably, if the sanctioned nations cannot succeed at mitigating the effects through the domestic economy, they will reach out to others, thus leaving sanction-issuing nations out of potential trade deals. The research also highlights the broader

[43] Ibid.

implications of trade tensions on the global economy, emphasizing the need for further analysis of industry-level trade dynamics and the impact of policy-driven geoeconomic fragmentation.

Navigating Trade Shifts

Emerging Alliances Amidst Discontent with the US

In recent years, discontent with US economic hegemony has led to a growing interest in diversifying trade partnerships and reducing dependence on the United States. This shift in the global dynamics is driven by the perception that the US exercises excessive and manipulative control over the global trade market, often imposing sanctions that hinder the progress and development of other nations. Nevertheless, the strengthening and emergence of alternative economic powers, notably India, Germany, Russia, and China, have further underscored the diminishing hold of the United States on global trade dynamics. Export controls negatively affect the sanction-issuing nation's economy through various channels, potentially harming its domestic economic stance, global trade share, and reputation as a reliable trade partner.

As a result, foreign powers are shifting away from the American market, leading to higher activity of trade between foreign countries and a decreased reliance on the Western market. Moreover, countries are increasingly engaging in bilateral and multilateral trade agreements outside the scope of traditional alliances. The global repercussions from the COVID-19 pandemic demonstrated vulnerabilities in global supply chains, prompting many countries and companies to reconsider their reliance on single-source suppliers and seek diversification. Accordingly, this has led to the emergence of new trade partnerships and investment opportunities in alternative markets. The development with economic partnerships underscores the significance of understanding the strategies employed by non-target countries to counteract the impact of US trade sanctions and the formation of new alliances and partnerships.

In addition, discontent with US economic hegemony has led to a growing interest in diversifying trade partnerships and reducing dependence on the United States. As previously mentioned, this shift is motivated by the perception that the U.S.'s control over the international trade market is manipulative and coercive. While the US continues to employ sanctions as a tool to curb the growth of rival economies, these measures inadvertently drive trade activity away from American shores. Furthermore, the unreliable trading partner effect placed on sanction-issuing nations may further exacerbate these views against the United States, and the advantages available to third parties, thus taking an increased portion of the global trade market. Furthermore, as the number of United States-sanctioned targets multiply, targeted countries are more likely to rely on one another and come together to fulfill their pursuits. The emergence of alternative economic powers, notably Germany, Russia, and China, further underscores the diminishing hold of the United States on global trade dynamics.

Since Russian and Chinese economies have been sanctioned by Western Powers; they must adapt to create a market that has global ties but diverts trade away from the United States. Being two influential and large production economies allows for them to decrease their prices, alongside a mutual interest in decreasing reliance on U.S. businesses on a global scale. It is a measure taken to weaken the West by causing an influx of loss in profits and trade agreement losses. Additionally, the impact of economic sanctions on bilateral trade flows creates lingering effects of potential losses and leads to shifts in partnership interests. This shift in trade partnerships reflects a broader trend away from Western nations toward emerging players in global commerce.

The unintended consequences of US trade sanctions are reshaping global trade dynamics, with third-party countries emerging as pivotal players in mediating trade between sanctioned nations and the U.S. The rise of these third-party nations signifies a shift in the global economic landscape, highlighting the evolving nature of international trade relationships amidst geopolitical tensions and economic measures. While traditional economic powers still play a significant role, the rise of emerging economies and the proliferation of regional and bilateral agreements signal a shift towards a more multipolar and interconnected global trade system. Furthermore, these third-party nations may be incentivized to boost their exports to both the sanctioned country and the sanctioning nation (the U.S.)[44], positioning themselves as neutral intermediaries in the changing international trade landscape.

Adapting to Trade Shifts

The Rise of Alternative Trade Partnerships

Throughout investigations, there exists an observation of various parties' development and implementation of measures to mitigate the constraints on access and selling of goods and services. As the targeted and sanction-issuing parties' trade levels and interests shift, the third parties will be forced to endure the consequences of sanctions, such as trade disruptions. Furthermore, current geopolitical tensions and shifts in global power dynamics also demonstrate influence over trade alliances and partnerships. There is an observed increase in trade partnership diversification from all parties as a consequence of the sanction's characteristics of being costly and difficult to mitigate. However, the decline in ties from the issuing country to the sanctioned

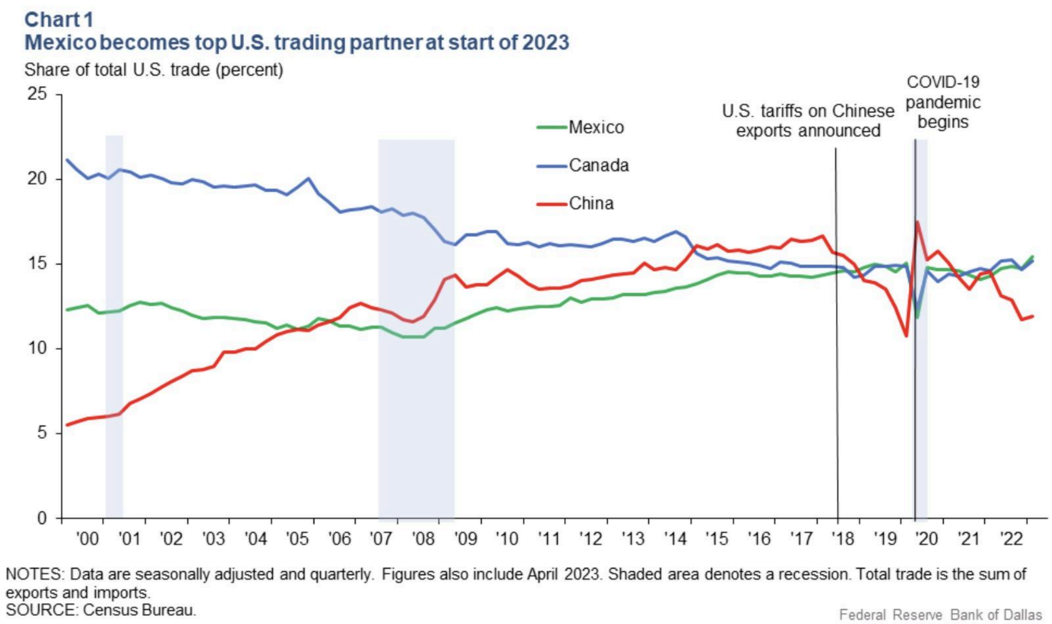
[44] (Avetisyan, Misak G, and David Lektzian. 2017)

countries consequently opens trade pathways for third-party nations to step in and fill the trade gap, either with the sanctioned nations or the U.S. itself.

Accordingly, while the U.S. continues to employ sanctions as a tool to curb the growth of rival economies, these measures inadvertently drive trade activity away from American shores. While the primary burden of international sanctions falls on the targeted country, restricting or halting exports of certain goods from sender countries to the target market leads to their relative scarcity, thereby driving up prices. Consequently, the targeted country may rationally turn to its other trading partners to fulfill its demand for these goods. A solution available to these targeted foreign institutions and businesses is depicted through their interest in exporting a larger portion to non-targeted countries to mitigate the effects of trade losses from the controls.

Moreover, the long-term impact of sanctions on third parties depends on various factors, including the duration and severity of sanctions, the resilience of affected economies, and broader global economic trends. For instance, targeted nations, particularly the United States, experience trade losses and reduced activity with their sanctioned trading partners. Under sanctions, targeted countries experience increased prices for goods compared to global market rates. This price disparity creates an opportunity for third-party countries to step in and meet the demand shortage for goods left by the sanctioned nations. For example, tensions between the United States and China have prompted both countries to seek new trade partners and reduce dependence on each other. Remarkably, there has been a reshaping of trade dynamics, with Mexico surpassing China as America's largest trading partner in 2023 as seen in Figure 6. This shift reflects broader efforts by the U.S. to diversify its trade relationships and reduce dependence on geopolitical rivals. The non-targeted and targeted nations have demonstrated a willingness to strategically plant themselves to take advantage of the rise in trade partners and disruptions caused by sanctions. Third-party nations are capable of increasing their exports and imports under these new sanctions and political tension-induced conditions.

Figure 6: Mexico Becomes Top U.S. Trading Partner at the Start of 2023[45]



Focusing on third-party nations depicts the cruciality of comprehending non-targeted nations' affinity towards the pursuit of growth. These nations in particular actively seek alternative trading opportunities to progress economically even under normal conditions. When the global trade economy is disrupted by sanctions, the behavior to develop their economies continues to exist, alongside their desire to adjust their trade strategies to mitigate the impact of disrupted supply chains and benefit in the long run. These non-targeted countries, often referred to as third parties, start exhibiting diversionary trade patterns[46], shifting their focus towards alternative and growing global markets that offer attractive returns.

[45] (Du, 2023)
[46] (*Russia Foreign Trade - Export and Import*, 2019)

Furthermore, the development of these new markets is attractive due to the potential to increase trade activity and subsequently their domestic markets. The rise in affluent foreign economic entities now poses a challenge to the United States' dominance in global trade, potentially leading to trade diversion away from the US market. In recent years, countries such as China, India, Brazil, and others have experienced rapid economic growth over the past few decades, transforming them into major players in the global economy. In addition, sanctioned nations, such as the European Union, China, and Russia, demonstrate their desire to promote regional cooperation and facilitate trade. These agreements contribute to the diversification of trade relationships and the resilience of economies in the face of global challenges. For instance, China's Belt and Road Initiative (BRI) aims to enhance connectivity and economic cooperation across Asia, Africa, and Europe through infrastructure development and investment[47]. Similarly, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[48] and the Regional Comprehensive Economic Partnership (RCEP) are examples of multilateral trade agreements that have reshaped trade dynamics in the Asia-Pacific region[49]. By promoting regional cooperation and facilitating trade, these agreements contribute to the diversification of trade relationships and the resilience of economies in the face of global challenges.

These emerging economies have diversified their trade partnerships and increased their influence in international trade negotiations, challenging the traditional dominance of Western powers. This shift in trade patterns indicates that U.S. firms and businesses are losing market share and influence to foreign competitors, who are rapidly expanding their presence and challenging the dominance once enjoyed by American establishments. These developments mark

[47] (McBride, Berman, and Chatzky 2023)
[48] (Review of *Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)* n.d.)
[49] (Review of *The Regional Comprehensive Economic Partnership (RCEP)* n.d.)

a significant departure from the past when smaller nations lacked the economic strength to resist US influence. Now, empowered by enhanced economic capabilities, these nations are poised to challenge US dominance and assert their sovereignty in global trade affairs.

Further research suggests that when the U.S. issues sanctions, it leads to trade diversion reactions from large sanctioned countries like Russia, thus allowing third-party nations to benefit. The extent of this benefit depends on factors such as the size of the economy, development level, and product similarity with the targeted country. Researchers discovered limited evidence suggesting that the negative impact of sanctions remains when they are lifted, and the long-term effects of sanctions can be expected to be more severe for specific sectors, suggesting industries such as sophisticated equipment and infrastructure[50]. Their research indicates a trend where non-US firms replace American firms in the sanctioned nation's market, potentially eroding US market share globally. The results of their research uncovered that the United States lost approximately $15 to $19 billion in potential trade amount in 1995[51]. The loss in potential trade occurred because of the implementation and the direct and indirect effects of sanctions.

Nevertheless, the evolving trade dynamics can also impact neighboring countries, providing successful non-targeted nations with surplus funds for reinvestment in their domestic economies, neighboring economies, or strategic neighboring alliances. In addition, third-party nations could experience technological and sector infrastructure advancement as they capitalize on the new trade opportunities with both the United States and targeted countries. The influx of revenue from expanded trade relationships allows these nations to invest in their industries and adopt advanced technologies. To fund programs for technological and production advancements,

[50] (Hufbauer, Clyde, Ann Elliott, et al. 1997)
[51] Ibid.

non-targeted countries may require substantial investment. While they may not match the production capabilities of the United States, they can offer certain commodities at lower costs due to factors like product quality, reduced shipping expenses, and lower national wage levels. This shift can further contribute to the increase in trade deficits for foreign nations as they export goods to emerging markets at competitive prices, which are driven by the ongoing production developments. The need for the U.S. to raise prices on goods and services due to reduced trade with targeted countries creates an advantage for foreign trading partners, potentially diminishing U.S. influence and market dominance over time.

Additionally, it is important to note that geographical proximity can create a competitive advantage for third-party nations trading with smaller countries affected by sanctions. The reduced transportation costs associated with closer proximity can contribute to lower prices for goods, making them more attractive alternatives compared to products from more distant countries like the U.S. However, it's important to note that the effectiveness of this advantage depends on various factors, including existing trade agreements, infrastructure quality, logistics networks, and overall market dynamics. While proximity is a significant factor, it is not the sole determinant of competitiveness in the global trade market. Other factors such as product quality, reliability, market demand, and trade policies also play crucial roles in shaping trade relationships and market preferences. Therefore, while geographical proximity can contribute to competitive pricing, it is just one aspect among many influencing trade dynamics and market outcomes. As an example, the current developments in Latin American countries mirror the scenario of developing neighboring powers. Central and South America are receiving funding and support from the United States, including initiatives for reshoring businesses. As nations experience growth, forging ties with neighboring countries becomes strategic for defense, trade, and economic expansion. Eventually, this trend could lead to a global shift in trade dynamics, with emerging non-targeted nations assuming roles previously held by China in U.S. trade, supporting investment and development in underdeveloped economies.

Conclusion

The development of foreign blocs may also entail challenges, such as potential trade deficits arising from increased exports to sanctioned countries, political restrictions from foreign nations, and the need to balance economic growth with sustainability. Although third-party nations can continue to strengthen their bond with the sanctioned nation through an exchange of intellectual data and goods, the sharing of specific information, such as semiconductor technology can be constrained. For instance, in 2021, the United States issued a formal and legal banning of technological information sharing of all technology using United States intellectual data[52]. These restrictions further cause issues among all parties involved in trade because of the manipulation and coercive behavior of the United States. The guideline of the sanction would prevent third parties from serving as middlemen of goods and services. Although third parties could secretly trade the issuing nation's goods to the sanctioned country, the political ties and closure of the trade flow from the United States could scare the third parties, thus preventing the secret and illegal exchange of goods.

Nonetheless, we observe a challenge in enforcing sanctions against entities, such as Russia, as exports to neighboring countries have surged, potentially aiding in the circumvention of sanctions. The increase in German exports to countries like Kyrgyzstan, Georgia, Kazakhstan, Armenia, and Tajikistan, including motor vehicles, vehicle parts, metal products, chemical

[52] (Palmer, 2023).

products, and clothing, raises concerns about the effectiveness of sanctions[53]. In addition, customs unions among neighboring countries, such as Armenia, Belarus, Kazakhstan, and Kyrgyzstan with Russia, complicate efforts to prevent sanctioned goods from indirectly reaching Russia. Researchers observed an increase in resentment towards sanction-issuing nations and raised the belief of foreign nations possibly accessing sanctioned products with the goal of reverse engineering the product. If a nation is reverse engineering these technologies, then it is likely investing in its infrastructure such as in education and production technology.

Additionally, it is essential to consider the impact on trade deficits of foreign countries, which may arise due to exporting goods at higher prices to sanctioned countries facing inflated US price points that are less competitive in lower-economic level markets. Over time, as the US shifts its trade partnerships to third parties, prices in these nations could increase to support ongoing development and expansion efforts. However, increased competition in certain sectors or industries can also pose challenges for domestic producers in third-party countries. Ultimately, the evolving trade dynamics influenced by sanctions can reshape international relationships and redefine the influence of major players like the United States in the global market.

Section IV | The Effects of Sanctions on Sanction Issuing Nations

Introduction

The imposition of economic sanctions by major global powers such as the United States represents a strategic tool aimed at influencing international behavior and achieving geopolitical objectives. However, the ramifications of these sanctions extend far beyond the targeted nations,

[53] (Wagner, Rene. 2023).

affecting the global trade landscape and even impacting the economies of the sanctioned countries themselves.

As of February 2024, the United States has implemented 39 sanctions[54], each directed at various entities, individuals, and populations worldwide, establishing a framework of guidelines governing certain practices on the international stage[55]. While the primary intent of these sanctions is to apply pressure on specific target countries, they also carry significant consequences for the United States and other sanctioning nations.

The research underscores that extensive sanctions can disrupt bilateral trade flows, leading to reduced total trade volumes and exports from the sanctioning nation over time.[56] These trade disruptions reflect a pattern of economic impact that reverberates across global markets, affecting all parties involved in international trade relationships. As a result, targeted nations often seek strategic opportunities within this evolving global trade landscape to navigate the constraints imposed by sanctions and capitalize on shifting trade dynamics.

In this section, I explore the multifaceted economic effects of sanctions, analyzing how they reshape trade relationships, consumer behavior, and industry dynamics within the sanctioning nations. Through empirical insights and theoretical frameworks, I illuminate the complex interplay between sanctions, global trade, and economic adaptation in response to geopolitical pressures.

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[54] (U.S. Department of the Treasury, n.d.)
[55] (U.S. Department of State, n.d.)
[56] (Hufbauer, Gary Clyde, and Barbara Egg., 2003)

Consumer Disruptions

Sanction's Effect on U.S. Consumer Prices

Further examination of the consequences on the United States uncovers that the United States bears a share of the burden imposed by its own sanctions policies, specifically impacting its consumers. Disruptions in trade with the targeted country can impact product availability and pricing in domestic markets. Consumers may experience changes in the availability and pricing of goods and services due to reduced imports from sanctioned nations, influencing consumer behavior and purchasing power.

Declines in trade volumes lead to reductions in revenue and profitability for these industries, potentially translating into income reductions and job losses. Studies conducted by the United Nations Conference on Trade and Development (UNCTAD) reveal that the costs of tariffs are initially borne by U.S. consumers. The abrupt changes in consumption habits resulting from sanctions and trade disruptions can have ripple effects throughout the economy. Businesses that cater to specific consumer preferences or rely on stable import markets may need to adjust their operations or face reduced demand. Regarding import prices, the research underscores the near-complete pass-through of tariffs to U.S. consumers' prices, with minimal impact on Chinese export prices until the latter period of analysis. The near-complete pass-through of tariffs to U.S. consumers' prices, coupled with higher prices due to shortages and limited supply from targeted countries, results in increased costs for consumers.

As consumer prices rise, households may experience a reduction in real income. With certain goods becoming more expensive or less available, consumers may either reduce spending in other areas or allocate more of their budget towards essential goods, thereby impacting overall consumption patterns and disposable income levels. This inflation can erode consumers' purchasing power and impact overall economic activity.

Additionally, this abrupt disruption to consumption habits underscores the dissonance between consumer's previous access to foreign products and the constraints imposed by sanctions. Instead of aligning with consumer preferences, sanctions serve as policy-driven disruptions that alter consumption patterns and product availability. Sanctions disrupt established consumer demand patterns and challenge the availability of inexpensive products that American consumers rely on.

Consequently, the imposition of sanctions creates a ripple effect in the domestic market, wherein the prices of goods and services from targeted countries soar due to heightened demand and limited supply within the U.S. borders. Additionally, lower demand for certain goods due to higher prices and supply disruptions can lead to reduced production levels and, consequently, lower employment in industries reliant on those goods.

Economic Repercussions

Sanctions' Disruption on Trade Patterns

In the country imposing sanctions, the restricted goods often experience a decrease in price due to increased availability resulting from reduced alternative markets caused by the sanctions. This surplus of goods can lead to increased domestic supply across industries, initially benefiting consumers within the sanctioning country. Domestic firms are compelled to redirect their supply originally meant for the sanctioned nation to meet domestic demand, which can result in a surge in domestic consumption and utilization of domestic transportation services.

Initially, these shifting trade patterns may seem beneficial to the sanctioning countries. However, over time, the adverse effects of international sanctions may diminish as the targeted country adjusts by ramping up domestic production of sanctioned goods and seeking alternative trading partners, thereby undermining the intended impact of the sanctions on its economy.

Sanction's reduction of imports can be extremely damaging, leading to various economic contractions, particularly challenging to mitigate from businesses and industries in the sanction-issuing nation. Further examination uncovers that the United States conveys tariffs that have influenced the volume and composition of imports into the United States, impacting various sectors, and trade patterns[57]. Specific industries heavily reliant on trade with the sanctioned nation may encounter challenges, leading to reduced economic activity and potential job losses in those sectors. The shortages in supply coupled with persistent consumer demand lead to price increases for US importers, exacerbating the challenges faced by businesses attempting to substitute imports from sanctioned nations[58]. Businesses that rely heavily on imported goods affected by sanctions may struggle to maintain operations or face increased costs, potentially leading to layoffs or reduced hiring.

The disturbance felt from sanctions on the sanction-issuing nation is heightened when the sanctioned country is a significant trading partner. Research indicates that American imports from China decreased primarily in response to the presence of tariffs, underscoring the intertwined nature of the trade relationship between these two economic giants[59]. The reduction in exports disrupts supply chains around the globe, thus export-oriented industries within the sanction nation must learn to alleviate the effects. Sanctions can lead to reduced exports to the

[57] (Nicita, Alessandro, Section 4, 2019)
[58] Ibid.
[59] Ibid.

sanctioned nation and disruptions in supply chains, affecting the export-oriented industries within the sanctioning nation.

Mitigating Trade Losses

The Substitution Effect as a Response to Sanctions

Researchers investigating the indirect and direct effects of economic sanctions across numerous countries by applying the Gravity Model discovered the extent of potential value lost from sanction-induced trade loss. The researchers examined various intensities of sanctions—extensive, moderate, and limited—and observed a consistent reduction in bilateral trade between 1985 and 1995[60]. Regression analysis, incorporating multiple variables and dummy variables, revealed that the imposition of sanctions in 1995 resulted in a substantial trade loss estimated at $15-19 billion[61]. This loss underscores a significant consequence of using sanctions as a tactic.

In response, research suggests the potential shift to exporters' strategy to preserve market share, indicating an evolving landscape in response to tariffs. For example, the United States' imposition of bilateral tariffs on China in 2019 led to a reduction in imports from China. This trade disruption prompted businesses and consumers in the United States to seek alternative sources for goods previously imported from the targeted country[62]. The subsequent increase in the number of imports from non-targeted countries is a classic case of the substitution effect in international trade.

[60] Ibid.
[61] Ibid.
[62] Ibid.

The substitution effect refers to the economic phenomenon where changes in relative prices of goods or services prompt consumers and producers to switch to alternative options that have become relatively more attractive. In the short run, the substitution effect did manage to counteract the negative effects. However, issues arose for the United States as they increased their imports from the rest of the world concerning the products that have been subject to the United States tariffs. Further studies revealed that there is an increasing impact of tariffs over time, with trade diversion effects becoming more pronounced[63]**.**

In 2019, the United States experienced a US$ 35 billion import loss, of which only about 63% or US $21 billion has been replaced by imports derived from non-target countries[64]. The remaining US $14 billion was lost due to lower demand in the United States, aligned with the insufficient production capacity from the rest of the world, which has inflated prices for the US domestic market[65]. The inflationary pressures resulting from higher import prices and supply shortages can affect businesses' profitability and ability to expand, impacting their employment decisions. In the long run, the United States' response to mitigate the impact of the significant reduction of Chinese imports proved insufficient, resulting in trade losses for the United States. Evidence suggests that over time, trade may find alternative channels, which could affect the full recovery of trade volumes even after sanctions are lifted.[66] This shift in industries' procurement strategies has implications beyond mere economic considerations and contributes to changes in the United States trade balance and market preferences[67].

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[63] (Hufbauer, Clyde, and Egg. 2003)
[64] (Nicita, Alessandro, 2019)
[65] Ibid.
[66] (Hufbauer, Clyde, and Egg, 2003)
[67] (Avetisyan, Misak G, and David Lektzian. 2017)

Diplomatic and Political Ramifications

The Unreliable Effect on the United States

In the last three decades, Washington's use of sanctions has evolved towards the implantation of sanctions for human rights violations, terrorism, cyber-attacks, and money laundering. Although the United States issues sanctions when it believes it is correct and for the benefit of different groups, some countries view these as restrictions and a corrupt use of global influence. The rate at which sanctions are issued has grown suggesting a risk for many foreign nations attempting to exercise market autonomy. Consequently, the growing fear of being targeted leads to foreign nations' belief that the US market is an unreliable trade supplier that will eventually place higher costs on their partners. These once non-sanctioned countries could be targeted because of the United States' desire to reduce the nation's progress, non-targeted countries not following sanction policies, and the US's ability to divert from free trade policies at its convenience.

Focused on United States sanctions reveals these controls as creating unattractive tendencies and markets for foreign countries because trading partners observe the manipulative nature of sanctions on the global market. Sanctions can strain diplomatic relations and have broader political and economic ramifications for the sanctioning nation. Implementing sanctions may lead to tensions with other countries that have economic or strategic ties with the targeted nation, impacting foreign policy objectives and international partnerships.

Furthermore, the willingness of the US to tolerate trade losses could potentially demonstrate its unreliability as a trade partner. Foreign parties may perceive this stance as indicative of risks associated with engaging in trade partnerships with the US. This ongoing pattern of trade disruption highlights the broader implications of sanctions on international trade relationships and economic stability. Researchers believe that the impact would continue to grow over time with sanctions because exports to countries would no longer rise, as the income levels of foreign nations are no longer rising at a non-sanctioned rate. These findings can argue that the application of sanctions led to the progression of foreign economies at a cost to the sanction-issuing country, therefore it is relevant for all nations to assess further.

Interestingly, there is a rise in turmoil and dissent behind the use of sanctions from within the United States. We observe an agitation from American business leaders against US economic tactics because they claimed that the issuing of limited unilateral sanctions spills beyond the targeted sectors, therefore undermining American interests[68]. By choosing to pursue sanctions, the United States forgoes the opportunity to maintain collaborative trade relationships that efficiently cater to its population's demands. In particular, business leaders have concentrated and brought awareness to the consequences that occur after the lifting of sanctions. They argue that the effects linger even after they are lifted because of the "unreliable suppliers" effect. The "unreliable suppliers" phenomenon is associated with exports lost in the present day to cause lower exports in the future because US firms will not be able to target suppliers of foreign nations. These effects are intensified through the spillover effect that provides foreign firms with a competitive advantage in various specific markets; the disruptions in multiple industries could be hard to mitigate even as a large economic power.

In discussing the unpredictable repercussions of protectionist measures, it becomes evident that the United States, like many other nations, grapples with the complexities of trade policies. While there exists a consensus among economists regarding the benefits of open economies and reduced trade barriers, the implementation of protectionist measures persists,

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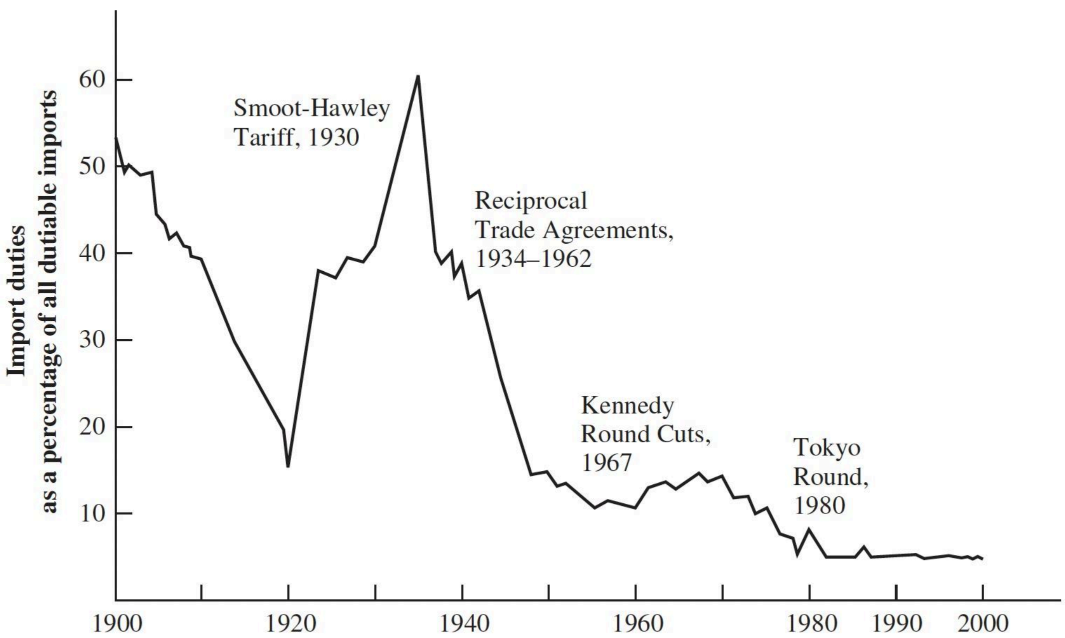
[68] (Ziemba, 2023)

often driven by the interests of specific groups. Measures such as tariffs and export subsidies aim to protect domestic industries, however, they can inadvertently result in higher prices for consumers and hinder overall economic growth[69]. This phenomenon occurred back in the United States with the Smoot-Hawley Tariff Act of 1930. The Act of 1930 demonstrated the detrimental effects of excessive protectionism, which not only stifled global trade but exacerbated economic downturns. To elaborate the Smoot-Hawley Tariff Act of 1930 was implemented to protect American business, labor, from foreign competition[70]. Within the broader narrative of trade controls and their historical repercussions, it's crucial to highlight its significant impact on global trade dynamics and economic stability. Enacted amidst the Great Depression, the Smoot-Hawley Act dramatically increased prices of food and more items. Additionally, it raised import tariffs to unprecedented levels, reaching as high as 60 percent, as shown in Figure 7[71]. This surge in tariffs not only inflated the prices of imports but also effectively stifled world economic development and exacerbated the severity of the Depression, as other nations responded with more protectionist measures[72]. Some scholars even attribute a major role to the Smoot-Hawley Act in both instigating and prolonging the economic downturn of that era.

[69] (Review of *Protectionism: A New Protectionist Era* 2020)
[70](“Smoot-Hawley Tariff Act” 2019)
[71] (Gregory and Stuart 2013, 103)
[72] (Mitchener, Wandschneider, and O’Rourke 2021)

Figure 7: "Average U.S. Import Duties, 1900-Present" [73]



The detrimental effects of the protectionist measures affected the domestic economy and reverberated globally, hindering international trade and impeding the process of economic recovery. As a result of the Great Depression in 1929, trading nations began to reduce trade barriers progressively. This joint effort towards tariff reduction played a pivotal role in fostering globalization and expanding international competition in the postwar period of WWI.

The establishment of international arrangements focused on dismantling restrictive trade barriers paved the way for the creation of common markets, such as the European Union, and the formation of free trade agreements like NAFTA. Despite political opposition, the pursuit of free trade agreements has persisted, emphasizing the enduring significance of reducing trade barriers in promoting economic growth and global interconnectedness.

[73] (Gregory and Stuart 2013, 104)

Moreover, the advocacy for import substitution policies highlights the debate about long-term consequences of prioritizing protectionism over embracing free trade. Depicted in the experiences of countries like Pakistan, India, and Chile, these protectionist policies can impede progress and innovation, ultimately hindering economic development[74]. Thus, while protectionist measures may offer short-term benefits to specific industries, their long-term impacts on overall economic stability and global cooperation warrant careful consideration and evaluation.

The discovery that the effectiveness of sanctions wanes in the subsequent years due to adjustment periods, is a threat to the issuing country[75]. In the long run, the losses of business share to foreign competitors can result in the implementation of costly solutions to reduce global trade diversion. In the long term, the reduction in market share can translate to lower profits and thus higher costs for innovation to attract business back or to make up for the loss in profits. There are also additional consequences that occur when American firms' profit and reliance on their technology decreases, such as fewer R&D projects, which leads to less economic growth, higher unemployment, brain drain, and higher prices that decrease demand for US products on a global scale.

Foreign powers demonstrate an ability to act rationally and find various methods to mitigate the effects of sanctions issued by a large economic power, such as the United States. The behavior occurs because firms desire to remain profitable, and are strategically building themselves up in a manner that can reduce the impact of future sanctions. Over the long run, there runs a real risk that the United States' intermediate goods and services, such as technology will be excluded from foreign firms' product design due to the strengthening of foreign competitors and trade partnerships. In the future, the United States will have trouble accessing

[74] (Morrow and Carriere 1999)
[75] (Avetisyan, Misak G, and Lektzian. 2017)

these new markets, especially after cementing itself as the sanction issuer. If the market is attractive then sanctioned countries will resort to implementing their own rules; therefore, the United States will either have to negotiate or create a rival pathway.

Case Study on China

On October 7th, 2022, the United States Bureau of Industry and Security Department, under the leadership of President Joe Biden, implemented extreme export controls aimed at severely restricting China's access to high-end semiconductor technology, due to their vital role in advancing military capabilities and surveillance technologies. The Communist Party of China has proven itself to be a competitor in the manufacturing industry and cemented its place as the global economic superpower. The US government is threatened by China's economic rapid growth, but specifically, it is attempting to deter the communist nation from military advancements and the first quantum computer, a system that theoretically will bring the world into a new era of technological advances by enabling them to power Artificial intelligence. However, there is a real risk that these future technologies offer the potential to deliver new weapons and hazards, if not regulated and carefully focused on the hands of well-trained individuals[76]. The semiconductor industry operates as a complex, interconnected network spanning specialized regions and companies worldwide, epitomizing globalization's reach and vulnerability to regulatory interventions.

The global and political consequences are regarded as highly aggressive, to the point of being described as amounting, "to a declaration of economic war on China.[77]" To understand the severity of these controls, we must understand the United States' tactics to strengthen its influence over industries. In May of 2020, the Trump administration managed to legally heighten

[76] (Goode, Lauren. 2024)
[77] (Palmer, 2023)

its power by creating the foreign direct product rule (F.D.P.R.), which targets any foreign-made items utilizing U.S components or intellectual data, such as software or technology, as being capable of being under American export control. Using the F.D.P.R., Biden's administration managed to target semiconductor chips, essentially cutting off China from reaching new technological and economic heights.

Inevitably, the future consequences of the export control will affect the global market and the U.S.-China economic competition. Furthermore, the American sanctions restrict a massive global economic power with a large capital availability from accessing a vital resource for most electronics systems, thus it halts progress in industries that potentially better humanity in the long run. The sectors affected are critical for driving future economic progress, enabling scientific breakthroughs through simulation and data analysis, from drug discovery to climate modeling and beyond.

Therefore, after the October 7th sanction controls, China's leader declares the nation's intent to divest and decrease their reliance on foreign technology and increase their efforts for greater self-sufficiency in chip production, or in other words, their technological industries. The distancing of China's reliance on American products can be detrimental due to the potential for growth available within the Chinese economy with a gross domestic product (GDP) of around 17.7 trillion U.S. dollars as of 2023[78]. The unilateral nature of these export controls presents complex challenges for American industry, necessitating actions that may initially undermine market opportunities in China. Nowadays, technological advances are the backbone of economies and lead to growth in various firms, industries, and markets. If China succeeds at building up its advanced semiconductor chip infrastructure it will reduce the United States'

[78] ("China: GDP at Current Prices 1985-2029," n.d.)

monumental influence and power in the industry. Nations holding a strategic position in the semiconductor supply chain are confronted with a dilemma. They must balance the short-term advantages gained from leveraging their position for foreign policy purposes with the longer-term risks of diminishing customer dependence, which is fundamental to sustaining this advantage over time.

Section V | The Development of Rival Economies and Economic Blocs

Introduction

Due to the United States dominance as an economic superpower, there are rising concerns, from both internal and external forces, about its excessive influence and the ramifications of its unilateral actions on the globe. Over the past decades, foreign powers have displayed an initiative to embark on the creation of regional integration and economic blocs. These strategies are intended to enhance trade cooperation among member countries. Additionally, these economic powers exhibit a pattern of trade integration, followed by trade diversion. These forces are driven by the perception that the opportunity cost of shifting to a growing market, under their aligned rule rather than the existing US market, would outweigh the possibility of facing another set of sanctions or facing the current ones in place.

As more countries find themselves subjected to US sanctions, there is a growing inclination among them to forge alliances with non-targeted nations, who are seeking to mitigate the adverse effects of economic coercion. Additionally, these non-target nations lacked economic capabilities; however, continuous innovating and global interconnection have proven themselves to be fruitful. These developments in foreign powers represent a significant departure from the past, where smaller nations lacked the agency to resist US influence. As a consequence, it is possible that in the near future, these nations have the opportunity to challenge the dominance of the United States and assert their sovereignty in global trade affairs. While economic integration offers substantial advantages, careful consideration of its potential drawbacks is essential to ensure balanced and sustainable regional development.

Economic Realignment

The Rise of New Players in the Global Market

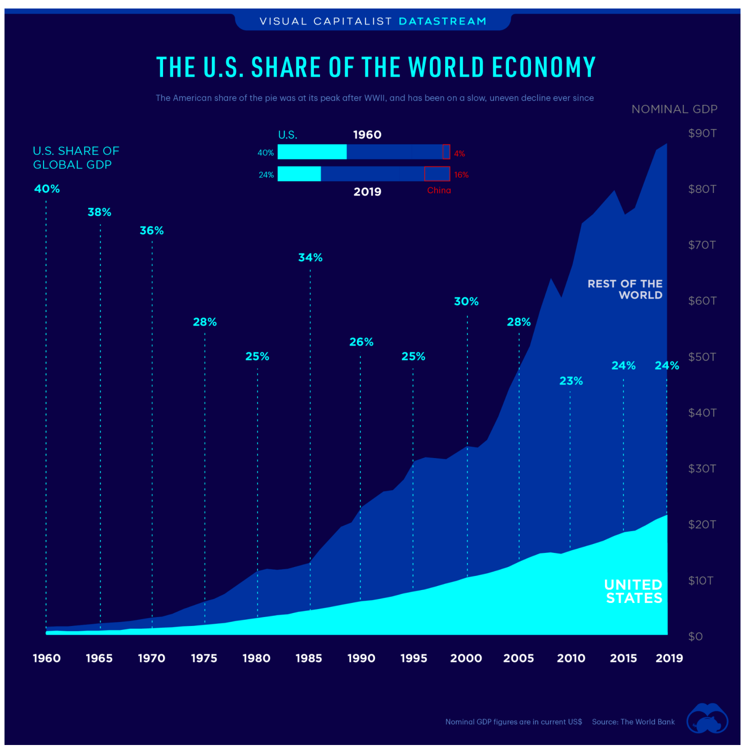
Over the last two decades, the global market has undergone significant evolution with the total export value of global goods reaching nearly $25 trillion in 2022[79]. In addition, globalization and advancements in technology have fueled a 300% increase in global trade, transforming the dynamics of the market[80]. Nevertheless, the United States has continued to hold a dominant position as the world's largest economy, hence wielding significant influence over global economic affairs.

Consequently, the progress of foreign nations and markets further intensified the market power that the United States could potentially lose over the following decades. However, historical trends reveal a gradual erosion of America's share of the global economic pie. In Figure 8, it illustrates this trend, showing how America's nominal GDP in current U.S. dollars has nearly halved. In the past, the U.S. accounted for approximately 40% of the global economy, but in current day, they account for only 24%[81]. The evolution of economic sanctions over time has transformed them into a double-edged sword, negatively impacting the sanctioning and target nation. Historically, these measures have been employed to isolate communities and coerce states

[79] (Du,Truman 2023)
[80] Ibid.
[81] (Bhutada, Govind. 2021)

into compliance to the issuing nation. However, the application of these coercive trade tactics has increasingly strained relations between the United States and the international community. The pervasive use of economic sanctions has sparked resentment among nations and decreased the effectiveness of the tools due to the consequences on socio-economic and humanitarian issues. Furthermore, China's emergence as the global leader in manufacturing is integral to the analysis on the future dynamics of the international market. To further elaborate, China focuses heavily on the manufacturing and exports of phones, computers, and integrated circuits. In addition, research discovers that the U.S. 's share of specific global market sectors loses to foreign competitors. Based on data, the regions that dominate the global trade market is Asia with a share of over 36% of total exports, along with Europe's share of 34%[82].

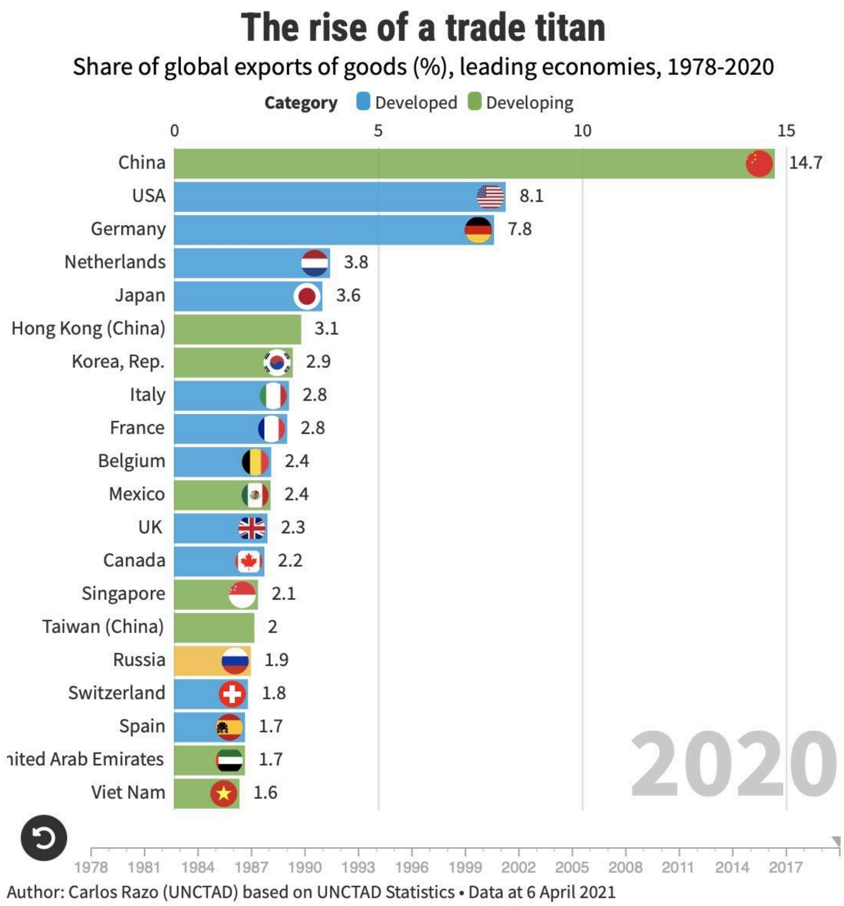
Figure 8: The U.S. Share of the World Economy [83]



[82] (Du,Truman 2023)
[83] Ibid.

As previously mentioned, the U.S. economy has a smaller portion of the global contribution in the international market even though their national GDP exhibits continuous growth. Meanwhile, there has been tremendous growth and ascent into power of developing markets, particularly China, thus reshaping the global economic landscape, along with other emerging economies like South Korea, Brazil, and India. The People's Republic of China has risen to enjoy the largest percentage share of the global export market as portrayed in Figure 9, as of 2020. In addition, China's trade relations with neighboring countries like Japan and South Korea remain robust, contributing to its status as the largest exporter of goods in the world since 2009. Despite the emergence of protectionist trade policies and signs of deglobalization, there are various efforts from nations to dominate their respective areas of commerce. These paritucalr nations are focused on increasing their comparative advantage by advancing their techniques, labor power, and technology. Nevertheless, the future of the U.S. economy remains clouded in mystery as its future will be determined by its ability to navigate challenges and recover amidst a changing global order.

Figure 9: The Rise of a Trade Titan[84]



<u>Promoting Economic Unity</u>

The Role of Regional Integration

Economic integration, also known as regional integration, is an arrangement among nations that aims at reducing or eliminating trade barriers and to coordinate monetary and fiscal policies[85]. The primary goal of economic integration is to enhance economic efficiency, reduce costs for both producers and consumers, while also promoting increased trade and economic

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84 (Nicita, Alessandro, and Razo. 2021)
85 (Burges 2023)

activity between member countries. Consequently, this process often leads to improved availability and a wider variety of goods and services, ultimately benefiting consumers through increased choices and potentially lower prices.

Moreover, this economic strategy is an effort to foster ties and financial growth for regions. A major issue of region integration is discovering and developing goals that serve the interests of all member nations. Ultimately, a union of states will recognize that these nations face mutual barriers, often due to geographic constraints, inadequate infrastructure, and inefficient policies. These obstacles act as significant obstacles to economic growth, particularly for developing nations. Therefore, the collective will attempt to foster increased economic activity, job creation, and political cohesion. Typically, these economies experience a reduction in trade barriers such as tariffs and quotas, which facilitates the movement of goods and services across borders[86]. In addition, this form of integration can generate employment opportunities by promoting market expansion, encouraging technology sharing, and facilitating cross-border investment[87].

By integrating themselves into a union, these players open up various markets for one another. These economic players will be able to provide goods, services, and factors to facilitate a smooth flow of trade, capital, energy, people, and innovations across borders. The potential negative consequences of brain drain are reduced as there is an incentive to collaborate. Moreover, the alliance can transcend costly divisions to further cement their place as important trade partners. This form of integration is achieved through cooperation among countries in critical areas such as trade, investment, domestic regulations, transport, ICT, energy

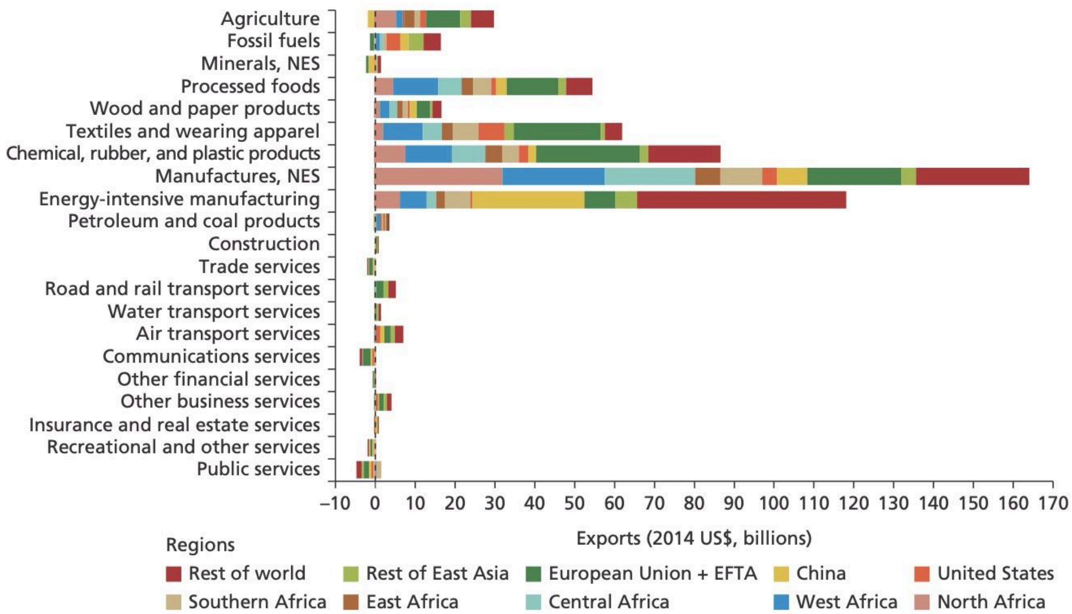
[86] Ibid.
[87] (Mussa 2000)

infrastructure, macroeconomic policies, financial regulations, and the provision of common public goods like natural resources management, security, and education[88].

As regional economies become more interconnected, political cooperation among participating nations often strengthens, fostering peaceful conflict resolution and contributing to overall stability in the region. Due to the gains of economic blocs, this strategy has become integral to the future advancement of developing countries. For instance, the African Continental Free Trade Area (AfCFTA) emerged because of the prospective benefits of regional integration and trade cooperation across Africa. With projections indicating considerable gains in income and reductions in poverty levels, AfCFTA represents an opportunity for African countries to stimulate economic growth, the reduction of poverty, and economic integration into the international market. Recent studies by the World Bank have forecasted significant economic benefits, such as the programs lifting nearly 30 million Africans out of extreme poverty and boosting the incomes of nearly 68 million others living on less than $5.50 a day.[89] Another important figure that appeared is the potential increase of Africa's income and exports in the global trade market. Specifically, it is forecasted that the joint venture is expected to increase Africa's income by $450 billion by 2035, with an additional $76 billion added to the income of the rest of the world, as viewed in Figure 10[90].

[88] (The World Bank 2019)
[89] (Maliszewska et al. 2020)
[90] Ibid.

Figure 10: Total exports from Africa, deviation from baseline, 2035[91]



Source: Estimates, World Bank study team.

Note: EFTA = European Free Trade Association; NES = not elsewhere specified.

Nevertheless, it is essential to acknowledge that there are challenges in fully realizing the potential benefits of regional integration. A major concern of the strategy includes differing national priorities, complex impact assessment, the need for complementary policies, and ensuring inclusivity and risk management[92]. For instance, we observe a deviation from unified sanctions enforcement towards Russia in the European Union with customs union members, such as Turkey. The situation of Turkey potentially being a transit point for commodities bound for Russia highlights the challenge of achieving consensus on sanctions and trade policies among diverse countries[93]. This issue highlights the need for enhanced international cooperation to strengthen sanctions enforcement and prevent unintended re-exportation of goods to sanctioned

[91] (Maliszewska et al. 2020)

[92] Ibid.

[93] (Wagner, Rene. 2023)

countries. By re-exporting goods to sanctioned countries, it can exacerbate the political dissent between nations, as there is not a significant decrease in living standards for the target country.

Furthermore, AfCFTA members display issues with critical issues such as a lack of access to an effective and efficient labor force, poor infrastructure, and concerns regarding conflict, corruption, and instability. These factors parallel issues present among many economic blocs, and depict significant obstacles to long-term capital investments and economic developments[94].

Another significant concern is the diversion of trade, where trade patterns shift from non-member countries to member countries. This rearrangement potentially causes economic disruptions for certain states. Additionally, participation in economic unions may demand a loss of national sovereignty as members are required to obey externally determined rules and policies set by supranational bodies. Nevertheless, there exists a number of alliances including the European Union (EU), Association of Southeast Asian Nations (ASEAN), Southern Common Market (Mercosur), and the African Continental Free Trade Area (AfCFTA). These agreements not only promote regional integration and facilitate trade flows but also provide alternative markets for member countries, potentially diverting trade away from the United States. However, these alternative markets have Western competition such as the United States-Mexico-Canada Agreement (USCMA).

[94] (KPMG. 2014)

Global Economic Blocs

Driving Forces and Implications for the International Market

Despite the number of challenges, economists and policymakers often view economic integration as a positive force towards economic development and international cooperation. An interesting aspect of this economic strategy is the assessment done by institutions to figure out the degree of economic integration required. These institutions use various indicators such as trade volumes, capital flows, and labor migration to gauge its impact and effectiveness[95]. A significant example of economic integration is the European Union (EU), which was established in 1993 and currently comprises 27 member states, with 20 using a shared currency, the euro[96]. The EU serves as a prominent model of regional economic integration, illustrating both the benefits and complexities associated with deepening economic ties among diverse nations. As of 2022, they are the top trading partners for 80 countries and together account for 16% of world imports and exports[97]. Interestingly, the European Union lacks imports of fuels from developing countries. Furthermore, they vocalize their belief in supporting the dismantling of investment barriers and the strengthening of investment protections.

Sanctions fall into investment barriers because of their highly restrictive investment and trade policies against their targets. Furthermore, the United States' political influence allows them to sway their partners from trading with sanctioned countries because of the fear of being America's next target. Shifting focus towards the aspects of an EU partnership, there exists similar structures to those of the U.S. such as average applied tariffs for goods imported into the EU[98]. These tariffs are low and there is an observable large quantity of imports entering the EU at

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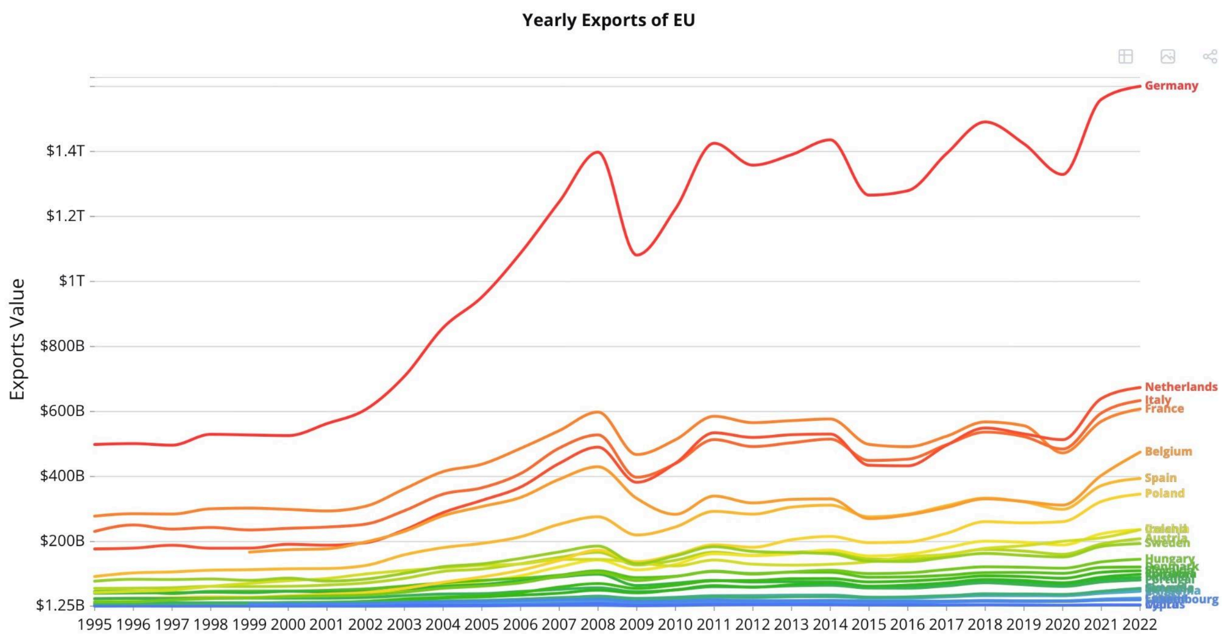
[95] (Mussa 2000)
[96] (Zaken 2022) & (Review of *Using the Euro* n.d.)
[97] ("EU Position in World Trade" 2023)
[98] Ibid.

zero or reduced tariffs. Similarly to the US, they also do not close markets, instead they retrain their trading partners. However, the US more frequently resorts to the closing off of trade pathways to Western markets to specific nations.

Figure 11: Year Exports of the European Union (EU) [99]



Moreover, the numerous economies joining economic blocs are a threat to American soil. The Association of Southeast Asian Nations (ASEAN) is composed of ten member states and has emerged as a significant regional collective promoting economic and security cooperation in Southeast Asia. The international organization is made up of Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam[100]. With a total population of 662 million people and a combined gross domestic product (GDP) of $3.2 trillion, ASEAN has played a central role in Asian economic integration, signing six free trade deals with other economies in the region and joining negotiations to form the world's largest free

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[99] ("EU | OEC," n.d.)
[100] ("Association of Southeast Asian Nations (ASEAN)," n.d.).

trade agreement[101]. The states found in the ASEAN collective range from highly developed economies like Singapore to less developed ones like Myanmar. The divergence in economic standing presents both opportunities and challenges for economic integration within the bloc.

Given ASEAN's growing economic influence and its efforts to deepen regional economic cooperation, particularly through initiatives like the Regional Comprehensive Economic Partnership (RCEP), potentially poses a challenge to the United States' dominance in global trade. The United States remains ASEAN's fourth-largest trading partner in terms of goods, with total trade in goods and services estimated at $520.3 billion in 2022. Nonetheless, they must navigate these shifting trade dynamics to maintain its competitive edge in the region[102].

Furthermore, ASEAN's participation in the Regional Comprehensive Economic Partnership (RCEP), signed in November 2020, further underscores its role in reshaping trade dynamics in the Asia-Pacific region. A significant shortcoming of the RCEP is that it does not reduce the cost of tariffs; however, it covers 30% of the world's population and promotes economic integration between Northeast and Southeast Asia. The partnership's impact remains limited due to issues such as a lack of strategic vision, diverging priorities among member states, and weak leadership[103]. Nevertheless, the ASEAN Free Trade Area (AFTA), established in 1992, has made significant strides toward economic integration. AFTA reduces intra-ASEAN tariffs effectively to zero and prioritizes key sectors for integration, such as electronics, automotive, and textiles.

Established in 1991 with the Treaty of Asunción, the Southern Common Market (MERCOSUR), known by its Spanish initials, is a regional bloc initially established to facilitate

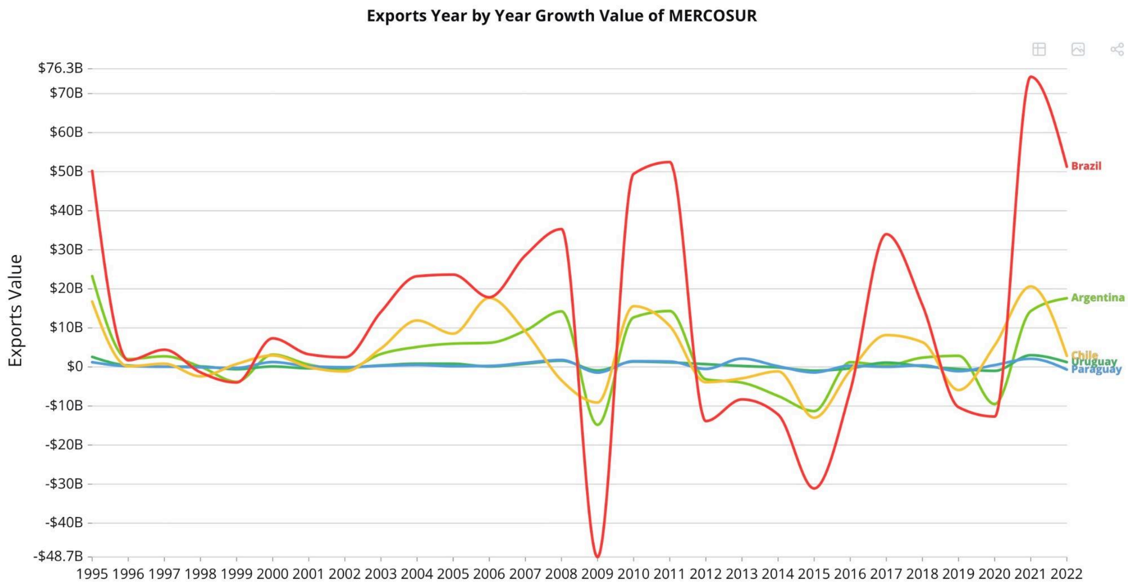
[101] (Hong et al. 2023)
[102] ("Association of Southeast Asian Nations (ASEAN)," n.d.)
[103] Ibid.

the free movement of goods, services, and factors of production among its members[104]. In the present day, the alliance comprises Argentina, Brazil, Paraguay, and Uruguay as full members, with Bolivia gaining full membership status in 2023. At one point, the country of Venezuela joined in 2012, however, their status was revoked in 2016 because of the repetitive violation of human rights from those in power.

Moreover, MERCOSUR has signed numerous agreements with nations and organizations worldwide, encompassing commercial, political, and cooperation realms. In 2022, the combined GDP of the founding members exceeded $2.6 trillion, positioning MERCOSUR as one of the world's largest economic blocs[105]. Its economic significance is underscored by its status as the world's fifth-largest economy, with substantial renewable and non-renewable energy resources. MERCOSUR has witnessed rapid growth in internal trade, with significant increases in trade volume over the years. The economic bloc's potential for economic growth and development is vast, and yet to be fully realized. Significantly, associate members, including Chile, Colombia, Ecuador, Guyana, Peru, and Suriname, benefit from tariff reductions when trading with full members but lack full voting rights or unrestricted market access[106].

[104] (Rampe et al. 2023)
[105] Ibid.
[106] Ibid.

Figure 12: Exports Year by Year Growth Value of MERCOSUR[107]



Conclusion

As nations reassess their trade relationships and seek alternatives to US dominance, the United States finds itself confronting the consequences of its manipulative tactics. The emergence of multiple economic blocs and non-western economic superpowers signals a paradigm shift in international trade dynamics, with the potential to reshape the global economic landscape. Alongside, the removal of the United States' hegemonic influence, there is a growth in prospective paths for economic cooperation and collaboration, offering opportunities for mutual prosperity and development outside the pressures of American control.

Under a global interconnected market, we find that to compete and reduce influence from superpowers like the United States, it is in the best interests of developing countries to assimilate and work under a collective. In particular, it is of interest for economic superpowers to collaborate under a collective to help develop their partners, themselves, and ultimately the

[107] (“MERCOSUR Exports, Imports, and Trade Partners,” n.d.)

global market. Additionally, this form of integration of economies can provide a method of protectionism that secures economic safety and extends past typical trade controls.

Conclusion | Assessing the Impacts of Economic Sanctions on Global Trade

The economic repercussions of sanctions extend beyond the intended targets, with effects that impact the entire interconnected global economy. Economic sanctions wield significant influence on targeted nations, manifesting in various adverse impacts ranging from economic contraction and currency depreciation to disrupted trade dynamics and social hardships. Smaller and less-developed economies often face acute challenges due to limited resources and infrastructure, while larger economies experience broader repercussions that reverberate through global markets. The consequences of sanctions extend beyond economic realms, affecting social welfare and exacerbating inequalities within targeted populations such as Cuba and Venezuela.

The implementation of these trade adjustments comes at a cost, potentially escalating tensions between nations and impacting diplomatic relationships. International sanctions have adverse effects on both the sending and target country's economies, highlighting the complexities and interconnectedness of the global economic landscape. It is crucial to recognize that the costs of sanctions are not evenly distributed and may disproportionately affect specific industries, regions, or communities within the sanctioning economy and target nations. As a result of constant manipulation and government interference in free trade policies, the act of imposing sanctions inevitably creates unintended consequences including fostering strong trade ties with non-targeted countries, as they step in to fill the void left by sanctioned nations. This trend will further reshape global trade dynamics, creating long-term structural changes in foreign nations' economies and industries. Moving forward, it is essential for policymakers and international stakeholders to carefully consider the broader implications of sanctions, taking into account their potential impacts on trade relationships, global supply chains, and economic stability. An awareness must be fostered about the impact of rival economies and their resiliency determination for economic expansion. There is a clear pattern of growth in international ties with foreign investments from foreign nations. In future discussions about the topic of trade diversion, there must be a more rounded understanding of the challenges that third-party countries endure during eras of trade controls. Specifically, there needs to be more research conducted on the effects of sanctions on third-party countries. In addition, foreign economic goals of governments should be taken into account to display whether the United States' influence and trade partnership is frowned upon or is taking on a new form with a decreased amount of reliance. Nonetheless, balancing both geopolitical objectives and economic stability requires nuanced approaches to international diplomacy and trade policy, aiming for outcomes that minimize unintended consequences and promote sustainable economic development.

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