



## A STUDY ON IMPACT OF SANCTIONS ON ECONOMIC CRIME AND DEVELOPMENT

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### ABSTRACT

Economic sanctions and their multifarious impacts on economic crime such as fraud, corruption, and money laundering have been discussed in the research paper. These all are examples of offenses posing a serious threat to the stability and development of countries. Economic crime is transnational in nature, and the practice of sanctions constitutes a tool of foreign policy directed at deterring those activities. The study looks into various types of sanctions, their financial sanctions, trade sanctions, and diplomatic sanctions, how they impact on economies by deterring economic crime, addressing their unintended consequences on economic development and social structures: mixed methods were used for research, that is quantitative and qualitative approaches, which include literature review and case studies, to assess the economic impacts of sanctions imposed on target countries but also on the broad international context. The argument then follows that, in their making, sanctions lead to complex outcomes that not seldom increase inequality and poverty while undermining national development through lack of market and investment access. To date, and, considering the available literature, what this paper aims to do is to offer gaps filled by contributions relating the study of sanctions and economic crimes and give opportunities for policymakers to increase the effectiveness of sanctions as well. Lastly, this research indicates a need to put the understanding of the influencing factors into the extent of the impact that these sanctions could transpose within their effects on economic behavior and the developmental path of a nation.

**KEYWORDS:** Economic crime, Development, Rational theory, Economic policy, International organisation

### INTRODUCTION

In recent times, there is a development of economic crimes which threatens the development and stability of a nation. Economic crime includes fraud, corruption, money laundering and tax evasion and also includes the dimensions of intellectual property crimes, environmental crimes, drug trafficking, terrorism and human trafficking. All of these crimes could severely impact the country's financial integrity and social fabric. Economic crimes usually have a transnational dimension where the criminals ship their funds to foreign countries to avoid freezing or confiscation orders. Sanctioning on these economic crimes

is the important tool of the government and international agencies in addressing such impact. These act as instruments of foreign policy or economic coercion. This research paper aims to establish the multiple impact of sanctions on economic crime and how they affect a country. The impositions of sanctions can lead to rather complex and oftentimes unintended consequences for economic crime, both within the targeted country and throughout the world. Through investigating the effects between penalty measures and economic behaviour, this research explores how sanctions deters criminal activity and matters regarding the broad economic outcomes. The research has been focused on the penalties



that a nation may impose as a deterrence to economic crime. This study will assess the impact of such a sanction for the development trajectory of a nation. It will consider the special effect that different kinds of sanctions, whether they are financial taxes, trade barriers, or diplomatic measures have on curbing economic crimes. In this broader scope, this research will assess the impact of these sanctions on economic growth, investment, and welfare of the society as a whole. It intends to put these aspects under this narrower scope for a complete understanding of the relationship between sanctions and economic crime which ultimately results in development. This research is very much relevant to existing literature where mostly the economic and social aspects of sanction have been dealt with but not concentrated much in their findings impact on economic crime. The previous studies that are examined are based on the effectiveness of sanctions within a political context. However, it does not explain how such sanctions directly impact the practice of economic crime and the result in terms of national development. This research aims to fill the gap thus providing additional insight into the wider discourse on economic policy, governance and international relations.

### RESEARCH QUESTIONS

1. Which type of sanctions are used to curtail economic crimes?
2. How effective are these sanctions in curbing economic crime in nations?
3. How do sanctions affect a country's economic development?
4. What are the unintended effects of sanctions that worsen or alleviate economic crime?

### OBJECTIVES

- Examine the nature and kinds of sanctions that are applied to economic crimes.

- Explore the effectiveness of all such sanctions in terms of reducing the economic crime incidence.
- Explore how national economic development and social structures get affected by the sanctions.
- Examine what recommendations policymakers should consider to tighten the tools of sanctions against economic offence cases.

### METHODOLOGY

The methodology for this research will comprise a mixed methods approach, combining qualities and quantitative analyses. This will involve a review of existing literature on sanctions and economic crime, as well as case studies of specific countries that have implemented sanctions. Additionally, data analysis will be conducted using economic indicators to assess the impact of sanctions on economic development.

### REVIEW OF LITERATURE

The regulation of the Financial Action Task Force (FATF) in the international law provides an insight about the interaction between countries and how they respond to FATF regulatory standards and how the standards intersect with international law. The role of FATF places a significant role in the understanding of the global economic system and the implication it has on the diplomatic relationship between the countries and international law.<sup>1</sup> Economic sanctions are not considered effective because the efficiency and the standard remains unstable. But it is dependent on the economic tool that is applied. The issue with the economic sanction is that the compliance regulation is weak which undermines the credibility of the sanction and its efficiency.<sup>2</sup> The anti money laundering regulation in Singapore is not effective, they use deterrent based thinking against the wrongdoers. This theory lacks the enforcement pyramid and also the economic

<sup>1</sup> Legitimacy of power exercised by FATF under international law

<sup>2</sup> What makes an economic sanction effective?



factors plays a role in influencing the regulating agency in being lenient towards the wrongdoers.<sup>3</sup> The effectiveness of the UK's economic sanction is more than that of US economic sanction in reducing economic crimes. From the sample of 68 countries, it is found that UK's sanctions have statistically and economically significant influence on economic growth.<sup>4</sup> The sanctions can be imposed either unilaterally (autonomously by one state without support from another state) or multilaterally (two or more states cooperating with each other and sanctioning against a third state).<sup>5</sup> The economic theory of the individual which is also known as the rational actor paradigm plays a more role in determining the crime and its punishment for economic crimes and new technology offences such as computer hacking and viruses. The United States Sentencing Commission used this theory to determine the individual behaviour which assumes that white collar criminals are not different from the most law abiding citizens.<sup>6</sup>

### ECONOMIC SANCTIONS

Economic sanctions can be defined as financial and trade related penalties, which are imposed by one nation over another nation, business or individuals. The whole purpose of the economic sanction is to put pressure on the particular behaviour of the said nation, business, or individuals. In order to manage their domestic and international relations, self-governing states employ sanctions to influence political, social, economic and military change in other nations, organisations and people. Typically, have a significant impact on reducing the financial, technological and military resources of the target entity. The important elements that affect the impact of the sanction or independence, power, and authority of the sanctioning and sanctioned bodies. Functions can be applied for as long as the party

imposing them things appropriately and are applied case by case. Usually sanctions are only removed when the targeted party agrees to the terms and conditions of the sanctioning party and is willing to fulfil the requirements. If they refuse to comply, they may face more serious penalties. A fundamental element of international relations where sanctions are also used to crack down on financial crimes, including money, laundering, and terrorist financing, as well as the people organisations and even nations that commit them.

### LINK BETWEEN SANCTION AND ECONOMIC CRIME

The link between the sanction and the economic crime can be understood by various theoretical perspectives which deal with the relationship between potential offenders and the victim and the law enforcement to curtail these offences.

### SUPPLY AND DEMAND MODEL IN CRIME

The theory analysis, the relationship between the potential victims and the offenders. The theory shows that the prospective criminals are more likely to attack relatively more vulnerable targets and that potential victims take more self-protective actions when they receive a higher risk of victimisation. In the study of interaction between potential victims and offenders, the market perspective of several advantages which includes it brings together. Various subjects covered by criminal opportunity theory into a cohesive hole. It is written in a way that makes it easy to borrow from economic theory and it produces fresh and significant insights for criminology theory and policy evaluation. One realisation is that police statics can change the nature of opportunities which in turn can lead to more crime, for instance, successful rehabilitation or in incapacitation programmes may lower the number of criminals in the community and consequently the perceived risk of victimisation. This leads people to lessen their efforts at self defence, which would make them more

<sup>3</sup> The art of deterrence: Singapore's anti-money laundering regimes

<sup>4</sup> Economic sanctions reconsidered. Peterson Institute for International Economics

<sup>5</sup> Multilateral and Unilateral Sanctions: Compliance and Challenges

<sup>6</sup> The Economics of Crime and Punishment: Implications for Sentencing of Economic Crimes and New Technology Offences



appealing targets than before and encourages more crime.<sup>7</sup>

### **RATIONAL CHOICE OF THEORY**

The rational choice theory states that people commit crimes after carefully considering the advantages and disadvantages of doing so with a logical mindset. People are more likely to commit a crime if the perceived benefit of doing so outweighs the perceived cost. According to rational choice theory, People choose the course of action that best suits their personal preference. The theory has been used to stimulate decision making in a variety of fields, including sociology and economics.<sup>8</sup>

### **ECONOMIC IMPACT OF SANCTION**

The effect of sanctions on economic crimes and on economic development is pluralistic, affecting not just the country against which the sanctions are imposed but also the whole international setting. Sanctions are actually intended to change the behavior of nations and entities who have acted against international norms; and even while their intention is to deter such acts such as money laundering and human rights abuse, the side effects are usually even worse dependent on economic conclusive results and further increase causing crime. The economic relevance of sanctions strikes highly targeted countries. The empirical studies show that sanctions-hit countries significantly suffer GDP decline and according to the studies, UN sanctions can lower GDP growth by 2 percentage points every year and around 1 percentage point with respect to U.S. sanctions. The economic shrinkage in private consumption, investment and trade translates into lower figures. Sanctions, as relative population, do focus on the so-called vulnerable section of the population and hence worsen poverty levels. The evidence from research shows that with sanctions, the above poverty gap would widen by about 28 percent, where the effects vary along a gradient for

worse contingent conditions for the people especially among those just above or at the poverty line. The increasing economic strains result in increased inequalities as the concentration of wealth is conferred among those less affected by the sanctions. Social programs would even choose to deprive these ones, due to the attention and other resources directed at safeguarding core needs of the larger parts of the population. The sanctions come in ways that prevent basic needs from being met such as health, food, and education. A panoply of existing conditions creates humanitarian crises in many areas and even more so for children and marginalized groups. Failing unmet basic needs means degenerating social order and increasing incidences of crime.

### **IMPACT ON ECONOMIC DEVELOPMENT**

Sanctions can generally slow down economic developments in countries due to the disruption in their access to international markets, investments, and technology. Restrictions from sanctions may inhibit sanctioned countries internal access to import goods or export their products across borders. Such prohibitions could crumple entire industries in the economy, be it those that critically rely on access to the global supply chains or foreign markets. Sanctions may dissuade foreign direct investments (FDI) out of fear from penalties, as well as the blockage of entry into other international markets. Without FDI, stagnant situations in technology, infrastructure, and industrial development may be experienced in the country. Often, sanctions restrict advanced technology and innovation importation. Countries relying on technology transfer or access to global research and development can suffer significant delays in major global industries, including healthcare, energy, and communications.

The contraction here is really a projection of a major justification of sanctions; less resources under sanctions are usually blocked for economic development, and in the long run, it is out of this contraction. There will be local

<sup>7</sup> The Demand and Supply of Criminal Opportunities

<sup>8</sup> Beaudry-Cyr, M. (2015). Rational Choice Theory. *The Encyclopedia of Crime and Punishment*, 1-3



production that would have produced for the market demand by importation and thus shortages and inflation. Poor prices further draw in most of a society into poverty and inequality. When sanctions have managed to close places of jobs, there's an increased rate of unemployment. Again, even in this sanctioned country, there will be great job loss in sectors such as manufacturing, agriculture, and mining. With sanctions, the prospects of goods and services reduce. This means poorer living standards for the health and education systems and others. Such governments, which are not able to cope with the sanctions, end up cutting vital public spending that worsens the quality of life of its people.

### CRITICAL GAPS AND CHALLENGES

The sanction regimes we currently have are vastly different in terms of geographical context, economic environment, and technological background than the ones in the past. This makes the historical comparisons very tenuous. This is a limitation in measuring effectiveness. The definitions of 'effectiveness,' 'efficiency,' and 'impact' are ambiguous in literature. There is a dire need for semantic precision in order to help improve discourse. Some analyses have concentrated on the quick good economic effects of sanctions but mostly leave aside their political and strategic impacts in the long run. The interaction of sanctions and a wider conflict is still poorly exploited. Finding out when sanctions actually increase the problem they are meant to correct, for example, strengthening authoritarian regimes or worsening social inequality, has hardly been anything to study.

### NEW APPROACHES FOR FUTURE EVALUATION

From analysing various literature reviews, it is found that there is a need to create unique standards that are drawn with respect to the goals, targets, and geopolitical context of each sanctions regime. For better incorporation, the qualitative aspect must be sufficiently extensive, which may contribute in embedding the perceptions regarding outcome of the

sanctions on a political, social, and ethical level in the evaluation process. Impact studies need to be separated from examining by sanctions achieved direct objectives and what collateral effects may result. Combine case studies with econometric analysis so as to develop a richer understanding of the complexities associated with sanctions across cases.

### CONCLUSION

Economic crimes like fraud, which cover forms of corruption, money laundering, tax evasion, and many other forms of economic malfeasance, including crimes against intellectual property, environmental crime, drug trafficking and terrorism, human trafficking, continue to be a clear and present danger to the development and stability of the nations. The imposition of sanctions is thus one of the appropriate tools for the governments and international agencies where domestic and international laws against the effects of economic crimes are invoked instruments of means of foreign policy or economic coercion. This research shows that sanctions on economic crimes take complex forms, often leading to indirect effects penetrating beyond the targeted country to the global economy. Therefore, it calls for unique standards and mixed methods to discuss measuring effectiveness with sanctions on economic crimes, with consideration of their effect on economic development, social lives, and international relations. The research emphasizes semantic precision in defining the effectiveness, efficiency, and impact of sanctions as well as suggests integrating qualitative aspects and case studies into a complete assessment of outcomes in sanctions on political, social, and ethical levels. Conclusion here recommends new ways of evaluating the impact of sanctions in order to obtain a more thorough understanding of the complications that sanctions represent and their effects across various cases.



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