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The Case for a Total Economic Embargo of Failed States

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Abstract

Leif Wenar (2008, 2016) argues that autocratic governments have no property rights over their natural resources and the international community should therefore stop trading natural resources with autocracies. I will argue that Wenar has failed to consider the internal dynamics of resource-exporting autocracies and the complex incentives of the international community. Moreover, Wenar has neglected to address the violation of property rights in other sectors. I propose a total economic embargo on failed states as an alternative to Wenar's proposal. Ending conflicts in such countries would align incentives in the international community, generating broad consensus on action and allowing property rights to be reliably improved in all sectors.

Keywords: Autocracies; Oil; Embargo; Terrorism; Conflicts.

Leif Wenar (2008, 2016) argues that autocratic governments have no property rights over their natural resources and the international community should therefore stop trading natural resources with autocracies. I shall argue that Wenar's ban should only target failed states and be expanded to cover all economic assets. First, I will outline Wenar's principles of property rights, which result from 'popular sovereignty' over natural resources and the self-interests of consumers. Second, I will analyse Wenar's proposal for an import ban on natural resources from autocratic states and a taxation plan called the 'Clean Hands Fund'. I will argue that Wenar's proposal is unfeasible and inconsistent. Finally, I will outline my proposal for imposing a total economic embargo on failed states as an alternative to Wenar's position.

1. Wenar's Principles

The first principle underlying Wenar's position is a principle of property rights in the form of popular sovereignty. His principle states that the resources of a country belong to its people (Wenar 2008: 2). Autocracies grossly violate this principle as their people have no influence over the sale of the country's resources and seldom enjoy the benefits of the transactions (Wenar 2008: 4). Thus, natural resources sold by autocracies are stolen resources even if

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they are sold via a legally sound entity such as an oil company. In the same manner that an individual will be held liable to the original owner of a stolen good if they knowingly purchased that good from a legal store, we cannot legally recognise stolen resource simply by the legitimacy or illegitimacy of the corporations involved (Wenar 2008: 16).

Wenar's second principle is the principle of self-interest. Wenar argues that any benefits consumers derive from the import of autocratic natural resources will be outweighed by negative 'spillovers' (Wenar 2008: 30). Resource windfalls have empowered autocracies such as Russia and Iran, enabling them to undermine the interests of countries purchasing their resources. In addition, autocratic resource-exporters are extremely unstable (Wenar 2008: 3). Of the enormous wealth that natural resources generate, only a small portion of that wealth is sufficient to fund the security forces necessary for safeguarding resource harvest and transport (Wenar 2008: 4). Thus, the ruling elite has a minimal need to tax the population and provide public services, leaving a large portion of the windfall available for private consumption. This generates cycles of conflicts as the magnitude of the resource wealth incentivises others to seize the resources by force (Wenar 2008: 7). International terrorist groups like ISIS can exploit instability and injustice to gain territories and recruits. The instability generated harms consumer interests, and it is therefore not in the self-interest of consumers to support trade which promotes such instability.

2. Wenar's Solution

Wenar uses the Freedom House classification to determine whether a regime can "legitimately sell resources from that country" (Wenar 2008: 25). Any regime classified as 'unfree' will be subject to an import ban. These regimes do not meet the minimal standards of accountability as their people have no basic rights concerning the use of their resources, such as the right to information and the right to protest (Wenar 2008: 20). Wenar further proposes to tax goods sold by countries that defy the ban. The tax will extract the exact value of the stolen resources imported by that country. Revenues generated will be used to create a fund known as 'Clean Hands Trust' which will be transferred to the resource-exporters if they transition to democracy (Wenar 2008: 28). Wenar believes the fund and the ban would, in conjunction, incentivise the populace to replace their unaccountable governments (Wenar 2008: 29-31).

Wenar's solution suffers from two problems. First, the ban and taxation plan are unfeasible as they require cooperation from the majority of leading economies. Without cooperation countries defying the ban could simply divert their exports to an alternative market. Such cooperation is unlikely as most countries have no incentive to impose a ban on all autocracies following Wenar's plan. Autocracies control more than 60% of the world's oil reserves (OPEC 2017). Banning their supply would cause a surge in oil prices. This would lead to severe global inflation, especially in middle and lower-middle income countries where oil constitutes 15-20% of merchandise imports (World Bank 2017). By contrast, negative 'spillovers' of autocratic natural resources have limited global impacts. For example, Russian Revanchism mainly harmed NATO and post-Soviet countries (Mearsheimer 2014: 84-89) while the Iranian nuclear program primarily targets American allies in the Middle East (Knepper 2008: 456-457). Therefore, countries that suffer no 'spillovers' from Iran and Russia would have no incentive to impose Wenar's ban which targets all autocracies. Similarly, although the instability and injustice in many autocracies have created terrorism, it does not justify Wenar's ban which targets many autocracies that have not contributed to international terrorism. Data from 159 countries suggests that autocracies contribute as equivalently to international terrorism as democracies (Gaibulloev et. al. 2017: 491).

Only energy-independent countries that suffer significantly from negative ‘spillovers’ from autocracies are likely candidates to benefit from and adopt Wenar’s proposal. However, the only countries which seem to satisfy this classification are countries such as the United States and Norway, due to their extensive carbon deposits and exposure to geopolitical threats and terrorisms generated by instabilities in autocratic resource-exporters. However, these countries are isolated internationally as they only consist of around 20% of the world’s total merchandise imports (WTO 2018). This means that the taxation plan would be ineffective as countries defying the ban can divert trade.

Secondly, Wenar’s ban is inconsistent with his principles. The ban only targets natural resources ignoring other economic assets such as private corporations which can be stolen and traded externally. Consumers could be equally complicit if the property rights of these stolen assets were recognised. Wenar may argue that economic assets that are not resources are often private properties that warrant no sanctions. However, analysis of 165 countries suggests that autocracies require large foreign reserves so that luxury goods can be imported to maintain the loyalty of the elites (Vadlamannati and Soysa 2018: 4). Thus, if the sanctions only target natural resources, autocracies would be incentivised to appropriate the private export sectors to substitute for the foreign reserves lost due to the natural resource ban, in order to maintain regime stability. For example, the Islamic Revolutionary Guard Corps controlled 68% of the Iranian export sector following the American oil sanctions (Wehrey et. al. 2009: 65). Such economic dominance was obtained by appropriating private property through anti-competitive behaviours such as government-provisioned market monopoly and collusion with government to acquire juicy privatisation deals (Alfoneh 2010).

Moreover, the ban may destabilise resource-exporters and therefore contradicts the principle of self-interest. Autocratic resource-exporters are highly reliant on natural resources to maintain stability. Oil industries generate 80% of revenue for Arab autocracies and over 70% of total employment (IMF 2016: 13). Additionally, 20% of the population of Arab autocracies are between the ages of 15-24 (United Nations Economic and Social Commission for Western Asia 2007). By strangling the oil industry, the ban will consequently cause fiscal crises in those countries and create mass youth unemployment. Such a situation would likely generate civil wars. According to Urdal (2004: 16), data from all political entities since 1945 indicates that the combination of a youthful population and high unemployment has a robust positive relationship with armed conflicts. Thus, ‘spillovers’ are exacerbated when unjust yet stable regimes are destabilised, allowing extremist groups to exploit fresh suffering for sympathy and recruits.

Wenar (2008: 31) could counter that the suffering is short-term and not comparable to long-term benefits of democratisation. However, autocratic resource-exporters overwhelmingly tend to be personalistic autocracies which concentrate power on a single leader (Wright 2008: 325). Thus, leaders lose tremendous privileges when regime change occurs. As a result, 90% of autocratic leaders from personalistic regimes between 1946-2010 refused to relinquish power peacefully (Geddes et. al. 2014: 328). This gives autocratic forces, such as the military, better chances than democratic groups to seize power through violence (Geddes et. al. 2014: 330). Therefore, Wenar’s plan is likely to produce violent autocratic transitions, rather than democratisations.

3. Modification of the Proposal

I propose a total economic embargo on failed states as an alternative to Wenar’s proposal. I define failed states as countries whose governments have lost their monopoly over violence and are unable to control the majority of their territories and populations (Rotberg 2004: 5).

Within failed states, armed conflicts contesting territories between at least two rival groups take place frequently (Urdal 2004: 7). Thus, if a resource-exporter becomes a failed state, the fighting would hamper resource production and cause prices to surge in the international market (Luciani 2011: 20). All countries purchasing resources will then have an incentive to cooperate in enforcing a ban which aims to end the instability and allow the resumption of production. Moreover, according to Piazza (2009: 78), data from 197 countries between 1973-2003 shows that the citizens of failed states are significantly more likely to participate in international terrorism. This generates further incentives for international cooperation in stabilising failed states, rendering the proposal more feasible. For example, the Kimberley Process that banned 'blood diamonds' was instituted after the 911 attack when conflict diamonds were reported to have financed Al Qaeda (Feldman 2003: 854-855).

A total economic embargo would incentivise failed states to attain stability. Armed groups in failed states obtained their military capability through smuggling natural resources and other illicit trades (Conrad et. al. 2019: 613). Thus, the total economic embargo can lead to conflict resolutions by significantly reducing the utility of fighting. Escriba-Folch (2010: 137) used a sample of 87 civil wars to show that total economic embargo shortens conflicts by making conflict termination 30% more likely. Moreover, the sanctions imposed by international organisations help to attain stability by making peaceful conflict resolution 30 times more likely (Escribà-Folch 2010: 141). Once peace is attained, the embargo should be relaxed to include only natural resources so that international trade and investment can resume in the private sector. This would alleviate the suffering of the population by providing employment and capital (Bray 2009: 20).

Wennmann (2007: 440) shows that armed groups can exploit the weak state capacity of the post-conflict states to obtain illicit financing. The availability of funds could be used to purchase weapons to restart conflicts (Wallensteen et. al. 2006: 31). Thus, the resource embargo should only be lifted after the targeted countries embark on UN-sponsored Security Sector Reform (SSR) and Demobilisation, Disarmament and Reintegration (DDR). SSR refers to the construction of the capability and accountability of all coercive instruments in society, including the military and the police force (Jackson 2011: 1806). DDR refers to the process of taking arms away from combatants and facilitating their transition into the national military or civilian life (United Nations 2014: 24). DDR and SSR programs subject countries to constant monitoring and evaluation to ensure they are on track (United Nations 2014: 117). When implemented, DDR prevents renewal of conflict by denying armed groups the resources to conduct violence (Knight 2010: 42-46) while SSR attains state-building by establishing the monopolies of violence (Dudouet 2011: 23). Resource-exporters such as Angola achieved peace and stability after SSR and DDR (Knight 2010: 42-46).

The modification makes Wenar's proposal more coherent. Since failed states breed terrorism, the embargo that promotes conflict-resolution would deny terrorists their most fertile recruitment grounds. Moreover, post-conflict societies often experience a 'peace dividend' as long depressed consumption and investments resume. Post-conflict countries grow 1.14% faster than the global average (Collier and Hoeffler 2002: 4). This provides enormous opportunity for foreign direct investment which could benefit the economies of the consumer countries. This reliably resolves the spillover effects and serves the self-interest of consumers. The re-institution of the monopoly of violence also means the new government is channelling part of the resource revenues to fund basic public services and expand the security state to all corners of society to prevent relapse into instability. Citizens are then able to enjoy basic public goods such as security (Jackson 2011: 1810). Thus, popular sovereignty is improved as resource revenues are extracted from armed groups to benefit the general population.

Wenar may argue that this means accepting stolen resources from stable autocratic regimes. However, taking aim at a small, more reliable improvement is better than risking zero improvement. Even if democratisation is attained, 'theft' can still occur. If we define popular sovereignty over resource ownership as the use of resources to benefit the people (Van der Ploeg 2011: 321), then partisan politics in democracies may contradict this goal. In particular, the electoral politics of newly democratised states created under Wenar's proposal tend to be dominated by non-credible politicians, making clientelism the electoral norm (Keefer 2007: 819-820). Incumbent politicians will be incentivised to utilise natural resources for the sole purpose of rewarding supporters for re-election. Such behaviour is tantamount to corruption as public power is utilized for private ends. Independent investment funds using the revenues of resource sales could be established to counter clientelism. However, even with constitutional safeguards, such funds are vulnerable to raids when the government changes hands. This encourages incumbent governments receiving resource windfalls to invest in irreversible partisan projects catering exclusively to their supporters (Van der Ploeg 2011: 406). This is hardly respecting popular sovereignty as resources are only used to benefit a segment of the populace.

In conclusion, I have argued that Wenar's has taken an approach to tackling autocratic resources that does not sufficiently take all relevant effects into consideration. Wenar's approach ignores the diverse interests of the international community and the complex political structures of autocracies. Thus, Wenar's solution is ineffective and inconsistent with his objectives, with the inconsistency compounded by his exclusive targeting of natural resources. My proposed modifications seek to correct these shortcomings by aiming to reliably improve popular sovereignty.

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