Economic Coercion as a Geopolitical Strategy: From Sanction Regimes to FATF

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Abstract

The world is in transition. The large-scale conflicts for geopolitical interests are evidently in decline due to greater reliance on economic statecraft. This is being preferred for influencing the policies of others. The economic choking of non-complying states, as well as entities, have emerged as a more viable alternative for global powers. It has led to the option of an 'economic solution' to substitute a potentially costlier 'military solution' for geopolitical objectives. While economic coercion has historically been an effective mean of leverage employed against adversaries, the coercive strategy is increasingly being institutionalised. There seems to be a rising proclivity of the dominant neo-liberal economic world towards regulatory mechanisms like the Financial Action Task Force (FATF) for political objectives alongside, or as a substitute for conventionally imposed economic sanction regimes. Whatever might be the stated objectives, initiatives like FATF are largely viewed in the developing world as instruments of economic coercion for geopolitical goals.

Keywords: Economic Coercion, Geo-economic, Sanctions, FATF, Influence, Compliance

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IPRI Journal ■ XXIII (2): 57-81
https://doi.org/10.31945/iprij.230203

Introduction

Human history is replete with recurring endeavours of various actors wherein favourable dispositions as well as responses, are sought by nation-states to advance their respective interests. The international system consists of state as well as non-state actors, with the notions of rivalry, conflict, competition, and cooperation becoming an inevitable phenomena. In this competitive world, every conceivable strategy is devised to achieve desirables by persuading, influencing, compelling, or going to the extent of coercing the intended targets. As the notions of conflict or cooperation and amity or animosity are natural, so are the strategies for pursuing national interests, objectives, or goals through incentives or coercion. The statecraft, therefore, makes use of and fuses both pressure as well as persuasion for achieving desired objectives and employs military, political, and financial instruments of power to promote a state's interests.[1] Most commonly, persuasion does not yield the desired results in the Hobbesian global system, especially when the targeted entity interprets the demand against its perceived national interests. It, thus, inevitably leads to a state of affairs where the policy of 'coercion,' whether individually by a dominantly powerful state or collectively, in the form of an international or regional alliance, is assumed as a preferred strategy.

Derived from Latin 'coercion' refers to the power to control, the behaviour of others thoughts, as well as ideas.[2] Thus, in a way, the principal intuitive notion of 'coercion' signifies a high level of constraint imposed on the alternative options available for, or perceived by the intended target during a deliberately planned influence attempt.[3] While this description of the term coercion may appear more relevant with

[1] David L. Asher et al., "Coercive Economic Statecraft and US National Security," (Washington: Center for a New American Security, 2011): 15, http://www.jstor.com/stable/resrep06338.

[2] Hiba Hafiz, "Beyond Liberty: Toward a History and Theory of Economic Coercion," *Tennessee Law Review* 83 (2015): 1076, https://core.ac.uk/download/pdf/234143016.pdf.

[3] David A. Baldwin, "Economic statecraft: *New edition*," (New Jersey: Princeton University Press, 2020), 37-38.

regards to controlling human actions at the individual level, it does also illustrate how various actors, may it be the states, organisations, or entities, are influenced or managed for favourable disposition. Coercive means are essentially resorted to when attempts to persuade or convince the target to undertake a sought-after decision cannot yield a desirable outcome. Economic coercion can thus be understood as a form of financial constraint that is imposed upon the intended targets or entities to influence some of their policies and conduct, often without employing violent means. Financial constraints have traditionally been sought by enforcing economic sanctions against adversaries or non-complying actors, albeit with varied outcomes.

This paper contends that the viability of 'coercion' as one of the instruments of statecraft for realising geopolitical interests can be recognised as an international norm. It has been in practice during the entire period of recorded history. It would be argued that regardless of the outcome, economic coercive means have conventionally been employed since antiquity for achieving geopolitical objectives. The paper will also seek to develop the evolution of economic coercion from traditional sanction regimes to the employment of contemporary mechanisms. For instance, FATF has been often used for achieving intended targets. Without actually determining the success or efficacy of economic coercion through sanctions or FATF, the contention would be on deliberating as to how economic statecraft comes into play for political objectives. In some instances of economic sanction regimes, as in the case of Iran, there may not be an evident impression of success. However, it has somewhat curtailed the Iranian role in the region and beyond. Likewise, FATF listing of different states cannot always be equated since the real motives of each initiative may vary. In the case of Pakistan and the United Arab Emirates (UAE), both were listed in the grey list at different times. The contention made in this work is essentially aimed at evaluating the interconnection between geopolitics and geo-economics as an instrument of statecraft, and how economic coercion is evolving in the contemporary world.

Coercion: An Instrument of Geopolitical Objectives

Coercion can be described as a situation where, an actor (A) manages to manipulate the other actor (B) in such a way that the latter is compelled to choose a course of action, which is in line with the interests of the coercer.[4] Another definition suggests coercion as "the ability to get an actor -- a state, the leader of a state, a terrorist group, a transnational or international organisation, a private actor -- to do something it does not want to do."[5] For Haun (2015), coercion implies the threat of the use of force or employment of a limited force to convince a target to meet certain terms or demands. The strategies may consist of expectations, as well as threats that are credibly communicated.[6] In its simplest form, coercion is deemed to have occurred when an actor threatens to visit or imparts some evil or undesirable consequence on the other. The actor undertakes or refrains from undertaking some act, which is in line with the coercer's demands.[7]

The conception, formulation, and implementation of coercive strategy cannot be an impulsive or abrupt process. It instead involves a deliberate plan, taking into consideration the potential response of the target as well as its own threshold in pursuit of the objective. The coercive strategy would not necessarily involve punitive or intimidating instruments alone against the target. Mere threats of coercion or persuasive policies can help attain intended goals. Thus, it can be even more captivating when the unfolding or the implementation mechanism of coercive strategies by various actors in the global politics is dilated upon. The most common and ever-existent ingredient of the coercive strategies, adequately conveyed to the coerced by any preferable means, is the capacity as well as power of the coercer to exercise or physically manifest the execution of the threat.

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[4] David A. Baldwin, "Economic statecraft… 38.

[5] Kelly M. Greenhill and Peter Krause, eds., *Coercion: The Power to Hurt in International Politics*, (New York: Oxford University Press, 2017), 4.

[6] Phil Haun, *Coercion, Survival, and War: Why Weak States Resist the United States*, (California: Stanford University Press, 2015), 22-23.

[7] David A. Reidy and Walter J. Riker, eds., *Coercion and the State*, Vol. 2, (New York: Springer Science & Business Media, 2008), 31.

Hence, conduct-inducing modalities may include persuasion or penalisation -- to entice or incite - with the ultimate objective of ensuring that the coerced decides to conform to the desires of the coercer.[8] Coercion of a state is, therefore, a comprehensive strategy, which seeks to employ or threaten with a wide array of diplomatic as well as military options, including economic sanctions, commercial embargoes, and limited kinetic actions.[9]

The coercive strategies appear to be the part of influence operations that are planned and embarked upon for persuading or compelling targets to either act or, alternatively, refrain from acting in a certain manner. The persuasions, enticements, or efforts aimed at convincing the target to adopt a favourably leaning posture, seem to be the employment of soft power, where amenability is anticipated. However, coercion on the other hand entails an aggressive approach wherein one actor seeks to overpower the resolve of the other, not by reason or through rhetoric, but by threats as well as intimidation.[10] It, thus, leads to the assumption that the coercion among states, or between states, non-state entities, or among non-state actors, is principally exercised through threats or some actions, or both. At times, it may involve military threats whether implicit or explicit or even military actions.[11] Consequently, coercion may invariably involve some cost or agony to the target or precise threats thereof, with an explicitly implied threat of intensification in the cost, or pain in case of non-compliance.[12]

Post-Cold War Era of Geo-Economic Primacy

The transformation of global dynamics, especially in the post-Cold War era, has led towards a visible reorientation of the strategic course of

[8] R. St. J. MacDonald, "The resort to economic coercion by international political organizations," *University of Toronto Law Journal* (1967), 87, https://doi.org/10.2307/825365.
[9] Martin Griffiths et al., *International relations: The key concepts*, (New York: Taylor & Francis, 2008), 38
[10] Reidy and Riker, Coercion and State… 33.
[11] Greenhill and Krause, Coercion…4-5.
[12] Greenhill and Krause…5.

nation-states with preference over non-kinetic means for maintaining influence as well as relevance. In a widely publicised article, Edward Luttwak (1990) for the first time used the term 'Geo-economics' to claim that the inter-state rivalry was being pursued in the post-Cold War era through financial means. He has been of the view that despite the reduction of armed confrontations, prospects of greater interaction through world business were slim due to persistent state action, now represented by the emergence of 'geo-economics.'[13] 'Economic statecraft' thus seeks emphasis on the means rather than ends and avoids limiting the range of objectives pursued through economic means.[14] Contemporary statecrafts appear to rely more heavily on geo-economics for strategic gains and preserving national interests rather than pre-Cold War era designed conventional geopolitical approaches. Hence, presently power and security are regarded to be no longer simply coupled with physical territorial control. The potential of commanding, as well as manipulating the economic ties, are also vital in binding states together.[15]

According to one definition, geo-economics can be termed as 'the use of economic instruments to promote and defend national interests, and to produce beneficial […] results.'[16] It implies that the geo-economics is neither meant to substitute geopolitics, nor the two are something similar. Both phenomena are rather distinct constructs but function as complementary parts of a strategy. It is claimed that geo-economics is essentially a merger of financial and geopolitical objectives, which implies the employment of hybrid strategies for economic as well as

[13] Edward N. Luttwak, "From geopolitics to geo-economics: Logic of conflict, grammar of commerce," *The national interest,* 20 (Summer 1990), 18, https://www.jstor.org/stable/42894676.
[14] Baldwin, *Economic statecraft,* 39.
[15] Sören Scholvin and Mikael Wigell, *Geo-economic power politics: An introduction, in Geo-Economics and Power Politics in the 21st Century,* eds. Mikael Wigell, Sören Scholvin and Mika Aaltola (New York: Routledge, 2018), 1-2.
[16] Robert D. Blackwill and Jennifer M. Harris, *War by other means: Geoeconomics and statecraft*, (London: Harvard University Press, 2016), 20.

military power projection.[17] More explicitly, geo-economics can be defined as an interplay of the 'economic policy and changes in national power and geopolitics;' or alternatively 'as the economic consequences of trends in geopolitics and national power."[18] In one of the most comprehensive elaborations, it is suggested that geo-economics can be referred as an instrument of the economic means of power, applied by the states for realising geostrategic objectives, or more precisely 'the geostrategic use of economic power.'[19]

The contemporary international arena is influenced by the primacy of economic means where each global actor seeks strategic ascendency by attaining greater financial clout compared to all others, may it be its rivals, competitors, or even allies. Regionally also, the most dominant powers continue to develop respective spheres of influence, albeit, the reliance is shifted towards economically binding these regions with themselves, rather than conquering territory.[20] Likewise, Samuel Huntington (1993) suggested that 'in a world in which military conflict between major states is unlikely [,] economic power will be increasingly important in determining the primacy or subordination of states.'[21] Interestingly, even after the Cold War, many experts in international politico-strategic realms did not convey much optimism toward peaceful coexistence of humankind. The quest for mutual gains would lead to an enduring interdependence. Hence, a transformation in the modes of future conflicts has been forecasted by professing that it was now being played out 'with disposable capital in lieu of firepower, civilian innovation in lieu of

[17] Grzegorz Grosse, "Geoeconomic relations between the EU and China: the lessons from the EU weapon embargo and from Galileo," *Geopolitics* 19, no. 1 (January 2014), 40, https://doi.org/10.1080/14650045.2013.789864.
[18] Sanjaya Baru, "Geo-economics and Strategy," *Survival* 54, no. 3 (May 2012), 47, https://doi.org/10.1080/00396338.2012.690978.
[19] Mikael Wigell, "Conceptualizing regional powers' geoeconomic strategies: neo-imperialism, neo-mercantilism, hegemony, and liberal institutionalism," *Asia Europe Journal* 14 (November 2016), 137, https://link.springer.com/article/10.1007/s10308-015-0442-x.
[20] Scholvin and Wigell, *Geo-economic power*… 2.
[21] Samuel P. Huntington, ''Why international primacy matters,'' *International security,* Vol 17, no. 4 (Spring 1993), 72, https://www.jstor.org/stable/2539022.

military-technical advancement, and market penetration in lieu of garrisons and bases.'[22]

Utilising Economic Preeminence for Geopolitical Interests

The contemporary inclination towards minimum reliance on traditional geopolitical means for acquiring power, as well as security and increasing focus on economic statecraft, can be attributed to the influences of globalisation. Consequently, in the post-Cold War period, there has been a dominant belief that with an increasingly global economic interdependence, states may opt to abandon power politics for greater cooperation as well as integration into a newly transforming world order. It promises to be liberal and rule-based.[23] Meanwhile, contrary to this anticipation, nearly all of the coercive economic measures that have been imposed by the coercing states against the intended targets, were consistently aimed at bringing about review and change of policies. They were essentially in the non-economic domains of the targeted nations.[24] Hence, the exploitation of the leverage presented by the asymmetric vulnerabilities, which are inherently linked with this kind of economic interconnectivities, geo-economics offer states an alternative strategy. That is different than conventional territory-based geopolitics -- for conducting power politics.[25]

Employment of economic coercion as a geopolitical strategy may not be something related to contemporary global dynamics alone. However, the rising focus on mutual interdependence in the aftermath of a Cold War has certainly provided it a greater impetus. Due to declining appetite towards major kinetic actions amid concerns of potentially excruciating human and material costs, coercing the rivals financially is emerging as a workable preference. Interestingly, in the post-Cold War era where the

[22] Luttwak, "From geopolitics…" 18.
[23] Scholvin and Wigell, "Geo-economic power…" 2.
[24] Omer Y. Elagab, "Coercive economic measures against developing countries," *International & Comparative Law Quarterly* 41, no. 3 (July 1992), 684, http://www.jstor.org/stable/760555.
[25] Scholvin and Wigell, "Geo-economic power…" 1-2.

concept of economic integration has been gaining currency for the collective good, the resultant interdependence among the nation-states emerged as one of the instruments of financial manipulation as well. It can be inferred that while *prima facie*, geo-economics, or interdependence seem to portray the notion of cooperation, as a matter of fact, it has been a strategic lever employed independently or in conjunction with kinetic instruments of policy. According to Baracuhy (2018), economic power offers geostrategic leverage to a state by developing interdependencies through components. For instance, markets, resources, as well as rules, which shape international economic interactions.[26] It is also claimed that 'for present day's most sophisticated geo-economic actors, the military as well as geo-economic dimensions of statecraft tend to mutually reinforce each other.'[27]

Apparently, the economic strength of a state offers numerous avenues for articulating a functionally viable, sustainable, and rational strategy to advance its geopolitical interests. It can conceivably achieve desired objectives. Hence, an underlying economic base is inevitable for every state to maintain its political power, ranging from military potential to diplomatic as well as intelligence machines.[28] In most instances, economic coercion serves the aim of deterrence alone and may not reach the physical implementation stage. The intended targets are made aware of the dire financial consequences in case of non-compliance. Thus, economic coercion through sanctions essentially follows the logic of deterrence where the coercer seeks to convince the intended target by intimidating it for its failure. It can alter behaviour or abandon a planned activity deemed as undesirable.[29] Moreover, the coercive economic measures imposed against developing countries can either be purely

[26] Braz Baracuhy, *Geo-economics as a dimension of grand strategy: Notes on the concept and its evolution in Geo-economics and power politics in the 21st Century*, eds. Mikael Wigell, Sören Scholvin and Mika Aaltola (New York: Routledge, 2018), 16.
[27] Blackwill and Harris, *War by other means*…9.
[28] Baracuhy, "Geo-economics…" 16.
[29] Gerald Schneider and Patrick M. Weber, "Biased, But Surprisingly Effective: Economic Coercion after the Cold War," *CESifo Forum*, vol. 20, no. 04, (December 2019): 9, https://www.econstor.eu/bitstream/10419/216246/1/CESifo-Forum-2019-04-p09-13.pdf.

economic or non-economic. The former is when the target is compelled to abandon its economic policies, while the latter could aim at the change of policies beyond financial matters.[30]

Economic Coercion: The Conceptual Dimensions

As discussed above, nation-states are global actors, who seek compliance from the other players while in pursuit of their own national interests. They employ all conceivable means including 'coercion' to achieve desired goals. The coercive strategies can be exercised in numerous domains ranging from political, military, and diplomatic realms to constrict the strategic space of an intended target. The 'Economic coercion' through various means has been a time-tested and fairly popular strategy of degrading rival's fighting potential or capacity of not only sustaining but waging wars from ancient times. Since the eras of Thucydides as well as Pericles's Megarian decree, the dominant powers used trade, economic, and weapons restrictions as punishment strategies in order to intensify the costs of resistance or as denial strategies for weakening a rival's defenses.[31] With the evolution of global strategic dynamics, especially in the post-industrialisation era, the execution of coercive economic measures against rivals assumed a far greater connotation. In its essence, the term of 'economic coercion' implies the threat or act, undertaken by a state or group of states for disrupting all or selected economic exchanges with the intended target state, as long as the target fails to acquiesce with an articulated expectation or demand.[32]
According to yet another perspective, economic coercion is more of a transaction used to surrogate or replace for other policy measures that can be exploited or is vulnerable to exploitation. It can render profit at the cost of others.[33] In essence, economic coercion appears to be a vital element of a coercer's wholesome approach against the intended target for achieving

[30] Elagab, "Coercive economic…" 685.

[31] Haun, "Coercion, Survival…" 28.

[32] Daniel W. Drezner, "The hidden hand of economic coercion," *International Organization* 57, no. 3 (July 2003), 643, doi:10.1017/S0020818303573052.

[33] Hafiz, "Beyond Liberty…" 1072.

much greater strategic objectives than economic gains only. This may help in compliance without the employment of kinetic means. So far economic coercion has been quite a viable strategy against the opponents than the conventional understanding. It gives space to the coercer to threaten of disrupting the course of financial exchanges unless the coerced complies with a specific demand.[34] Hence, economic coercion can be one of the facets of economic statecraft that is unleashed against the targets who have the least possible sustainability thresholds. It can be effectively used to compel the policy-makers of the coerced states to give in to the dictations of coercion. Accordingly, the usual intention of imposing coercive economic measures is, therefore, aimed at causing a crippling impact on the financial potential of a target, particularly against a developing country most susceptible to such policies.[35]

Economic Sanctions: The Conventional Instrument of Coercion

Economic sanctions have been effective in achieving specific goals in the political, economic, or even ideological domains. It is formed as an inevitable facet of grand strategic design. The sanctions are primarily aimed at not only damaging the economic viability of rivals but also conveying political messaging to a wider audience, including neutrals or those aligned with the intended target. In ancient times as well as during the initial days of modern Europe, employment of economic sanctions was made for diverse objectives, however, even then, its predominant usage had been as a subordinate instrument of military strategy during conflicts.[36] The era of Napoleonic Wars in the early nineteenth century is mostly acknowledged as the period of warfare, when for the first time, the strategy of economic blockade was resorted to on a significant scale against the adversaries.[37] Thus, during the Napoleonic Wars, the economic potential of the rivals being one of the most vital components of power,

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[34] Drezner, "Economic Coercion…" 645.
[35] Elagab, "Coercive Economic…" 686.
[36] Kern Alexander, *Economic Sanctions: Law and Public Policy,* (Hampshire: Palgrave Macmillan, 2009), 8.
[37] M.S. Daoudi and M.S. Dajani, *Economic Sanctions, Ideals and Experience*, (London: Routledge, 1983), 21.

was viewed as a significant target for the invading forces and manifested through large-scale blockades.[38] Towards the end of nineteenth century, the instrument of economic sanctions against the targeted nations was mostly employed during wars by imposing export restrictions and blockades on strategic supplies.[39]

The strategy of economic sanctions has evolved over the course of history and from earlier methods of sea blockades with the expansion of naval power, more effective techniques were developed during the great wars. While the use of economic coercion as a geopolitical instrument via the imposition of sanctions has been a common practice since the early days of warfare, the United States is often quoted by scholars as a nation that used it for optimum strategic gains. Alexander Hamilton, the first US Secretary of Treasury (1789 to 1795), is credited for a strong belief that the economy of a nation not only helps increase its power but also allows it a form of influence.[40] Hamilton's contention of using financial clout as the means of acquiring influence emerged as the cornerstone of American foreign policy and has been employed effectively thereafter. The economic means of warfare were more crystalised by the Allies during the World War-II through policies like blacklisting, shipping warrants, controlling foreign funds, licensing of exports to the neutrals, and instituting a proclaimed blacklist for addressing the issues of 'corporate cloaks' and 'fronts.'[41] Therefore, a major strategy of the Great Wars, even relevant in the contemporary world, is the experience of economic warfare, which evolved mostly during that era in the form of international economic coercion.[42]

The principal objectives of imposing economic sanctions have always been consistent during the entire course of history. They essentially

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[38] Margaret P. Doxey, *Economic sanctions and international enforcement*, (London: Palgrave Macmillan, 1980), 10.
[39] Alexander, "Economic Sanctions…" 9.
[40] Cooper A. Drury, *Economic Sanctions and Presidential Decisions*, (New York: Palgrave Macmillan, 2005), 3.
[41] Alexander, "Economic Sanctions…"17-18.
[42] Doxey, "International Enforcement…" 15.

sought either behaviour modification of the intended target, or retribution or punishment, thus conveying a precise message in the process.[43] During times of military conflict, the primary goal is defeating the adversary by reducing or eliminating its warfighting potential, demoralising the target's population, and severing the financial outlays of the war beyond a manageable threshold. The aim of accelerating an adversary's annihilation in the battlefield is achieved through all available means including, military, economic as well as political. Since the enforcement of economic sanctions constituted a vital component of military strategy during the two Great Wars, as well as the intervening period and even the era thereafter; so has been the debate on the effectiveness of these measures in relation to the overall war effort. The policy of imposing economic sanctions has essentially been an element of national strategy in war or in case of hostilities between rival states. It was generally not resorted to as an option during the peacetime. However, the establishment of the League of Nations in the 1920s led to the authorisation of economic sanctions against the states that initiated military aggression against other nations.[44]

The economic sanctions are imposed on the premise of either deterring or dissuading the target state from pursuing policies that are apparently against the accepted international norms. They are meant for seeking acquiescence which is deemed to be in the common interest.[45] Economic sanctions are, therefore, anticipated to be seeking compliance instead of deterrence with the objective of changing the status quo and influencing or shaping the behaviour of the target. In presumably one of the most comprehensive elucidations, economic sanctions (coercion) are said to be the actions instigated by a singular or group of international actors against a particular or even several targets, to either punish them by denying some value or force them to comply with certain expectations.[46] These economic measures for coercing the targets have been of various types.

[43] Alexander, "Economic Sanctions…" 10.
[44] Alexander… 9.
[45] Doxey, "International Enforcement…" 9.
[46] Geoffrey L. Simons, *Imposing Economic Sanctions: Legal Remedy or Genocidal Tool?,* (London: Pluto Press, 1999), 10.

They were either enforced by powerful states individually on their own, or in groups to often complement the military measures, even without the authorisation of the United Nations.[47] Hence, it has been a customary phenomenon wherein either a single state embarked upon initiating unilateral economic action to achieve coercive effects or alternatively. Several states pursuing shared objectives, decided to initiate concerted action as a group.[48]

Economic sanctions are regarded to be deliberate attempts to manipulate the extension or abandonment of financial resources for augmenting a specific policy towards the target. It is largely with the intent of influencing and not destroying it.[49] Economic coercion through enforcing these sanction regimes is deemed appropriate where the degradation of an adversary's power potential is sought. It does not necessarily require resorting to some kinetic or most-costly options. Among the majority of the non-military means that may be opted for diluting targeted nation's capacity in almost each sphere, hurting the financial capability is accepted as the most comprehensive, result-oriented, and functionally viable strategy. While the policy of imposing economic sanctions is accepted as an ancient strategy against the adversaries, the execution methodologies or mechanisms kept transforming with the evolving global dynamics. From antiquity models of exclusive state to state sanction regimes to the present era modes, where globally established institutions are used for the purpose, there is a visible diversity in the targets as well. Sanction regimes now appear to be flexible, diverse in nature, and even indirect. The tactical policy objectives may be to either deter or coerce the intended target; or even other states as well as those individuals who are not the exact targets. They, nonetheless, have financial interactions with targeted states/entities.[50]

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[47] Doxey, "International Enforcement," 15.
[48] Simons, "Legal Remedy…" 1.
[49] Steve Chan and A. Drury, eds, *Sanctions as Economic Statecraft: Theory and Practice*, (New York: Springer, 2000), 2.
[50] Alexander, "Economic Sanctions…" 10.

As a matter of fact, economic coercion by imposing a sanction regime is usually employed by a powerful state unilaterally or together with a group of like-minded states, for reinforcing military as well as diplomatic means in pursuance of a geopolitical agenda. While in ancient times, the imposition of economic sanctions, singularly or collectively, would have been opted by either one state or a group/ alliance of nations against the potential target, the ploy is well-structured as well as institutionalised in the contemporary world. The strategy of sanction regime is thus structured directly through consensus in the UN Charter with a key proviso that empowers the organisation itself or its member states to impose it on the charter violations.[51] However, the presumption that economic coercion through sanctions is employed against the states/entities that are found violating the globally accepted UN Charter or international norms, can be termed as a too simplistic view. In reality, such economic sanctions have usually multiple, far-reaching, and often well-concealed agendas compared to what is being projected to the public.[52] In hindsight, the sole objective of sanction regimes is essentially geopolitical that seeks to influence the decision-making as well as the behaviour of the target states and may be imposed collectively to enhance its legitimacy at the international level.

Given that the financial interactions are more often than not mutually rewarding for each participant; the use of economic sanctions as a geopolitical instrument may not apparently be an attractive proposition. It leads to the query as to why a state would opt to use economic sanctions for coercing a target at the cost of some financial gains, even if comparatively limited in scale. Moreover, why would a powerful state subscribe to the idea of employing economic coercion when it is dominant enough militarily as well as diplomatically and can prevail upon others rather conveniently? According to the analysts, nations possess limited policy options for influencing the behaviour of other states, and thus,

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[51] David Cortright, *Economic Sanctions: Panacea or Peacebuilding in a Post-Cold War World?,* (New York: Routledge, 2018), 5.
[52] Cortright, "Panacea or Peacebuilding…" 29.

economic sanctions are preferred for occupying a middle ground among the available options including diplomatic or military actions.[53] The bulk of international sanctions have overwhelmingly relied on economic measures that not only conform the criterion of being non-lethal means of coercing the intended target but are also anticipated to have a significant punitive impact.[54] Thus in conventional parlance, sanctions generally reflect nonviolent means and may comprise diplomatic, political, cultural, and communication measures, besides a broad range of economic actions of potentially commercial, financial and technological nature.[55]

There has always been a debate on the standing of economic sanctions in the overall spectrum of national strategy as well as the probable impact of the peace or conflict environments while determining the conducive timeframe for the implementation process. While war strategies contemplate all available means to degrade the combat potential of the adversary, including economic blockades or imposition of sanctions after the outbreak of hostilities, its peacetime manifestation and conduct methodologies continue to be evaluated. For many analysts, the sanction regimes of today have semblance with the economic sieges of ancient times, which were designed to hurt the war-fighting potential of the adversaries by destroying their financial capacity. With the evolution of technology as well as the growing dependence of states on transnational trade in the modern era, monitoring of the real economic potential of a country and imposition of crippling sanctions can affect all the nations. It has become comparatively easier. Thus, in contemporary global environment, economic sanctions are usually viewed as the instrument of foreign policy, which is classified to be on a continuum somewhere between totally unhindered international exchange and the situation of absolute war.[56] Analogues to the customary norms of undertaking cost-

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[53] Cortright… 30.

[54] Margaret P. Doxey, *International Sanctions in Contemporary Perspective*, (London: Macmillan Press Ltd, 1987), 12.

[55] Doxey, "International Sanctions"… 11.

[56] Zane A. Spindler, *The public choice of 'superior' sanctions*, *Public Choice* 85, no. 3 (December 1995): 205, https://www.jstor.org/stable/30027049.

benefit analysis prior to pursuing each policy, the overall gain anticipated via economic sanctions in comparison to all other options, primarily determines and influences the ultimate strategy.

FATF: Evolving Instrument of Economic Coercion

In the realm of economic statecraft, the creation of the FATF can be regarded as the newest initiative to complement the global neo-liberal financial management. This has become even more significant in the era of increased connectivity as well as interactions. The ever-rising interconnectivity of the contemporary world and the presumed fallout of easy financial interactions have led to the essence of gaining more regulatory control over potentially dubious monetary exchanges. Hence, FATF as a global inter-governmental organisation was established by the G7 countries (the United States, Canada, Britain, Germany, France, Italy, and Japan) and the European Union in July 1989.[57] Whatever might be the real motives of the establishment of yet another instrument of greater control over global economic interactions, the initiative appeared as an arrangement deemed essential after the elimination of the Marxist challenge that kept rivaling the Capitalist financial order during the Cold War era. According to the initial mandate, the FATF was authorised to examine money-laundering techniques as well as trends, review the measures undertaken at national or international levels, and advise actions still regarded as essential for combating the menace.[58] The FATF review was issued through a report in April 1990, well within one year of its establishment, and contained the famed forty recommendations that had been intended to stipulate a comprehensive action plan deemed inevitable for combating money-laundering.[59]

The formation of the FATF was neither preceded by lofty claims from its founders nor was the inter-governmental body projected to be an initiative

[57] John Madinger, *Money laundering: A guide for criminal investigators*, (Florida: CRC Press, 2011), 71.
[58] Dennis Cox, *Handbook of anti-money laundering*, (New Jersey: John Wiley & Sons, 2014), 22.
[59] Cox… 22.

designed to achieve some highly ambitious goals. Since its establishment with a rather limited mandate of reviewing and recommending money-laundering issues, the FATF has emerged as a potent global financial watchdog. It allows significant geopolitical leverage to the dominant international actors. FATF's initial success and potential was enough to gradually expand its original mandate. It was set to be completed in 1990; but in April 2019 on the 30th anniversary, the members agreed on its open-ended mandate. They acknowledged that "the FATF has evolved from a temporary forum to a sustained public and political commitment to fight money-laundering, terrorist financing, and proliferation financing."[60]

Despite several extensions in the mandate, questions about the legitimacy of the FATF continue to recur and the mechanism is largely perceived as a new geopolitical instrument of the powerful global actors, not only by the affected but even by many neutrals. A persistent observation about the FATF has been the anonymity of those governing or setting its agenda, thus fueling the suspicion regarding organisation's use as a proxy for promoting the vested agenda of powerful states who developed its recommendations.[61]

After more than three decades since its establishment, the FATF neither considers itself a trans-governmental setup nor a formal international organisation but rather a 'task force' that has a temporary as well as specific mandate.[62] Notwithstanding usual claims that the FATF is merely a task force created for a specific purpose, it appears to be a vital cog of the evolving international structure. It is designed to preferably regulate or at the minimum retain a capacity to monitor the global capital flow. While FATF's functional modalities are generally similar to most

[60] Georgios Pavlidis, "Financial action task force and the fight against money laundering and the financing of terrorism: Quo vadimus?," *Journal of Financial Crime* 28, no. 3 (August 2021), 2, https://doi.org/10.1108/JFC-09-2019-0124.

[61] Pavlidis… 2.

[62] Kenneth S. Blazejewski, "The FATF and its institutional partners: improving the effectiveness and accountability of trans-governmental networks," *Temp. Int'l & Comp. LJ* 22 (2008), 8, https://heinonline.org/HOL/LandingPage?handle=hein.journals/tclj22 &div =4&id=&page=.

intergovernmental organisations, as it lacks any legal authority with regard to its members, the power is derived from the ability to expel non-complying members.[63] In fact, the contemplation that some of the non-FATF members may opt against complying with the recommendations led to the introduction of a non-voluntary process in 1998, named the 'Non-Cooperative Countries and Territories (NCCT)' initiative that utilises economic forces for inducing changes in the state behaviour.[64]

With each passing day, the reach and influence of the initiative is on the rise. Despite being largely perceived to be a pro-West mechanism, FATF seems to have a reasonably significant role in the contemporary global financial order. It is often questioned that if the FATF lacks a legitimate authority or power to enact binding laws then how come the organisation manages to function as an effective financial management apparatus and gets its way against the listed jurisdictions. In essence, the prospects of non-compliance or the non-responsive attitude from the targets and the need for an internationally binding power for all the global actors were never lost to the architects of the initiative. Thus, in the absence of the authority to directly enacting binding laws, FATF's 'soft law' influence is regarded to be profound wherein any member failing in the compliance of organisation's recommendations faces the threat of expulsion that may exactly be in the geopolitical interests of a few members.[65] Besides the soft law and risk of expulsions as discussed above, the FATF can blacklist the jurisdictions which fail in combating money-laundering as well as terror financing. Public listing pressurises and compels through naming and shaming for undertaking necessary reforms.[66]

Moreover, the narrative of this economic coercion, largely being perceived as an instrument of geopolitical interests by the powerful states, is based on the post-colonial dependence of the Global South on funded

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[63] Laurel S. Terry, "An introduction to the financial action task force and its 2008 lawyer guidance," *J. Prof. Law.,* 3 (May 2010), 6, https://elibrary.law.psu.edu/fac_works/20/.
[64] Blazejewski, "The FATF…" 18.
[65] Terry, "Lawyer Guidance…" 3.
[66] Pavlidis, "Financial action task force…" 4.

economic assistance through International Financial Institutions (IFIs). The persistent financial dependency on IFIs has induced a kind of de-facto subordination of the developing nations to the West. It is exploited through economic pressure to influence political as well as global affairs, including counter-terrorism.[67] Hence, the World Bank and the IMF (IFIs when referred collectively) have been performing a vital role in the process of monitoring the implementation of the FATF Recommendations.[68] A vibrant and consequential role of IFIs in the FATF process shall not be surprising since all these institutions as well as the concept of task force are vital components of neo-liberal global economic order and are meant to complement each other. IFIs maintain requisite expertise for the role as these have not only been established, mostly funded, and are controlled by the same players that created the FATF, but they have also strong working relationships in matters concerning non-FATF member developing states.[69]

In the contemporary international arena, there are many voices against the rising sway of institutionalism through setups like the FATF. It is perceived to be an instrument of maintaining traditional influence of Global North and in contradiction with the established norms of sovereignty. The critics opposing supra-national bodies go as far as terming present international system as a neo-colonial era and continue to be sceptical of the real motives of setups like the FATF. The criticism of the operations of FATF is due to the attempts to impose its recommendations on non-members, which is deemed against the traditional notion of state sovereignty.[70] There is a growing perception among many developing nations, especially the countries facing the

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[67] Fatemah Alzubairi, *The Role of Colonialism and Neo-Colonialism in Shaping Anti-Terrorism Law in Comparative and International Perspectives: Case Studies of Egypt and Tunisia*, (January 2017), 47, https://yorkspace.library.yorku.ca/xmlui /handle/ 10315/33509.

[68] Blazejewski, "The FATF…" 30.

[69] Blazejewski… 30.

[70] Jared Wessel, "The financial action task force: A study in balancing sovereignty with equality in global administrative law," *Widener L. Rev.* 13 (April 2006): 22, https:// heinonline.org/HOL/LandingPage?handle=hein.journals/wlsj13&div=9&id=&page=.

scrutiny of their financial systems, against the supra-national bodies. For instance, FATF represents institutional imperialism more. It carries neo-colonial policies.[71] Consequently, it is even argued that the states primarily opt to respond to the FATF demands because they are compelled to face heavy moral, political, as well as economic pressure, which if resisted, could risk them being listed in the 'non-cooperative countries and territories' category.[72]

The rhetoric that the FATF has been created as a task force to combat international money-laundering, suffers a serious credibility challenge when it fails to take account of numerous safe heavens of black money, maintained by the Western countries. It is evident that there has been a conspicuous omission of several jurisdictions from the FATF scrutiny like the British Virgin Islands, the Cayman Islands, Seychelles, Panama and several others. These places are known for apparently objectionable financial activities.[73] The policy of selected reviews and listing by the FATF, therefore, leaves many unanswered ambiguities. It somehow justifies the allegations of the victims that the initiative is actually meant to pursue the strategic interests of its movers and shakers. Consequently, as a case in point, FATF's grey listing of Pakistan in February 2018, has not been largely accepted as an action warranted by some financial concerns but mostly viewed as a geopolitical move initiated at the behest of India. For many, especially in Pakistan, it was part of a coercive strategy initiated by the United States in collaboration with India. It was meant to exert pressure on Islamabad, especially in the context of so called 'do more' approach on terrorism.[74]

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[71] Alzubairi, "Role of Colonialism…"47.
[72] Alzubairi… 47.
[73] Usman W. Chohan, "The FATF in the Global Financial Architecture: Challenges and Implications," (March, 2019), *CASS Working Papers on Economics & National Affairs, EC001UC* (2019), 11, http://dx.doi.org/10.2139/ssrn.3362167.
[74] Awais Khaver et al., "Evaluating Foreign Policy of Pakistan in the context of Strategic Coercion," *Research Report*, (Islamabad: Sustainable Development Policy Institute, 2019), 10, https://sdpi.org/sdpiweb/publications/files/evaluating-foreign-policy-of-pakistan-in-the-context-of-strategic-coercion.pdf.

Another major concern is the absence of an effective accountability system in the FATF operations that appears to induce an element of exclusivity or elusiveness to the organisation. It only fuels scepticism about the real motives of the initiative. While this exclusivity is contradictory when compared with the functioning of many other international organisations, the concern is validated by the FATF's admission that it does not follow a 'tightly defined constitution.'[75] The contention that the grey listing of Pakistan in February 2018, has been a well-deliberated strategy of economic coercion, which was primarily aimed at geopolitical objectives, is validated by the inappropriate methodology adopted during the entire process. Consequently, the grey listing of Pakistan was made twice in six years. In fact, not only the procedure was sidestepped, but the country was discussed twice by a single plenary.[76] This methodology was in contradiction to the normal procedures, wherein the case regarding a specific country is placed for discussion as well as voting only 'once' during a single FATF plenary.[77]

The deliberate violation of the rules as well as principles by the task force during the listing process of Pakistan was, therefore, not coincidental but essentially dictated by the prevalent geopolitical imperatives at that time.
It would not be grossly imprudent to assume that the FATF has emerged as one of the controversial international mechanisms and continues to be implicated for pursuing the geopolitical agenda of its founding members as well as dominant states. It is widely perceived that vested political interests influence the functioning modalities of the FATF, rendering the mechanism as an instrument of global strategic intrigues. Ostensibly, the member jurisdictions of the FATF are exempted from any accountability for their omissions, and countries like India can dare manoeuver for assuming the co-chairmanship of the task force for the Asia-Pacific region

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[75] Wessel, "Global Administrative Law…" 26.
[76] Abdur Rehman Shah, "The geopolitics of Pakistan's 2018 greylisting by the Financial Action Task Force," *International Journal* 76, no. 2 (May 2021): 2, https://doi.org/10.1177/00207020211016481.
[77] Shah, "Pakistan's 2018 greylisting…" 2.

even with serious questions over its large black economy.[78] Thus, despite granting non-member jurisdictions the option of procedural rights, the FATF lacks any significant accountability mechanism that may contain some obligation to keep the organisation limited within its founding mandate.[79] It can be inferred that in the absence of an effective accountability mechanism, the apprehensions of non-member jurisdictions regarding use of the FATF operations to economically coerce the targets for geopolitical gains, cannot be totally overruled.

Conclusion

Conflict entails the employment of all conceivable means, whether kinetic or non-kinetic, conventional or asymmetric, traditional or irregular, for the objective of coercing and ultimately defeating the adversary. Coercion or coercive policies are not generally acknowledged as the means of statecraft to avoid criticism or international condemnation, they are even denounced mostly by the coercers. Notwithstanding the public refutations, a strategy of coercion is understood to be dictated by an objective of exploitation, with the least material commitment for perhaps an immediate 'payoff.'[80] The economic strangulation of the rival for coercion has been a tried and tested formula since antiquity. It has not only helped in degrading the combat potential of the opponent but played a vital role in lowering the morale of its public as well. Thus, in the post-Cold War era, power projection by the states is no more limited to traditional statecraft means. It has been somewhat shifting towards the employment of financial instruments for seeking leverage. Today territorial occupation in any form is becoming an increasingly redundant option for the dominant players to strangulate non-compliant states. In fact, even institutions are also being considered as a more viable instrument of this influence strategy.

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[78] Chohan, "Challenges and Implications"… 2.
[79] Wessel, "Global Administrative Law"… 26.
[80] Richard Ned Lebow, "Coercion, cooperation, and ethics in international relations," (New York: Taylor & Francis, 2007), 31.

Apparently, neither war nor economic action shall be regarded as an isolated enclave of social life since both can never be divorced from politics and are meant to serve the ultimate objectives of the polity. [81]It would be pertinent to suggest that analogous to the understanding of geopolitics and geo-economics as two sides of the same coin, fusion of military and financial capabilities or alternatively, preference for economic coercion may appear internationally more tolerable. In the contemporary global environment, there is a general reluctance towards exercising kinetic means, which are believed to be more destructive and perhaps counter-productive. Hence, economic statecraft is increasingly being observed as a convincing alternative to the option of military force.[82] As suggested in this paper, the neo-liberal international economic order seeks to economically coerce the intended targets for geopolitical gains by persistently utilising sanction regimes that have been further complimented by the evolving mechanism of FATF. With regards to the economic coercion implementation means, the increasing role of global institutions in the post-Cold War era has added a new, as well as comparatively structured dimension to the phenomenon.

While summarising, it can be suggested that the functioning of the FATF is shrouded with visible contradictions and interest-based influence of the dominant members, while the listing strategy of non-compliers also points out politically motivated decision-making. The FATF is, therefore, rightfully criticised for being an exclusive institution lacking transparency, shunning broad participation resulting in a lack of universal participation, and a wider perception that the organisation is only accountable to a few of those states whose agenda it promotes. However, it is earnestly felt that, with the present-day world confronting a bewildering variety of financial challenges, the focus of the international political organisations needs to be on reducing tension. It must keep communication channels accessible, and manage to evade conflict among

[81] Baldwin, "Economic Statecraft…" 66.
[82] Chan and Drury, "Economic Statecraft…" 3.

members.[83] In the longer run, policies of coercive strategies and international 'enforcement' with institutional mechanisms like the FATF may not be an ideal option for resolving contentious global issues. It could instead escalate a propensity of defiance. A prudent approach is always the one that is methodologically more constructive, and politically convincing. It must aim at problem-solving and finding the resolution of the issue rather than seeking one-dimensional compliance.■

[83] Doxey, "International Enforcement…" 132.