Ashurst Risk Advisory

Risk Navigator

Beyond Sanctions: Advancing State Power

Edition 1

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Independent Economics

Navigating uncertainty through expert risk insight, building resilience along the way

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Beyond Sanctions: Advancing State Power

The first recorded use of economic sanctions dates back to roughly 432 BC, with the Megarian Decree, which restricted Megarian traders from accessing Athenian markets. Since then, sanctions have been consistently employed to block and disrupt trade between states.

After World War I and the formation of the League of Nations in 1919, sanctions expanded beyond trade to include restrictions on financial services, arms and military equipment, and travel. Following World War II and the establishment of the United Nations in 1945, sanctions became an established and intentional instrument of international diplomacy, and often a substitute for military confrontation. They were, for many years, successfully deployed against Cuba to contain Soviet influence during the Cold War, against South Africa to dismantle apartheid, and against Iran and North Korea to curtail their nuclear proliferation. More recently, and with only partial success, sanctions have been applied to address a wider set of objectives, including destabilising regimes, influencing international policy development, and countering human rights violations.

Paradoxically, alongside the greater employment of economic sanctions, the post-WWII period was also defined by a commitment to reducing trade barriers. This was driven in part by the need to rebuild national infrastructure and industries devastated by war. For instance, the General Agreement on Tariffs and Trade (GATT) in 1947, the establishment of the EU single market in 1993, and the creation of the World Trade Organisation (WTO) in 1995 collectively embedded free trade as the conventional standard. This commitment enabled modern-day globalisation, with integrated supply chains, cheap and open capital flows, and a shared assumption that trade policy would evolve gradually through multilateral negotiation.

This consensus is now being dismantled.

Today, sanctions are imposed on a wide range of entities, including states, non-state actors, individuals, companies, and vessels (e.g., oil tankers sanctioned from transporting Russian oil). And both the volume and complexity of applied sanctions have expanded significantly. This is exemplified by the contemporary US, which has sanctioned 133,144 entities at the time of writing (as listed on its Specially Designated Nationals List (SDN), end-February 2026). Similarly, the UK, which only re-launched its sanctions programme in January 2021 following its separation from the EU (Brexit), has 68,976 entities under sanction, whilst the EU has 41,499.

This raises a critical question: Are sanctions truly effective in today's era of shifting geopolitical power and growing fragmentation, or are they increasingly inadequate as a tool to achieve their stated objectives?

Historical economic studies, including the seminal work Economic Sanctions Reconsidered by Gary Hufbauer et al.,[1] have generally concluded that sanctions have seldom been as effective as their protagonists had hoped. And certainly, today they are not proving effective as a principal tool for achieving economic, foreign policy, or national security objectives. This is because targeted entities, particularly states, can circumvent sanctions to achieve their national objectives relatively easily (often in direct conflict with the imposing state).

Given these limitations, policymakers are increasingly turning to a range of alternative economic tools, including tariffs and industrial policy, to achieve objectives that sanctions alone fail to – and probably cannot – deliver.

A good example, but by no means isolated, involves the Democratic People's Republic of Korea (North Korea), which, despite being subject to some of the heaviest sanctions in the world, has succeeded – albeit at high cost – in developing a nuclear military capability.

A nuclear power built under sanctions

Following North Korea's first nuclear tests in 2006, the United Nations Security Council passed nine sanctions resolutions against Pyongyang (capital of North Korea). Each of these levied restrictions on member states from supplying, selling, or transferring heavy weaponry (including spare parts), materials, fuel, and technologies that could contribute to North Korea's nuclear and ballistic missile development programmes. Issuance of credit and cash transfers that could be used to support such activities were also included.

Yet notwithstanding all this, in May 2025, the US Congressional Research Service, a nonpartisan research arm of the US Congress, concluded that North Korea has successfully amassed up to 50 nuclear warheads, with enough fissile material for up to 90 warheads (plutonium

1 See, for example, *Economic Sanctions Reconsidered* by Gary Hufbauer et al., Peterson Institute for International Economics. 2009

and highly enriched uranium used in nuclear weapons). Furthermore, the report claimed that North Korea is developing nuclear-powered submarines and a range of ballistic missiles, including short- and medium-range precision guided rockets and long-range intercontinental ballistic missiles (ICBMs), capable of striking Europe and the US directly from North Korea.

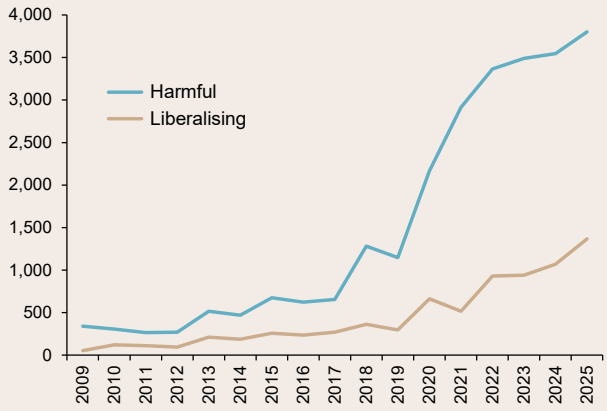
Exactly how North Korea has achieved these milestones against the backdrop of tough international sanctions remains a subject of significant research and debate.[2] Readers of Risk Navigator will be familiar with our viewpoint that political events in recent years have led to the creation of new regional and co-aligned alliances, underpinned by shared political, economic, technological, and military interests. These new transactional alliances – based on expediency and short-term need over ideology – have provided opportunities for emerging and middle powers, such as North Korea, to open new trade networks with partners who commonly represent three core attributes: (i) the sharing of a common interest, such as the desire to dislodge US economic, military, or technological dominance; (ii) a willingness to avoid or simply not enforce prescribed sanctions, including manoeuvring around formal sanctions by trading with third-party countries; and (iii) recognition of current or future relationship benefits, as with Russia deploying North Korean troops into Ukraine in October 2024 in return for Russia providing military and financial aid to North Korea (in defiance of UN sanctions).

North Korea is not an isolated case of sanctions failing to achieve their goal. Russia's successful redirection of oil and gas exports to eastern markets following Western sanctions, imposed after its 2022 invasion of Ukraine, demonstrates a similar pattern of circumvention. India, notably, has at least until very recently been a significant purchaser of discounted Russian crude oil, whilst simultaneously exporting $91 billion of goods to the US and $77.1 billion to the EU in 2024. This illustrates how Western trading partners have helped states dilute sanctions whilst maintaining their own commercial relationships with the imposing states.

These examples collectively highlight a central flaw: by relying on sanctions as a principal coercive instrument, states expose a structural weakness. In today's multipolar world, determined countries can exploit geopolitical divisions and rapidly form alliances that help them undermine sanctions, raising doubts about sanctions' continued viability as the main tool of state power.

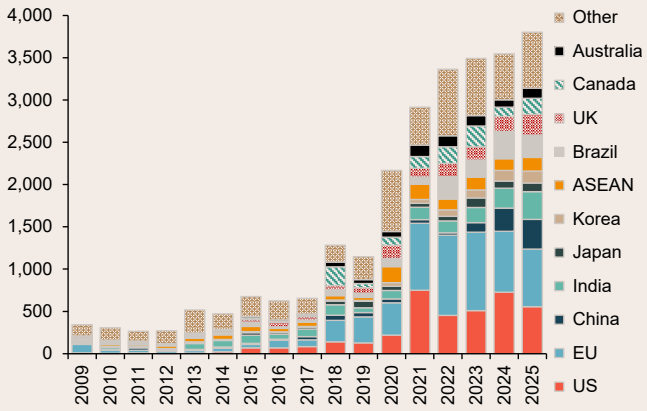
2 As discussed in *Hard: Sanctions, Inducements and the Case of North Korea* by Haggard and Noland (2017).

Trade policy measures, by type



Liberalising measures: policies removing or reducing barriers to trade between countries. **Harmful measures:** policies that raise trade barriers, discriminating between domestic and foreign actors.

Harmful trade policy measures, by country



Source: Global Trade Alert and Independent Economics

> "as a nation, we must address the challenges posed by these threats and strengthen our national and international policies accordingly."
>
> **President Obama, 2012**

The expanding instruments of statecraft

Whilst the US tariff announcements on 2 April 2025 – 'Liberation Day' – shocked global markets and dominated headlines, they did not mark the beginning of a shift in Western trade policy. Rather, they represented an acceleration of a trend under the Trump administration that had been building for nearly two decades: the deployment of administrative non-trade barriers, as well as industrial policy and investment controls as instruments of statecraft. Together, these are designed not merely to serve economic objectives but also wider foreign policy and national security interests.

The gradual re-evaluation of trade and industrial policy began in the aftermath of the 2008–2010 financial and automotive crises, which exposed the fragility of interconnected global supply chains. In 2012, President Obama acknowledged that *"disruptions to supply chains caused by natural disasters - earthquakes, tsunamis, and volcanic eruptions - and from criminal and terrorist networks seeking to exploit the system or use it as a means of attack can adversely impact global economic growth and productivity,"* concluding that *"as a nation, we must address the challenges posed by these threats and strengthen our national and international policies accordingly."*

The COVID-19 pandemic intensified these concerns. Governments discovered that decades of globalisation had eroded domestic skills, intellectual property, and industrial capacity, leaving them reliant on supply chains that they could not control. The pandemic also revealed the limits of international cooperation under stress, as nations prioritised domestic needs over collective commitments. In March 2021, when the EU threatened to block the export of Oxford-AstraZeneca vaccines to the UK, then-Prime Minister Boris Johnson ordered military chiefs to plan a raid on a Dutch factory to secure 5 million doses. The plan was ultimately stood down, but it illustrates how rapidly trade disputes can escalate when critical supplies are at stake.

Policy responses followed swiftly.

In January 2021, the UK enacted the National Security and Investment Act, granting government powers to scrutinise and block foreign acquisitions in 17 strategic sectors, including defence, energy, communications, and AI. The Act was an explicit acknowledgement that investment policy must serve national security objectives, not merely economic efficiency.

The EU reached similar conclusions. In a report following the pandemic, the EU Parliament concluded that the EU must *"reduce its dependence on unreliable trade partners"* and *"shift to a more pragmatic trade policy,"* acknowledging that *"targeted protectionist instruments can be appropriate tools to enhance the EU's bargaining power, protect the EU's fundamental interests, and ultimately ensure that global supply chains are actually open to the EU."* Between 2023 and 2026, the EU expanded its use of anti-dumping duties, tariffs applied when imports are priced below fair market value, introducing duties of 10% to 35% on biodiesel and a uniform 79% duty on ceramics, representing a marked escalation from previously applied rates.

In March 2026, the EU announced its Industrial Accelerator Act, establishing 'Made in Europe' rules intended to increase manufacturing's share of GDP in targeted strategic sectors from 14% to 20% by 2035. The new rules, focused on sectors such as steel, automotive, and net-zero technologies, establish minimum requirements, such as setting floor-level quotas of goods to be made in the EU within end-products, requiring foreign companies trading in the EU to provide technology and knowledge transfer in order to access public funding. These measures are framed not merely as economic protection but as strategic independence, reducing the EU's dependency on foreign suppliers in critical industries.

Against this backdrop, Liberation Day appears less as a standout anomaly than as an escalation in the use of tariffs as a tool of statecraft. The US tariffs, ranging from 10% to 50% on imports from almost every country, were presented as a means to restore fairness in US trade relations. According to the University of Pennsylvania, the effective tariff rate in the US rose to 9.8% in 2025, up from 2.2% in 2024, generating an additional $189 billion in federal revenue. Following the US Supreme Court's decision on 20 February 2026 that the Liberation Day tariffs were unconstitutional, the US Government announced a flat-rate tariff initially set at 10%, rising to 15%, which, according to Secretary Bessent's announcement on 4 March 2026, is to take effect in a matter of days (the tariff rise has not been imposed at the date of writing this Risk Navigator).

The Liberation Day announcements caused material disruption across global markets, with the S&P 500 falling approximately 12%, the CSI 300 approximately 7%, and the FTSE 100 approximately 6% in the days immediately following. Yet whilst the scale and abruptness of the US action drew widespread criticism, it was consistent with the direction of policy across Western economies.

It would be easy to mistake the use of tariffs as merely a tool to influence fiscal and/or economic policy. However, evidence points to a much wider use of tariffs, in which they are deployed as coercive leverage. President Trump threatened to impose substantial tariffs on Taiwan unless Taiwanese semiconductor manufacturers built facilities in the US: a demand that has since been met, with TSMC, a leading global semiconductor provider, announcing

major US-based production investments. This example illustrates how tariff threats can simultaneously serve economic objectives (reshoring advanced manufacturing), foreign policy objectives (exerting leverage over a foreign partner's industrial strategy), and national security objectives (reducing dependency on a supply chain concentrated 130 kilometres from mainland China, which produces over 90% of the world's most advanced semiconductors).

A similar pattern has emerged more broadly. Other countries' governments and corporations have announced substantial investment commitments in the US, widely interpreted as efforts to secure reduced tariffs or economic exemptions. This dynamic turns the traditional logic of trade policy on its head: rather than tariffs serving as defensive measures to protect economic interests and industrial competitiveness, they are deployed offensively to extract concessions, such as large-scale capital investment, transfer of sensitive technology, and relocation of supply chains.

President Trump has also claimed in numerous forums that tariff threats were instrumental in de-escalating tensions between India and Pakistan in 2025. For instance, Trump stated at the Asia-Pacific's October 2025 summit in South Korea that he threatened to impose 250% tariffs to prevent the two nations from going to war. He restated this claim during the launch of the Board of Peace on 19 February 2026, citing a threatened rate of 200%. Prime Minister Modi of India has repeatedly denied these claims. Regardless of their legitimacy, the assertion itself is revealing, not least because it signals an intention to deploy tariffs and trade policy as a tool of conflict prevention, a function traditionally reserved for diplomacy and, indeed, sanctions.

Taken together, these developments emphasise a fundamental policy shift. Trade tariffs, industrial policy, and investment controls are no longer merely instruments of economic management. They have become forms of statecraft, deployed to protect national security, advance foreign policy objectives, and redefine national competitiveness.

> "targeted protectionist instruments can be appropriate tools to enhance the EU's bargaining power, protect the EU's fundamental interests and ultimately ensure that global supply chains are actually open to the EU."
>
> **EU post-pandemic report**

A new reality for businesses, globally

The shift from sanctions to tariffs and industrial policy represents a fundamental reordering of global economic governance, one that will reconfigure supply chains, alter competitive dynamics, and create new winners and losers across industries and governments. This is not a temporary disruption, but rather a structural shift that exposes businesses to a new and serious set of risks, which, for those caught watching, could be catastrophic.

The isolated yet converging nature of policy changes across Western economies confirms the permanence of this change. The UK, the EU, and now the US have each moved independently towards a more interventionist posture, deploying tariffs, investment controls, and industrial policy to protect strategic industries, secure supply chains, and advance geopolitical objectives. The conventional standard of free trade that defined the post-WWII era and the ideology that underpinned it has been set aside in favour of a more transactional approach, in which economic policy is inextricably linked to foreign policy and national security objectives.

For boards and senior management, this new environment can be defined by four principal characteristics:

1. **Unpredictability.** Tariff announcements can emerge with no warning and change rapidly, as events after Liberation Day have demonstrated. The traditional basis of trade policy, which has evolved gradually through multilateral negotiations, no longer holds. Businesses must be prepared for sudden, material changes to the cost, availability, and transportation of imports and exports.
2. **Politicisation.** Trade policy is now explicitly tied to foreign policy and national security objectives. Commercial decisions, such as where to manufacture, source supplies, and enter markets, can become geopolitical signals, attracting government scrutiny or retaliation. Business leaders could find themselves caught between competing government demands, pressured to demonstrate loyalty to one bloc at the cost of market access to another.
3. **Leverage.** Tariffs are being deployed not merely as protective measures but as offensive tools to extract concessions. The pattern of foreign governments and corporations announcing investment commitments in exchange for tariff relief illustrates a new reality: trade relationships are now negotiations, and access must be earned and diligently managed once secured.
4. **Speed of escalation.** Retaliatory measures can escalate quickly, as witnessed in successive rounds of US-China tariff negotiations. A dispute over one product type can rapidly expand to incorporate entire supply chains, with limited notice or time for businesses to adapt.

These dynamics present boards with urgent strategic questions that, given the nature of this new statecraft, will need to be asked regularly:

- How exposed is the supply chain to tariff escalation?
- Is the company over-reliant on manufacturing or sourcing in countries likely to face trade restrictions?
- How would a 20–30% cost increase on critical minerals and materials (including critical components and spare parts) affect competitive pricing?
- Is the manufacturing process reliant on sole or single-source relationships, thereby limiting the ability to respond to sudden policy changes?
- Is the company proactively monitoring for policy signals, such as political themes and comments, legislative proposals, and regulatory consultations, that could influence future market access (whether on the buy or sell side)?

The potential operational consequences of failing to address these questions are significant:

- Immediate, unpredictable changes in the availability, supply, transportation, and pricing of critical minerals and materials used for the production of end-products and/or spare parts.
- Divergent industrial policy, regulatory requirements, and product standards across jurisdictions.
- Market access restrictions, quotas, or prohibitive duties render certain trade corridors uneconomic.
- Government retaliation against companies perceived as aligned with rival interests.
- Import duties that erode price competitiveness vis-à-vis domestically-produced alternatives.
- Inventory management disruptions, as just-in-time models prove inadequate for a volatile trade environment.

Undoubtedly, there will be winners and losers as companies adjust to this new form of statecraft. The businesses best positioned to navigate this environment will be those that treat geopolitical risk as a core strategic discipline and a factor of competitive advantage.

Building geopolitical readiness through prevention and adaptation

As this Risk Navigator has established, sanctions, once a principal tool for directing and influencing international behaviour, are today ineffective in isolation. Geopolitical fragmentation and the emergence of new alliances have diluted their coercive power, prompting governments to expand their toolkit. Business leaders should expect to see the growing use of tariffs, industrial policy, and investment controls as governments address the growing urgency and importance of protecting their trade, foreign policy, and national security objectives. The need for coercive economic statecraft is escalating by the day, though how governments seek to instil compliance is changing.

The emergence of these instruments as tools of statecraft demands a fundamental rethink of how businesses identify, assess, and respond to geopolitical risk. Traditional risk management frameworks, built around likelihood and impact matrices with periodic review cycles, are not suited to risks that can materialise suddenly, without warning, and with immediate consequences for operational continuity and commercial competitiveness.

At Ashurst Risk Advisory, we adopt a more dynamic approach to:

- Take into account the speed of onset as a critical risk attribute, and
- Model risks to determine which must be prevented through upfront, proactive strategic and operational choices, and which require adaptability through organisational response and recovery.

Prevention applies where the consequences of a risk materialising are severe and response time is limited. Diversifying a supply chain dependency away from a single jurisdiction exposed to tariff escalation or a single-sourced supplier is a preventive measure: once tariffs are announced, the window for action closes quickly.

Adaptability applies where risks cannot be fully prevented but where rapid, rehearsed responses can mitigate impact. Responding to a sudden change in market access requirements, for example, demands pre-established protocols, clear escalation channels, and the readiness and ability of people, systems, data, and processes to act at a moment's notice.

All this has implications for how information flows through the organisation. Boards and senior management need to ensure that reporting and escalation channels are structured so as to surface emerging policy signals before they materialise. Timely intelligence, combined with well-rehearsed response playbooks, can mean the difference between operational adaptation and disruption.

Geopolitical risks arising from this new form of statecraft can manifest across the end-to-end business lifecycle, from strategy and business planning to product development, manufacturing, distribution, and maintenance. This underlines the importance of embedding geopolitical risk sensing in core business functions, not as a standalone compliance exercise, but as an integral part of strategic and operational decision-making. Examples of how this applies across the business include:

- **Strategic Planning.** Identify supply- and demand-side vulnerabilities to sanctions, tariffs and industrial policy developments. Develop mitigation plans that distinguish between preventive measures (structural changes to reduce exposure) and adaptive measures (response-based controls for rapid policy changes). Stress-test strategic plans against plausible geopolitical scenarios, including retaliatory escalation.
- **Product Development.** Integrate geopolitical risk sensing into research and development processes. Assess how divergent industrial policies, regulatory standards, and state-backed investment practices across jurisdictions may affect product viability, market access, and competitive positioning. Identify where product design choices can reduce exposure to tariff classifications or local content requirements.
- **Manufacturing.** Assess the geographic footprint of manufacturing facilities in light of current and expected trade barriers. Evaluate proximity to strategic buyers, exposure to tariff escalation in key corridors, along with the resilience of critical supply chains to disruption. Consider whether the current balance of cost, quality, and delivery remains viable under a range of geopolitical scenarios, including retaliatory measures that could rapidly alter the economics of production.
- **Transportation & Logistics.** Map transportation routes against geopolitical risk indicators and minimise single points of dependency. Watch for early warning signals of capacity disruption, insurance premium escalation, customs complications, or carrier reluctance to serve certain routes. Establish contingency arrangements that can be activated rapidly in response to sudden policy changes.
- **Maintenance, Repair, and Operations.** Identify parts and components most vulnerable to tariff increases or supply disruption. Map single-source dependencies and assess whether just-in-time inventory models remain appropriate given the speed at which trade policy can shift. Where critical, consider strategic stockholding to ensure continuity of scheduled and unscheduled maintenance activities.

The businesses that will win in the face of this new statecraft are those that treat geopolitical risk not as something to review periodically, but as a live, continuously evolving dimension of the business, where risk prevention, adaptability, and speed of response differentiate the winners from the losers.

Given your current level of preparedness, which side will you be on?

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Nisha is the Head of Ashurst's Risk Advisory business in the Middle East, advising organisations on geostrategy and enterprise risk with a rare blend of commercial and consulting expertise. With over 20 years of experience, she is a seasoned board adviser and a globally recognised authority on governance, having held a series of senior executive and board roles with global investment and wealth management firms, and serving as a special advisor to government bodies and regulators. Her experience includes providing board level executives with deep technical governance and risk management insights, and leading complex business change and transformation programmes. She was previously the co-founder and Chief Executive Officer of Rosediem Consulting, a boutique consulting firm specialising in providing tailored solutions in regulatory compliance, enterprise risk management and governance. Today, alongside her role as Head of Ashurst Risk Advisory Middle East, Nisha is a valued member of the Corporate Governance Committee of the Institute of Chartered Accountants England & Wales (ICAEW).

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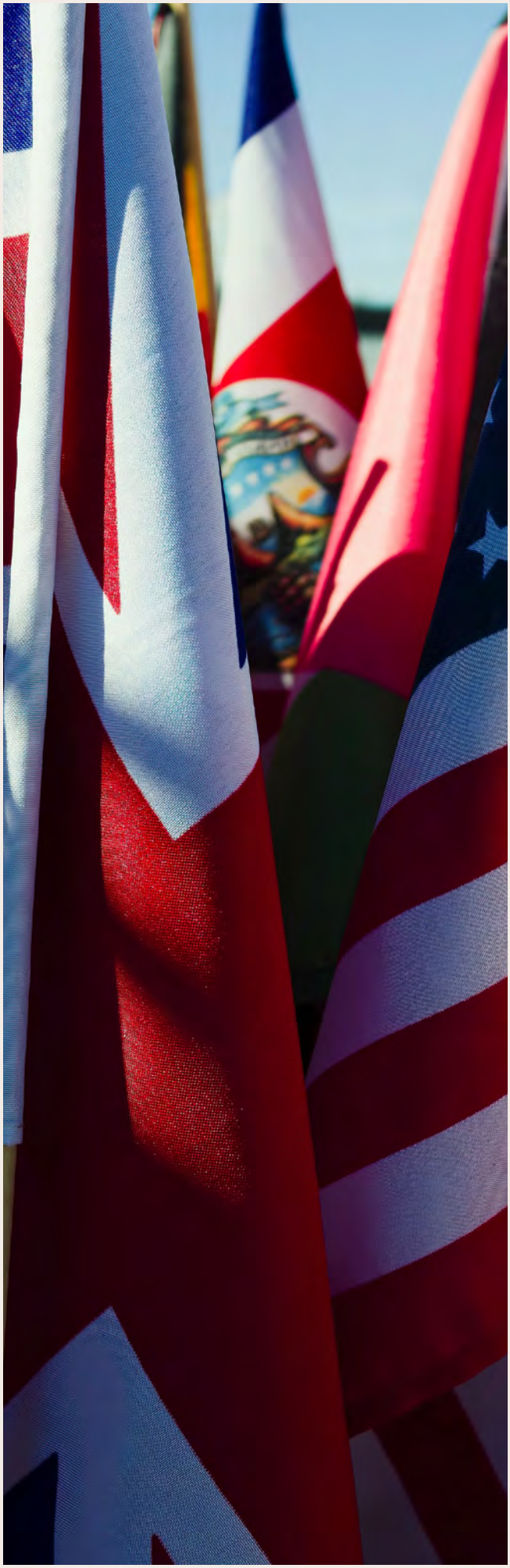

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Design Ref: R016820 Apr 26