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EDITORIAL ANALYSIS

The Limits of an Economic D-Day

BUSINESS STANDARD

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The Limits of an Economic D-Day

Business Standard 26 August 2026 GS2 GS3

INTERVIEW ANGLE

"Sanctions work by cutting a country off from the global economy. What happens to that logic when one very large buyer decides not to participate in the cutting off?"

Source: Original editorial ↗ Business Standard

Every fact web-verified against primary sources

THE LIFT LINE

A blockade works only if everyone agrees to blockade. When the largest customer declines, the policy stops being about the target and becomes about the customer.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Sanctions, energy security and West Asian stability are recurring GS2 and GS3 themes, and India's exposure is direct. The primary-versus-secondary sanctions distinction is examinable in its own right and poorly understood.

GS Paper 2: Effect of policies and politics of developed and developing countries on India's interests; bilateral and global groupings.

GS Paper 3: Energy security; effects of external events on the Indian economy.

CONCEPT	MEANING	WHY IT IS TESTABLE
Primary sanctions	Prohibit the sanctioning state's own persons from dealing with the target	The baseline instrument
Secondary sanctions	Penalise third-country entities for dealing with the target, even where lawful at home	The extraterritorial escalation at issue
Strait of Hormuz	The chokepoint between the Persian Gulf and the Gulf of Oman	Why the dispute is a global economic question

BACKGROUND AND CONTEXT

The Measures

ELEMENT	DETAIL
Entities designated	Roughly 60, under sectoral determinations issued 24 August 2026
Sectors covered	Digital assets, technology, gold, aviation, shipping
Preceding period	Six months of strikes that did not dislodge the government or reopen the Strait
Structural obstacle	China purchases nearly 90 per cent of Iran's crude exports

Why Secondary Sanctions Work at All

Their force derives from the **centrality of the US dollar** and of the American financial system to international trade. A bank cut off from dollar clearing cannot function internationally, so third-country institutions comply even where their own law does not require it. This is leverage exercised through **infrastructure** rather than through law.

The Iran Nuclear Context

YEAR	DEVELOPMENT
2015	Joint Comprehensive Plan of Action (JCPOA) agreed between Iran and the P5+1
2018	The United States withdrew from the JCPOA and reimposed sanctions
Since	No successor agreement; Iranian nuclear activity and sanctions both expanded

Why the Strait Matters

The **Strait of Hormuz** connects the **Persian Gulf** to the **Gulf of Oman** and the Arabian Sea. A very large share of globally traded seaborne crude passes through it, and at its narrowest it is only a few kilometres of navigable channel. It is the reason a regional political dispute prices itself into global energy markets.

THE ANALYSIS

1. Sanctions efficacy is a coverage problem. An embargo denies access to markets, finance and technology. Its bite equals the share of the target's external economy that the coalition controls. A single very large non-participating buyer does not merely reduce the pressure; it can substantially neutralise it, because the target needs only one route to the world.

2. The enforcement path leads to the wrong opponent. If nearly 90 per cent of Iranian crude goes to China, then the banks, shippers and insurers facilitating that trade are largely Chinese. Enforcing secondary sanctions therefore means designating Chinese entities, which converts a policy directed at a middle power into a dispute with a peer competitor. **The policy's own logic escalates it beyond its stated target.**

3. The instrument is weaker than the one that already failed. Six months of military action did not achieve regime change or reopen the Strait. Economic pressure is a **less** coercive instrument than kinetic force. The burden of explanation lies with those claiming it will accomplish what greater force did not.

4. Repeated use erodes the instrument. Every extension of secondary sanctions strengthens the incentive for large economies to build non-dollar settlement, alternative messaging systems and independent insurance. Each use therefore borrows against the future utility of the same tool, a cost rarely counted at the time of designation.

5. The counter-argument is legitimate and should not be dismissed. Sanctions designers rarely claim capitulation as the objective. Constraining military and nuclear procurement, forcing crude to sell at a discount, and imposing transaction friction and shipping risk are real effects that occur even with a non-participating buyer. Judging sanctions against a regime-change benchmark measures them by a standard their architects did not set.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

Primary sanctions bind the sanctioning state's own persons; secondary sanctions penalise third-country entities dealing with the target.

Secondary sanctions derive force from US dollar centrality and access to dollar clearing.

Measures cited: roughly 60 entities under sectoral determinations covering five sectors, namely digital assets, technology, gold, aviation and shipping, announced 24 August 2026. Sectoral determinations enable secondary sanctions rather than being identical to them.

China purchases nearly 90 per cent of Iran's crude exports, per the editorial.

JCPOA agreed 2015 between Iran and the P5+1; the United States withdrew in 2018.

The Strait of Hormuz connects the Persian Gulf to the Gulf of Oman; a large share of seaborne traded crude transits it.

India's stakes include Chabahar port and the International North-South Transport Corridor (INSTC).

> *Do not confuse the* **Strait of Hormuz** *(Persian Gulf to Gulf of Oman, bordered by Iran and Oman) with the* **Bab-el-Mandeb** *(Red Sea to Gulf of Aden) or the* **Strait of Malacca***. All three are chokepoints and all three appear in questions; only Hormuz is the Iran pressure point.*

THE DEBATE

FOR (the sanctions cannot achieve their objective): Efficacy depends on coverage, and the dominant buyer is outside the coalition. Enforcement requires designating Chinese entities, escalating beyond the intended target. A weaker instrument is unlikely to deliver what six months of force did not. Repeated use accelerates de-dollarisation.

AGAINST (sanctions are being judged by the wrong standard): Capitulation was never the design objective. Constraining procurement, forcing discounted sales and imposing transaction friction are real and cumulative. The Iranian economy is measurably weaker under sanctions than it would otherwise be, and that constraint is itself the purpose.

Balanced verdict: Both are right about different questions. Sanctions **do** impose real costs and **do not** appear capable of producing the stated political outcome, and the honest position is to say so rather than to keep restating the objective. The distinctive risk this tranche introduces is that its enforcement mechanism runs through Chinese entities, which means the policy's escalation path is determined not by Iranian behaviour but by American willingness to confront Beijing. For India, the practical response is insulation rather than alignment: diversify crude sourcing and payment channels, negotiate explicit carve-outs for **Chabahar** and the **INSTC** in advance rather than after designation, and maintain the position that freedom of navigation through Hormuz is a global public good separable from the underlying dispute.

HOW TO THINK ABOUT THIS

Before assessing any coercive economic measure, calculate its **coverage ratio**: what share of the target's external economic relationships does the coalition imposing it actually control? Sanctions with high coverage, as against a small economy trading mainly with the sanctioning bloc, are genuinely coercive. Sanctions with low coverage transfer trade to non-participants and impose costs on the target that are real but survivable.

Then ask the second question, which is where this case becomes distinctive: **who must be confronted to enforce it?** When the enforcement path runs through a peer competitor rather than through the target, the measure has an escalation dynamic independent of the target's behaviour. That combination, low coverage plus enforcement against a peer, is the specific configuration that turns an instrument of pressure into a source of risk.

DIAGRAM-IN-WORDS

Secondary sanctions on Iran

↓

Target the trade that sustains Iran

↓

But that trade is nearly 90 per cent Chinese
Banks, shippers and insurers follow the buyer

↓

Enforcement means confronting Beijing

Each step follows necessarily from the one above. The escalation is not a policy choice made at the end; it is built into the instrument at the start.

TAKEAWAY BOX

A blockade works only if everyone agrees to blockade. When the largest customer declines, the policy stops being about the target and becomes about the customer.

Primary versus secondary sanctions; dollar clearing as the enforcement mechanism; roughly 60 entities under sectoral determinations of 24 August 2026 covering digital assets, technology, gold, aviation and shipping; China takes nearly 90 per cent of Iranian crude; JCPOA 2015 with the P5+1, US withdrawal 2018; Strait of Hormuz links the Persian Gulf to the Gulf of Oman; India's Chabahar and INSTC stakes.

Is it legitimate for one state to penalise the citizens of another for conduct that is entirely lawful in their own country?

Connects to past UPSC Mains questions on India's energy security, on West Asia and India's interests, and on the impact of great-power competition on developing economies.

"The effectiveness of sanctions is a function of coverage, not of severity." Critically examine with reference to measures against Iran.

Source: The Limits of an Economic D-Day — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Business Standard argues that the designation of roughly 60 entities under sectoral determinations covering five Iranian sectors, namely digital assets, technology, gold, aviation and shipping, following six months of strikes that failed to dislodge the government in Tehran or reopen the Strait of Hormuz, faces a structural limit: China purchases nearly 90 per cent of Iran's crude exports and supplies dual-use technology, so the escalation is more likely to produce a direct confrontation between the United States and China than Iranian capitulation.

✓ SUPPORTING

- Sanctions operate by denying access to markets, finance and technology, so their effectiveness depends on the proportion of the target's external economic relationships that the sanctioning coalition actually controls, and a single very large non-participating buyer can neutralise most of that leverage.
- Because China takes the overwhelming share of Iranian crude, enforcing secondary sanctions against the entities that facilitate that trade necessarily means acting against Chinese banks, shippers and insurers, which converts a policy aimed at Iran into a dispute with a peer competitor.
- The stated objectives, regime change and reopening the Strait of Hormuz, were not achieved by six months of military action, which raises the question of why an economic instrument of lesser coercive force should achieve what a greater one did not.

⚠ COUNTER

The counter-view is that sanctions are not intended to produce immediate capitulation but to raise the sustained cost of a policy, degrade the target's military and nuclear procurement over time, and impose discounts and transaction friction even on non-participating buyers, so measuring them against a regime-change benchmark sets a standard their designers never claimed. On this view, the Iranian economy under sanctions is measurably weaker than it would otherwise be, and that constraint is itself the objective.

→ WAY FORWARD

For India the implication is not to take a side but to insulate: diversify crude sourcing and payment channels against secondary-sanction exposure, protect the Chabahar and

International North-South Transport Corridor investments through explicit carve-outs negotiated in advance rather than sought after designation, and continue to press the position that freedom of navigation through the Strait of Hormuz is a global public good distinct from the underlying political dispute.

MAINS ANSWER FRAMEWORK

QUESTION

Secondary sanctions extend a state's domestic law to third-country entities. Examine their effectiveness and their implications for international economic order, with reference to recent measures on Iran. (250 words)

INTRODUCTION

Sanctions are the principal coercive instrument of contemporary statecraft short of force, and secondary sanctions are their most far-reaching form, extending one state's domestic law to third-country entities. Business Standard argues that the latest tranche directed at Iran runs into a structural limit that no amount of enforcement resolves.

BODY

Primary sanctions prohibit a sanctioning state's own persons from dealing with a target. Secondary sanctions go further, penalising third-country entities for dealing with the target even where that dealing is lawful in their own jurisdiction, and they work through the centrality of the US dollar and the American financial system, since a bank excluded from dollar clearing is effectively excluded from international trade. Their efficacy is therefore proportional to how much of the target's external economy the sanctioning coalition controls. This is where the editorial locates the difficulty.

If China purchases close to 90 per cent of Iran's crude exports, then the trade the sanctions are designed to stop is overwhelmingly conducted with a state that has both the capacity and the motive to build workarounds, including non-dollar settlement, opaque shipping arrangements and its own insurance provision. Enforcing the measures against the facilitating entities therefore means designating Chinese banks, shippers and insurers, which transforms a policy aimed at a middle power into a confrontation with a peer competitor, with consequences extending well beyond Iran.

The wider context sharpens this: the Joint Comprehensive Plan of Action of 2015 was abandoned by the United States in 2018, and the intervening years produced neither an alternative agreement nor Iranian capitulation. The Strait of Hormuz, through which a large share of globally traded seaborne oil passes, remains the pressure point that makes the dispute a global economic question rather than a regional one.

CONCLUSION

A balanced answer should concede that sanctions are rarely designed to produce immediate capitulation, and that constraining Iranian procurement and imposing transaction costs are real effects even when the political objective is unmet. The editorial's point survives that concession: an instrument whose enforcement requires confronting the target's principal customer has a cost structure its designers should state openly.

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