6 Assessing Which Third-Party States Become Trade-Based Sanctions Busters

THIS CHAPTER EVALUATES THE GENERALIZABILITY OF THE sanctions-busting theory's explanation of trade-based sanctions busting using a statistical method of analysis. It analyzes the sanctions-busting trade relationships that third-party states had with target states over the course of the same set of ninety-six U.S. sanctions episodes examined in Chapter 3. The analysis tests the key factors that contribute to whether a third-party state will engage in trade-based sanctions busting on behalf of a target state in a given year. It complements the findings from the previous statistical analysis by identifying the reasons why specific third-party states sanctions-busted on the target states' behalves in each of those sanctions episodes. The results of this analysis offer generalizable insights into the factors that influence trade-based sanctions-busting behavior and can be used to develop a profile of the states most likely to become trade-based sanctions busters in any given sanctions episode.

The results are highly supportive of the trade-based sanctions-busting hypotheses proposed in Chapter 4. The factors that affect the profitability of trade between third-party and target states appear to have the greatest influence over which third-party states become extensive sanctions busters. Along those lines, the results strongly support the hypothesis that U.S. allies should be more likely to bust its sanctions than nonallied states. The results also provide further evidence to suggest that the neighbors of target states conduct a significant proportion of their sanctions-busting trade via illicit or unre-

corded channels. The sanctions-busting profile that can be gleaned from this analysis paints a disturbing picture for American policy makers: U.S. sanctions are most likely to be undercut by fellow democracies with which it is allied that also possess large, globalized economies (for example, France, Great Britain, Canada, Japan, and so on). In other words, the closest friends of the United States turn out to be its sanctions' greatest enemies.

Analyzing Trade-Based Sanctions Busters

This chapter employs a data set of the yearly trade relationships that 165 different third-party states had with countries sanctioned by the United States from 1950 through 2002. The dependent variable of this analysis is whether third-party states engage in trade-based sanctions busting on a target's behalf in a given year. Drawing on the factors identified by the hypotheses, a binary time-series cross-sectional analysis is used to identify the variables that are most strongly associated with trade-based sanctions-busting behavior.

The data set is constructed to facilitate analyzing how both sender and target states can influence whether third-party states sanctions-bust on the target's behalf. The structure of the data set is organized around the specific triadic relationships formed among the primary sender (in this case, the United States), the target of its sanctions, and the various third-party states. To create the data set, the observation years in which the United States had imposed sanctions against a target are identified for each of the sanctions episodes. For each U.S.–target pairing in these sanctions episodes, the remaining states in the world are matched with them as third-party states to form individual triadic units. Yearly observations of the triadic units formed between the United States as the primary sanctioner, the target of its sanctions, and every possible third-party state are employed as the unit of analysis.[1] Via this approach, the factors that increase or decrease third-party states' likelihoods of engaging in extensive trade-based sanctions busting in any given sanctions episode can be assessed.

The dependent variable for each triadic observation is the *Trade-Based Sanctions Busting* variable coded in Chapter 3. This variable flags the individual instances in which third-party states engaged in extensive trade-based sanctions busting on a target's behalf in a given year. This approach flags roughly 2.68 percent of the observations as involving trade-based sanctions busting if the sample is limited to only those observations in which bilateral

TABLE 6.1. Most active trade-based sanctions busters.

Third-party states	*Sanctions-busting observations*	*Rank*
Japan	328	1
West Germany	242	2
Italy	193	3
France	164	4
United Kingdom	139	5
Germany	129	6
China	121	7
Brazil	64	8
South Korea	59	9
Soviet Union/Russia	58	10
Saudi Arabia	57	11
Singapore	56	12
Netherlands	48	13
Thailand	45	14
India	45	15

trade data for third-party and target states are available.[2] This indicates that only a limited number of third-party states tend to engage in extensive trade-based sanctions busting in most sanctions episodes.

A fairly significant number of states engaged in extensive trade-based sanctions busting at least once, but most of the sanctions busting was conducted by a relatively small number of countries. Out of the total number of third parties for which at least some trade data were available, 45.26 percent (eighty-six) had at least one observation in which they sanctions-busted on a target's behalf. Table 6.1 depicts the top fifteen countries that, in their roles as third-party states, engaged in extensive sanctions busting in the sample. As it shows, Japan, (West) Germany, Italy, France, and the United Kingdom were by far the most active trade-based sanctions busters. If the scores of West Germany and postunification Germany are counted together, Germany was the most active sanctions buster followed closely by Japan. Indeed, the five most active sanctions busters accounted for 47.16 percent of the total amount of sanctions busting that took place in the sample. What's notable is that all of the leading sanctions busters are democratic U.S. allies that possessed large economies and were heavily engaged in international trade. Beyond just these first impressions, however, more rigorous analysis of the factors that motivated these states to sanctions-bust is needed.

To test the sanctions-busting theory's hypotheses, this chapter develops an integrated model of the factors most likely to be associated with trade-based sanctions-busting behavior. For the *Third-Party Economic Size Hypothesis*, the model employs a variable using data on the gross domestic product (GDP) in current-year U.S. dollars for each third-party state in a given year. This GDP variable is logarithmically transformed to reduce its skew and lagged one year to ensure that it is not endogenously related to the dependent variable.[3] One-year lags are used for all the economic variables to ensure that the causal relationships being evaluated run in only one direction. The hypothesis predicts that this variable should be positively associated with third-party states' likelihoods of becoming extensive sanctions busters in the analysis. Third-party states with large economies, like Japan and Germany, should thus be much more likely to extensively sanctions-bust than countries like Guatemala.

To test the *Third-Party Commercial Openness Hypothesis*, the model relies on a measure of the total amount of international trade a third-party state conducts as a proportion of its GDP in a given year.[4] The variable captures the economic importance of international trade to the third-party state's economy. Contrary to the previous measure, this variable does not measure the absolute scale of economic activity in a third-party state; rather, it captures the intensity of its involvement in international trade in relation to its broader economy. Whereas neither the Netherlands nor Singapore possesses large economies, both countries are international trade hubs and operate two of the largest seaports in the world. The extensive involvement of these countries in international trade should have made them highly commercially competitive sanctions busters—explaining their place on the top-fifteen list with countries possessing much larger economies. This hypothesis thus predicts that *Third-Party Commercial Openness* should positively affect the likelihood that third-party states will sanctions-bust.

The *Third-Party Commercial Dependence Hypothesis* is tested via a measure of the salience of the bilateral trade that a third-party state conducts with a target in a given year in relation to the total amount of international trade the third-party state conducts. The *Third-Party Commercial Dependence* variable captures the extent to which a third-party state is dependent on its trade relationship with a target. The greater this level of dependence, the more costly and difficult it should be for third-party governments to disrupt that trade relationship by cooperating with sanctioning efforts. The stronger these ties are, the easier it should also be for target firms to find replacement trade partners in those third-party states. This variable should have a strong, positive effect on third-party states' likelihoods of sanctions busting on a target state's behalf.

According to the sanctions-busting theory's next two hypotheses, a third-party state's possession of defense pact alliances with either the sender or target states should positively affect its likelihood of sanctions busting. In any given triadic observation, four different potential defense pact arrangements can exist for a third-party state: It could have a defense pact with the sender only, a defense pact with the target only, defense pacts with both states, or defense pacts with neither.[5] Whereas possessing a defense pact with a target state provides a target government with political incentives to support sanctions busting on a target's behalf, possessing a defense pact with a sender insulates third-party governments and their firms from reprisals for exploiting sanctions-busting opportunities. Both mechanisms provide firms in third parties and target states with additional commercial incentives to sanctions-bust. The hypotheses thus predict that, compared to not having a defense pact with either state, the possession of defense pacts with the target, sender, or both states should make a third-party state more likely to sanctions-bust. For the model, this variable is coded as a series of dummy variables that capture each of the four categories of alliance arrangements. The analysis compares the effects of possessing only a defense pact with the target, only a defense pact with the sender, or defense pacts with both states to the null condition of possessing defense pacts with neither.

To evaluate the *Target-Third Party Democratic Regimes Hypothesis*, the analysis tests whether the presence of democratic regimes in the target and third-party states influences the likelihood of a sanctions-busting relationship emerging between them. The third-party and target states are coded as possessing democratic regimes using data from the *Polity IV Project*.[6] Because the United States is the sender in all the sanctions cases and it is always a democracy, the analysis can only explain the role played by variation in the target and sender states' regimes. This means that there are four different configurations of target and third-party regime types that can exist within a given triad: The target is the only democracy, the third-party state is the only democracy, both are democracies, and neither is a democracy. The sanctions-busting theory predicts that when the target and third-party states both possess democratic regimes they should be more likely to develop a sanctions-

busting relationship than if neither possesses them. To code these different regime-type configurations within the analysis, a series of dummy variables is used to capture each of the categories. The "neither state being democratic" category is employed as the null category for comparison.

The *Target–Third Party Distance Hypothesis* seeks to evaluate the role that distance plays in affecting which third-party states are most likely to sanctions-bust on behalf of a particular target state. The farther away a third-party state is from the target, the more costly and challenging it will be for firms in both countries to establish extensive sanctions-busting relationships. The distance separating target and third-party states is coded using the distance between the states' capital cities, except for states that share land borders for which the practical distance between them is 0.[7] Because countries' capital cities also tend to be their economic hubs and located more centrally within their states, this approach is preferable to using minimum distance measures.[8] According to the hypothesis, this variable is expected to negatively affect the likelihood of third-party states becoming extensive trade-based sanctions busters on behalf of target states.

Whereas the previous hypothesis asserts that third-party states that are more geographically proximate to target states are more apt to sanctions-bust, the *Target–Third Party Shared Border Hypothesis* takes into account the commercial and political incentives that exist to use illicit or untraceable sanctions-busting channels. It predicts that the comparative ease by which traders can engage in cross-border smuggling often makes that approach preferable to conducting legitimate, recorded trade. These incentives exist for both the firms and governments of third-party states that may want to avoid reprisals from sender states or negative publicity that may arise from their sanctions-busting activities. Third-party states are coded as being neighbors to a target state if they share a land border with it or are separated from it by less than twelve miles of water using data from the *Direct Contiguity Data Set*.[9] This hypothesis predicts that being a direct neighbor of a target state makes a third party less likely to sanctions-bust on its behalf using legitimate, observable trade flows. This variable should thus have a negative effect in the analysis.

In addition to the hypothesized variables, several additional control variables are included within the analysis. The first is the size of the target state's economy, which is coded using the logged and lagged value of its GDP (*Target Economic Size*). This is important because the larger a target state's economy is, the better its domestic economy may be able to adjust to the sender's sanctions without the external support of sanctions busters. Secondly, the model controls for the severity of the sanctions imposed against a target state. The literature on this topic is conflicted. Previous work by Caruso suggests that the disruptive effects of harsh sanctions tend to be significant impediments to trade with target states, which may actually prevent states from sanctions-busting on their behalf.[10] In contrast, authors such as Drezner and Kaempfer and Lowenberg argue that the harsher the sanctions imposed against a target are, the greater the commercial benefits of sanctions busting for third parties are apt to be.[11] Using data from Hufbauer and his coauthors' sanctions data set, harsh sanctions are coded as being in place if a target is subject to import, export, and financial sanctions by the U.S. government in a given year (*Harsh U.S. Sanctions*).[12]

Lastly, the effects of time on third-party states' likelihoods of sanctions busting are controlled for in two ways. First, a duration variable (*Duration of the U.S. Sanctions*) is included that accounts for how long a target has been subject to continuous sanctions by the U.S. government in the data set. The longer the sanctions persist, the more time that target states should have to cultivate the most cost-effective sanctions-busting relationships possible with third-party states. Temporal dependence is also accounted for in the analysis by including a count variable for the number of years since a third party has sanctions-busted on the target's behalf (*Time Since Busting*) and the squared and cubed values of that variable.[13] It could be predicted that the longer a third-party state goes without establishing a sanctions-busting relationship with the target, the less likely it will be to do so in the long run.[14]

Analyzing the Results

The analysis of which third-party states engage in extensive trade-based sanctions busting requires the use of estimators that can assess binary outcomes and that are appropriate for analyzing relatively rare events.[15] As such, a basic logit estimator and a more specialized rare-events logit are used to analyze the models. In both cases, standard errors clustered by target states are employed. The effects of temporal dependence are controlled for by the cubic polynomial variables that account for the time since a third-party state last sanctions-busted on a target's behalf.[16] In terms of the sample of cases employed, the analysis focuses on those observations in which trade data between the tar-

TABLE 6.2. Analysis of the causes of extensive trade-based sanctions busting.

	Model 1	*Model 2*
Third-Party Economic Size	0.722*** (0.042)	0.721*** (0.042)
Third-Party Commercial Openness	0.062*** (0.013)	0.064*** (0.013)
Third-Party Commercial Dependence	4.213*** (1.242)	4.184*** (1.242)
Only a U.S.–Third Party Defense Pact	0.881*** (0.117)	0.880*** (0.117)
Third-Party Defense Pacts with Both	0.764*** (0.218)	0.765*** (0.218)
Only a Target–Third Party Defense Pact	0.839*** (0.268)	0.840*** (0.268)
Only Target Democratic	−0.074 (0.242)	−0.065 (0.242)
Both Democracies	0.500* (0.272)	0.501* (0.272)
Only the Third-Party Democratic	0.039 (0.113)	0.039 (0.113)
Target–Third Party Distance	−0.641*** (0.120)	−0.641*** (0.120)
Target–Third Party Shared Border	−3.286*** (0.948)	−3.281*** (0.948)
Target Economic Size	−0.156*** (0.053)	−0.156*** (0.053)
Harsh U.S. Sanctions	0.008 (0.214)	0.009 (0.214)
Duration of U.S. Sanctions	0.067*** (0.015)	0.067*** (0.015)
Time Since Busting	−0.884*** (0.093)	−0.882*** (0.093)
Time Since Busting^2	0.043*** (0.009)	0.043*** (0.009)
Time Since Busting^3	−0.001*** (0.000)	−0.001*** (0.000)
Constant	−8.423*** (1.614)	−8.414*** (1.614)
Probability > χ^2	0.000	
Observations	83,143	83,143

Clustered standard errors are included below the variable coefficients in parentheses. Asterisks (*, **, and ***) denote statistical significance at the 90, 95, and 99 percent confidence levels using one-tailed tests.

get and third-party state are fully available and exclude cases for which they are missing. Table 6.2 displays the results of using the basic logit estimator in Model 1 and the rare-events logit estimator in Model 2. Both models provide strong support for the sanctions-busting theory's hypotheses. The discussion focuses on the results from Model 1 because both models produce nearly identical results.

An important component of the analysis in this section concentrates on understanding the substantive effects or "real-world" impact that the various variables have on sanctions-busting behavior. This is done by examining how particular factors change the likelihood that third-party states will sanctions-bust under different scenarios. By assuming that all the variables in the analysis take on their mean or modal values in a scenario and then isolating the effects of changing a single variable, its predicted real-world effects in an average scenario can be ascertained.[17] This is done by comparing the predicted probabilities of third-party sanctions busting taking place in two different scenarios to identify differences in the relative risks of its occurrence. It is notable that, given the overall rarity of sanctions-busting behavior, its absolute chances of occurring in average scenarios is quite low (approximately 0.25 percent in a given year). This is consistent with the expectation that third-party states will extensively sanctions-bust only when it is highly profitable for them to do so—which it is not in most typical circumstances. Yet when the factors identified by the theory jointly take on favorable values, the likelihood of a third-party sanctions busting can rapidly increase. The initial analysis focuses on exploring how changes to individual factors alter the relative likelihood of trade-based sanctions-busting occurring in isolation. Subsequently, the analysis explores how changing the factors identified by the sanctions-busting theory in concert can affect the absolute likelihoods of sanctions busting taking place.

The results from the quantitative analysis provide strong support for the first three hypotheses related to third-party states' economic profiles and their commercial relationships with target states. In terms of the *Third-Party Economic Size Hypothesis*, the variable exercises a positive and statistically significant effect on the likelihood of third-party states engaging in sanctions busting. In an average scenario in which all other factors are held constant, increasing *Third-Party Economic Size* by one standard deviation (1.88) from its mean value (17.15) causes the predicted probability that a third-party state will sanctions-bust to rise by roughly 297 percent. If this value is increased instead by two standard deviations, the predicted probability of the third-party state sanctions-busting increases by 1,337 percent. This suggests that possessing a large economy significantly contributes to

third-party states' general likelihood of extensively sanctions-busting in any given sanctions episode.

The effects of *Third-Party Commercial Openness* are also positive and statistically significant as hypothesized. Substantively, the effects of changes to *Third-Party Commercial Openness* lead to a smaller but still notable increase in third-party states' likelihoods of sanctions-busting. Holding all other factors constant, increasing the variable by one standard deviation (1.91) above its mean (.19) leads to a 12.5 percent increase in an average third-party state's likelihood of sanctions-busting. This supports the hypothesis that actively trading third-party states are more likely to become extensive sanctions busters than countries that are not very engaged in international trade.

With respect to *Third-Party Commercial Dependence*, the variable positively and statistically significantly affects third-party states' likelihoods of sanctions-busting on target states' behalves. Holding all other factors constant in an average scenario, increasing *Third-Party Commercial Dependence* by one standard deviation (0.04) above its mean (.005) causes its predicted probability of sanctions-busting to increase by 12.5 percent. This means that the stronger the commercial linkage that a third party possesses with a target state, the more likely it is to sanctions-bust on the target's behalf. These findings support the hypothesis that third-party states' commercial dependence on target states increases their likelihoods of sanctions busting on target states' behalfs.

In terms of the defense pact–related hypotheses, the results of the three relational alliance variables should be interpreted together as they constitute a single categorical variable. The reported coefficients for each of these variables represent a comparison between the circumstance they represent and the null condition of the third-party state possessing no defense pacts with either the target or sender states. According to the *Target–Third Party Defense Pact (DP) Hypothesis*, the variables *Only a Target–Third Party Defense Pact* and *Third-Party Defense Pacts with Both* should positively affect the third-party states' likelihoods of sanctions-busting; indeed, both variables have positive and statistically significant effects in the model. Similarly, the *Sender–Third Party Defense Pact Hypothesis* predicts that *Only a Sender–Third Party Defense Pact* and *Third Party Defense Pacts with Both* should be positive. Supporting that hypothesis, the *Only a Sender–Third Party Defense Pact* variable is also positive and statistically significant. This indicates that third-party states that possess any combination of defense pact relationships with the target or sender states will be more likely to sanctions-bust than third parties that possess no such relationships with either state. These findings support both of the hypotheses.

The distribution of substantive effects across the different defense pact arrangements is particularly interesting. Comparing the difference between when a third party only possesses a defense pact with the sender versus possessing defense pacts with neither in an otherwise typical scenario, the predicted probability of a third-party state sanctions-busting is 137 percent greater with the sender defense pact. Making that same sort of comparison using sole possession of a defense pact with the target instead, the third-party state's predicted probability of sanctions-busting is 125 percent greater. On the basis of these findings, it could be expected that when third-party states possess defense pacts with both the target and sender states their likelihoods of sanctions-busting should be significantly greater than possessing only a single defense pact with either state. Instead, a third-party state that possesses defense pacts with both the sender and target states compared to having them with neither has a 112 percent greater chance of sanctions-busting. Although this is still a substantial positive effect, it appears as if possessing alliance relationships with both the sender and target states makes a third party less likely to sanctions-bust than when it has a clear loyalty to one side or the other. One explanation for this is that third-party states with clearly divided loyalties between the sender and target could have their behavior placed under greater scrutiny, because their sanctions-busting looks as if they are favoring their alliance partnership with the target over the sender. This effect does not overwhelm the incentives to sanctions-bust, but it does appear to suppress them to some extent.

With respect to the *Target–Third-Party Democratic Regimes Hypothesis*, the regime type variables also need to be evaluated in conjunction with one another. Each of the three regime type variables test whether there is a statistically significant difference between the arrangement they represent and the null category of neither state possessing democratic regimes. The results indicate that the effects of only the target (*Only Target Democratic*) or only the third-party (*Only Third-Party Democratic*) states possessing democratic regimes are not statistically significant. As the hypothesis predicted, though, *Both Democracies* has a positive and statistically significant effect on third-party states' likelihood of sanctions busting. The strength of this statistical relationship is relatively weak, though, and it sometimes washed out in additional robustness checks. In an otherwise typical scenario, the likelihood of

sanctions busting taking place is 112 percent greater if the target and third-party states are both democracies compared to a situation in which neither is democratic. These findings support the hypothesis, but they are not exceptionally strong.

In contrast, the effects of both the geographical hypotheses receive strong support from the analysis. In the case of *Target–Third Party Distance*, the variable has the negative and statistically significant effect on sanctions busting that the sanctions-busting theory predicts. In an average scenario, increasing *Target–Third Party Distance* by one standard deviation (1.61) above its mean value (8.01) causes the predicted probability that a third-party state will sanctions-bust to decline by 65 percent. This is quite a substantial reduction, suggesting that there are significant benefits for potential sanctions busters in being regionally proximate to the target. Yet the results also reveal that directly neighboring a target state makes a third-party state less likely to sanctions-bust on its behalf using legitimate, recorded trade flows. As hypothesized, the effects of *Target–Third Party Shared Border* are negative and statistically significant. Comparing the differences between otherwise identical circumstances in which a third-party state shares a border with a target versus where it is separated from it by 150 miles, the bordering third party state is 7 percent less likely to sanctions-bust on the target's behalf than the neighbor 150 miles away. Given the negative effects distance has been shown to have and the fact that bordering states normally trade significantly more with one another, this finding is quite puzzling unless the roles of illicit trade and smuggling are accounted for. This particular finding provides strong circumstantial evidence that the neighbors of target states conduct a notable amount of their sanctions-busting trade via smuggling and unrecorded trade.

All together, the results of the analysis provide considerable support for the theory's explanation of trade-based sanctions busting. Although the effects of *Third-Party Economic Size* are fairly potent, the results suggest that no single factor drives whether a third-party state will sanctions-bust on a target state's behalf. Instead, a package of factors based on the profile of the third-party state and its commercial, political, and geographic relationship with the target and sender states appear to all influence trade-based sanctions-busting behavior. This suggests that sanctions-busting trade concentrates in those third-party states that—along a range of factors—can provide the most profitable venues for taking advantage of the commercial opportunities that sanctions create in target states. This is evident if we compare an average scenario in which the hypothesized variables are set at their mean or modal values to one in which they are set at moderately favorable values according to the sanctions-busting theory.[18] Comparing these two scenarios, a third-party state is 4,869 percent more likely to sanctions-bust extensively on a target's behalf in the second scenario. Whereas the third party has a negligible chance of sanctions busting in the typical scenario (0.0025), its likelihood of sanctions busting grows to 0.13 in the slightly favorable scenario. This suggests that an alignment of multiple factors must be in place for a third-party state to sanctions-bust extensively.

In terms of the control variables included within the model, they also produced some interesting insights into sanctions-busting behavior. For example, the size of the target state's economy (*Target Economic Size*) does have a negative and statistically significant effect on the likelihood that third-party states will sanctions-bust on its behalf. Taken in concert with the findings regarding *Third-Party Economic Size*, this indicates that sanctions-busting relationships are most likely to emerge between third-party states with large economies and target states with smaller ones. This makes sense, as the third-party states' economies in these circumstances will be best able to accommodate the needs of the target states' economies. Given the competing accounts of how the severity of sanctions affects third-party trade with their targets, it is not necessarily surprising that *Harsh U.S. Sanctions* did not exercise any statistically significant effects in the analysis. Whereas greater sanction-busting opportunities may exist during harsh sanctioning efforts, the disruptive effects they cause may make it more difficult for third-party states to capitalize on them. As such, there is not an appreciable difference between the sanctions busting that takes place during limited versus more extensive sanctioning efforts. As an additional robustness check, the potential impact of the amount of trade the United States continued to conduct with the states it sanctioned was also evaluated. The factor did not appear to have any impact on third-party states' propensity to sanctions-bust in a given sanctions episode.

The variables included to control for temporal effects revealed the presence of two slightly different trends. The *Duration of U.S. Sanctions* variable measures the length of time that the United States had continuous sanctions in place against a target, whereas the *Time Since Busting* variables capture the length of time since a third party had sanctions-busted on a target state's behalf. The effects of *Duration of U.S. Sanctions* are positive and statistically significant in the analyses, meaning that the longer U.S. sanctions persist the more likely third-party states are to bust them. The *Time Since Busting* variables must be interpreted jointly as they are interaction terms. The negative and statistically significant sign on the *Time Since Busting*^{3} variable is the most important indicator of the cumulative effects of a third party not sanctions-busting in a particular sanctions-busting episode. It indicates that third-party states will become increasingly less likely to sanctions-bust on a target's behalf as more time passes without them having done it. Together, these findings indicate that the amount of sanctions busting taking place on a target's behalf is likely to grow the longer the sanctions against it last, but that it is unlikely to involve new sanctions busters that have not done it in the past.

Profiling Trade-Based Sanctions Busters

So is there a consistent profile that can be developed on the types of states most likely to become extensive trade-based sanctions busters? Three key third-party characteristics appear to be associated with sanctions-busting behavior: These third parties possess large economies, they are extensively involved in international trade, and they possess democratic governments. Although the sanctions-busting theory links only the latter factor to trade-based sanctions busting on behalf of democratic target states, democratic institutions are more broadly associated with transparency and protection of property rights that can benefit the commercial competitiveness of third-party states.[19] The role played by these factors all received general support within the quantitative analysis, and anecdotal evidence also supports them. The fact that Japan, (West) Germany, the United Kingdom, France, and Italy are all among the leading sanctions busters in the analysis illustrates this point. These states were not political rivals of the United States actively seeking to undercut its foreign policy agenda. Quite the contrary—they were some of its closest military allies during the Cold War and remained so afterwards. Yet these states were also the greatest commercial competitors of the United States, possessing industries and businesses that overlapped with those in the United States. When the U.S. government severed or disrupted its commercial relationships with target states, foreign firms within those countries were well situated to exploit the vacuum left by U.S. businesses.

Beyond just the three specific indicators identified by the theory, the degree to which third-party states can cost-effectively replace the trade disrupted by a sender's sanctions appears to heavily influence their general aptitude at sanctions busting. The third-party states whose economies could competitively mirror the U.S. economy were ones best able to profit from exploiting the U.S. sanctions. China's placement as the seventh most active sanctions buster also appears to support this point, especially in the later periods analyzed. Although not democratic, China's rapidly growing, export-oriented economy turned the state into a major commercial competitor of the United States in the 1980s, 1990s, and 2000s. Indeed, over 90 percent of the trade-based sanctions busting China conducted in this study occurred after Deng Xiaoping initiated the liberalizing reforms to China's economy in 1978. Generally speaking, then, countries with large, commercially competitive economies should be viewed as much greater sanctions-busting threats than other states.

In any given sanctions episode, there are also a number of relational factors that signal a much higher likelihood of sanctions busting. Third-party states that possess strong, preexisting commercial ties to a target or defense pact alliances with them are significantly more likely to become extensive sanctions busters than other countries. The number of states possessing these close relationships with a target is normally fairly limited, making them useful indicators. Additionally, a target's regional neighbors also appear much more likely to sanctions-bust on a target's behalf than would be more distant states—via legitimate or illicit means. Because the evidence suggests that third-party states sanctions-bust only when a number of factors align to make it highly profitable, possessing one or more of these characteristics signals a much higher than average likelihood of sanctions busting.

The role that sender alliances play in sanctions busting constitutes a more challenging factor to use in identifying potential sanctions busters. Within this analysis, the results indicate that third-party states that possess defense pacts with sender states are much more likely to become extensive trade-based sanctions busters. As the analysis indicates, though, the substantive impact of this effect is not very great if a number of additional factors do not align to make it highly profitable for the third party to undermine its allies' sanctions. Indeed, additional analysis of the data and the results from my related work both point to a powerful interaction between third-party states' commercial interests in sanctions busting and their possession of an alliance with a sender state. Sender states' allies with only limited commercial ties to a target state are actually more likely to curb their trade with it than nonallies, whereas sender allies with strong commercial ties to a target are substantially more likely to increase their trade with it.[20] This means that U.S. policy makers should be the most concerned about allied third parties that possess commercial profiles that make them adept at sanctions busting or that possess strong commercial ties with the target.

What makes the sanctions busting conducted by a sender's allies so disheartening is that such states tend to be the ones that could potentially make the largest contributions to the success of sanctioning efforts if they cooperated with the efforts. By preventing a target from having access to a third party that would otherwise be an active sanctions buster, the sender could tangibly increase the odds of its sanctions' success. Because allies are generally expected to be more cooperative than other states, the perceived defections by allies can also create intra-alliance tensions that are difficult to resolve. In large part, this is because coercive mechanisms that sender states have at their disposal to stop their allies from sanctions busting are apt to only worsen the intra-alliance relationship instead of improving it. The greater the commercial benefits of sanctions-busting for a third-party ally, the more willing a sender government must be to jeopardize its alliance relationship with the third party to stop it from sanctions busting. U.S. policy makers have often—but not always—appeared unwilling to accept the trade-offs involved in coercing their allies to stop sanctions busting to make their sanctioning efforts more effective.

All this suggests that a profile does exist for the types of third-party states that engage in extensive trade-based sanctions busting. The most prolific sanctions busters tend to be third-party states that possess large economies, are intensively engaged in international trade, and tend to possess democratic governments—though the latter factor appears to be the least important of the three. In any given sanctions episode, states that are geographically proximate to the target, have close commercial ties to it, or share a defensive pact with it are also more likely to emerge as extensive sanctions busters. Lastly, allies of sender states that have salient commercial interests in sanctions-busting on a target's behalf also appear particularly apt to become major trade-based sanctions busters. As the conclusion discusses, this information can be used by U.S. policy makers to identify potential sanctions busters and to best leverage the diplomatic efforts they undertake to support their sanctioning efforts.

Summary

The analysis of ninety-six U.S.-imposed sanctions episodes conducted in this chapter provides strong support for the book's theoretical account of why trade-based sanctions busting occurs. An examination of the states that busted U.S. sanctions reveals that although roughly 45 percent of the countries in the world have done it at some point, a small number of states appear to conduct the lion's share of the sanctions busting that occurs. Many of these leading sanctions busters turn out to be U.S. allies that also are its chief commercial competitors, such as Japan, Germany, and Great Britain. The profile of these leading sanctions busters appeared broadly consistent with the sanctions-busting theory's predictions. The statistical analysis revealed that, in the aggregate, the profitability of third-party states as trade-based sanctions-busting venues appears to be the most powerful determinant of which states engage in the activity. All of the theory's major trade-based sanctions-busting hypotheses received support in the analysis. The findings further showed that third-party states that possess defense pacts with targets, senders, or both states are more likely to sanctions-bust than third-party states that lack them. Notably, the analysis also revealed indirect evidence of the trade-based sanctions busting taking place via illicit trade and smuggling conducted by target states' neighbors. Consistent with the sanctions-busting theory's account of trade-based sanctions busting, no single factor in the analysis proved sufficiently strong to drive third-party states to sanctions-bust; rather, such behavior was shown to arise out of a favorable alignment of multiple factors that affect the profitability of trading with target states.

The next chapter comparatively explores the circumstances in which third-party states sanctions-bust via foreign aid instead of foreign trade. An important component of the sanctions-busting theory's explanation of aid-based sanctions busting is that it constitutes a second-best option for third-party governments that would like to assist a target state. If the theory is correct, third-party states should sanctions-bust via trade on Cuba's behalf to the extent they can and only employ foreign aid if the former is not a viable option. In those cases, political motivations should play a much more determinative role in whether third-party states engage in extensive sanctions busting.

7 Sanctions Busting for Politics

Analyzing Cuba's Aid-Based Sanctions Busters

WHEREAS THE PRECEDING TWO CHAPTERS EXPLORED THE motivations and mechanisms of trade-based sanctions busting, this chapter focuses on those states that provide extensive foreign aid to sanctioned countries. Specifically, it examines the role that sanctions busting has played in the Cuban government's efforts to resist U.S. sanctions over the past fifty-plus years. Given its duration, the Cuban sanctions episode represents somewhat of an outlier. Yet the political salience of the episode and the important role that the Soviet–Cuban sanctions-busting relationship has had on the study of the phenomenon makes it a critical case to study and explain. As the analysis reveals, Cuba has actually had the aid-based sanctions-busting support of multiple states over the course of the sanctions and established numerous trade-based sanctions-busting relationships with U.S. allies. Consistent with the overarching theory, the Castro regime appears to have leveraged both trade-based and aid-based sanctions busting in its efforts to resist the U.S. sanctions. More broadly, studying this sanctions episode offers an additional opportunity to learn more about how the U.S. and Cuban governments sought to influence third-party responses to the sanctions and the impact those responses had on the sanctions' outcomes.

The sanctions-busting theory asserts that third-party states should prefer to engage in trade-based sanctions busting and employ only aid-based sanctions busting in a limited set of circumstances. Aid-based sanctions busting takes place when a third-party government has a salient political motive to was unable to find an effective solution to the myriad of challenges that third-party sanctions busting posed to the effectiveness of its sanctioning efforts. The Cuban sanctions episode illustrates the importance of jointly studying trade- and aid-based sanctions busting, as both phenomena are closely interlinked in terms of their causes and consequences.

8 Implications and Conclusions

THIS BOOK HAS SOUGHT TO EXPLAIN WHY ECONOMIC sanctions have such a poor track record of success even when they are employed by the world's most powerful country. It demonstrates that the failure of U.S. sanctioning efforts is often closely linked to the sanctions-busting behavior of external actors, via both their trade and foreign aid. Commercial motivations primarily drive third-party states to become extensive trade-based sanctions busters, whereas salient political motivations are required for third-party governments to become aid-based sanctions busters. As such, the profiles of the types of states most likely to sanctions-bust using either approach tend to be quite different from one another. The analysis shows that both types of sanctions busting undermine sanctioning efforts in different ways, allowing them to serve as substitutes for one another but also allowing them to reinforce one another when jointly present. Although the findings suggest that preventing the emergence of trade-based sanctions busters is quite difficult for sender states, there are more reasons to be optimistic about countering the corrosive effects of aid-based sanctions busting. Even if third-party sanctions busting cannot be stopped, the findings suggest that the phenomenon can be readily anticipated and that more effective sanctions policies can be adopted to address the challenges it poses. The rest of the chapter summarizes the book's aggregate findings on the causes and consequences of sanctions busting, discusses their policy implications, and concludes by discussing the findings' implications for future research.

Summarizing the Causes and Effects of Sanctions Busting

Third-party states' responses to economic sanctions are subject to significant variation. Economic sanctions can impose a myriad of disruptions and additional costs on third parties' trade with target states, but they can also create lucrative commercial opportunities for those states positioned to take advantage of them. Sanctions disputes have political spillover effects that influence third-party responses as well. Beyond third-party governments' direct incentives in having sanctioning efforts succeed or fail, they may also be subject to lobbying and/or coercive pressure by sender and target governments seeking their support. Third-party states' responses to economic sanctions are thus jointly driven by the commercial interests of their constituents and the foreign policy interests of their governments. For third-party states that can significantly profit from engaging in sanctions-busting trade, the commercial interests of their constituents in sanctions busting can be bolstered by their governments' interests in defeating sanctioning efforts against a target state. Even when third-party governments can politically benefit from supporting the sanctions against a target state, the commercial interests of their constituents will tend to override those considerations when sanctions busting on a target's behalf is highly profitable. As such, the third-party states most likely to become trade-based sanctions busters are those countries that offer firms the most profitable venues from which to sanctions-bust on a target's behalf. A counterintuitive implication of this is that the political cover offered by alliance relationships can also help make third-party allies of sender states significantly more profitable venues for sanctions-busting firms.

The findings from the three empirical chapters that explored the causes of sanctions-busting support all of the trade-based sanctions-busting hypotheses that were tested. The detailed analysis of sanctions-busting relationship that emerged between the UAE and Iran demonstrated how profit-seeking firms were the leading agents that forged that relationship. Firms from Iran, the United States, and the rest of the world flocked to the UAE to circumvent the sanctions that the U.S. government had imposed on Iran. Via its geographical relationship with Iran, its preexisting commercial ties to Iran, the laissez-faire commercial environment fostered by Dubai, and the alliance relationship it formed with the United States in 1994, the UAE emerged as the ideal middleman for sanctions-busting transactions with Iran. The statistical analysis of ninety-six U.S.-imposed sanctions episodes revealed that the best predictors of whether third-party states would become trade-based sanctions busters were those factors that affected their profitability for sanctions-busting firms. Third-party venues with large, open economies, that have close preexisting commercial ties with the target, and that are geographically proximate to the target proved to be more attractive sanctions-busting venues. Interestingly, the analysis also provided circumstantial evidence to suggest that third parties neighboring target states are more likely to sanctions-bust via illicit trade as opposed to legitimate trade. The most counterintuitive finding to arise from the analysis is that U.S. allies are over 100 percent more likely to become trade-based sanctions busters than are other states. In the final analysis of the sanctioning effort against Cuba, additional evidence showed that close U.S. allies were actively engaged in undercutting its sanctioning efforts. Both during and after the Cold War, Great Britain, Canada, Japan, and Spain actively profited from the lucrative opportunities the U.S. sanctions policies created in Cuba. The U.S. government could do little to stop its allies' opportunistic behavior, as the costs of coercing their cooperation were simply too high for the returns they expected to receive. Altogether, the empirical analyses provide an exceptionally high degree of support for the sanctions-busting theory's explanation of trade-based sanctions busting.

The theory of sanctions busting also explains the reasons why third-party governments offer extensive foreign aid to target states. Initially, it was theorized that aid-based sanctions busting occurs only when the following criteria are met: (1) Third-party governments have a salient political interest in preventing the success of sanctioning efforts; (2) the third-party governments can afford significant foreign aid outlays; and (3) employing a trade-based approach is infeasible. In three out of the four cases of aid-based sanctions busting on Cuba's behalf (Cold War China, the Soviet Union, and Venezuela), all three of the theorized criteria were present. In the post–Cold War China case, however, the analysis revealed that the Chinese government opted to provide Cuba with extensive foreign aid as a supplement to the trade-based sanctions busting it was conducting on Cuba's behalf.

The findings from the hybrid sanctions-busting relationship that China developed with Cuba and North Korea in the 2000s offer useful insights in revising the sanctions-busting theory's initial explanation of aid-based sanctions busting. In some cases, third-party states engage in both trade-based and aid-based sanctions busting if their political objectives in supporting of their policy prerogatives. The explanatory framework provided in this book should thus be relevant to understanding sanctions busting's causes and consequences in the wider population of sanctions cases.

Understanding and Addressing the Policy Problems Posed by Sanctions-Busting

For U.S. policy makers, the findings offer a number of relevant insights in how to cope with the challenges posed by sanctions busting. From a diagnostic perspective, they provide clear evidence that third-party sanctions busters have played a continuous spoiler role in undercutting U.S. sanctioning efforts over the past sixty years. Armed with knowledge on why sanctions busting occurs and the profiles of the states most likely to engage in it, policy makers can better anticipate what the third-party responses to their economic sanctions will be like. For example, if a potential target state has close commercial ties to several third-party neighbors with large, open economies, the likelihood that one or more of those states will end up becoming a trade-based sanctions buster is relatively high. Policy makers can use this information to predict how many states are likely to sanctions-bust on a target's behalf and which third-party states those are likely to be. If it appears that numerous states are likely to bust sanctions in a particular case, the findings from this book indicate that sanctions are unlikely to be effective, and a different policy option should likely be chosen. Alternatively, policy makers can selectively target likely trade-based sanctions busters with intense diplomatic or coercive pressure to prevent them from sanctions busting. Even when U.S. sanctions are imposed for largely symbolic reasons, understanding how they will affect their targets' commercial relationships with other countries can be important.

Another critical insight is that once extensive sanctions busters have emerged on a target's behalf a sender can often do little else to make sanctions successful. Especially once a number of trade-based sanctions busters have emerged on behalf of a target state, sanctioning efforts become dramatically less likely to succeed. A salient takeaway from this is that, in some cases, sender states are better off conceding that sanctioning efforts have failed as opposed to allowing them to linger on in a costly stalemate. In the case of Cuba, for example, U.S. exporters and consumers have been excluded from a neighboring market that they could otherwise substantially benefit from. Instead, the U.S. government's policies allow American firms' foreign rivals to

profit from the lucrative opportunities its sanctions have created, or they drive American firms to take their business operations elsewhere. Once policy makers have identified that their sanctioning efforts have been undercut, giving up on them may often be the best option.

For those busted sanctions cases that policy makers cannot or will not give up on, the findings suggest several strategies for remediating the damages done by trade-based sanctions busting. The Whac-A-Mole nature of trade-based sanctions busting means that, even if the U.S. government can curtail the sanctions busting conducted by a particular state, such trade can readily pop up elsewhere in response. The U.S. government's more recent approach vis-à-vis Iran of augmenting its trade sanctions with strategies designed to financially isolate the country appears promising. This strategy dramatically enhanced the pressure that U.S.-led sanctioning efforts placed on Iran's economy. Yet there is likely a limited number of sanctions cases in which the U.S. government can exert that same degree of pressure. If U.S. policy makers seek to apply their recent lessons learned from the Iran case more widely, history suggests that such behaviors will generate significant political backlash from third-party governments. It could also undermine the U.S. role as the world's preeminent financial hub, as it may make working through less restrictive financial centers far more attractive for foreign banks and firms. At least in the case of Iran, though, this strategy has appeared effective at exacerbating the economic costs that the U.S. trade sanctions impose, along with imposing a myriad of new costs on Iran's economy. Policy makers should be cautious, though, about rushing to employ the most recent strategies from the Iranian sanctioning effort to all U.S. sanctioning efforts.

The UAE cases study also provided a number of potentially important insights into how the improved enforcement of U.S. economic sanctions can enhance their effectiveness. As the UAE case study indicated, U.S. firms played an important role undercutting the U.S. government's sanctioning efforts when doing so was both legal and illegal. By imposing sanctions policies that allow U.S. firms or their subsidiaries to legally circumvent its sanctions, U.S. policy makers encourage firms to move their business operations outside the United States or find foreign trade partners that could help them continue to trade indirectly with sanctioned states. Stricter sanctions policies that fully apply to the commercial activities of U.S. citizens, firms, and their foreign-owned subsidiaries can at least outlaw domestic parties from undercutting their home government's sanctioning efforts. Secondly, the U.S. government should invest significantly more resources in the monitoring and enforcement of its sanctions. Given the sheer number of outstanding economic sanctions and strategic trade controls that the U.S. government has on the books, monitoring compliance with these regulations can be an overwhelming task. As I saw firsthand in the UAE case, the resources required to monitor—let alone enforce—the sanctions busting taking place on Iran's behalf far outstripped the resources the U.S. government invested in the task for many years.

Lastly, the U.S. government needs to enact harsher civil and criminal penalties for violations of its sanctions by domestic firms, and they need to be applied regularly and consistently when violations are identified. If the perception among firms is that the punishments for being caught sanctions-busting are tolerably low, then risking such violations becomes just another cost of doing business for pursuing lucrative trading opportunities. The high-profile fines being leveled against many of the major financial institutions that facilitated in money laundering and/or sanctions-busting trade are a good start, but prosecuting the individuals responsible for the violations would also send a stronger message. The incredible amount of sanctions busting that continued to take place on Iran's behalf by U.S. firms even after President Clinton made it illegal under E.O. 13,059 illustrates that outlawing sanctions busting will not stop it in the absence of real enforcement. Harsh, credible, and consistently employed penalties will likely be needed to deter firms from engaging in the otherwise highly lucrative business of sanctions busting. By emphasizing the comprehensive implementation and strict enforcement of U.S. economic sanctions, policy makers can cut off a leading source of sanctions-busting trade without needing any third-party cooperation.

A certain amount of tension exists between the recommendations that U.S. policy makers should abandon failing U.S. economic sanctions for the good of U.S. business interests and that they should also crack down on U.S. businesses that engage in sanctions-busting activities. Current U.S. sanctions policies create a nebulous environment in which the costs of sanctions busting are far less certain than the potential benefits. This environment fosters higher levels of both unintentional and intentional sanctions-busting violations. In terms of the former, the U.S. government's myriad of ever-changing sanctions and strategic trade control policies make it difficult for firms, and especially small businesses, to remain informed and understand their compliance obligations. With respect to the latter, firms may perceive a low probability of being caught and punished for violating sanctions due to the U.S. government's sometimes lax and uneven enforcement.[2] This fosters an attitude toward compliance with sanctioning efforts in which compliance is an action to be evaluated in terms of costs, benefits, and risks instead of as an absolute requirement for doing business. Although the policy costs of this attitude may be low in some sanctions cases, its systemic effects will also influence compliance with the U.S. sanctioning efforts that policy makers prioritize. This was especially evident in the Iranian and Cuban sanctions episodes, as U.S. policy makers cycled through periods of apparent ambivalence toward their sanctions and those in which they made the sanctions a priority. Imposing or leaving in place weakly implemented, poorly enforced, and frequently violated economic sanctions will adversely affect those sanctioning efforts that U.S. policy makers are truly committed to having succeed. As the statistical analyses reveal, sanctioning efforts that persist past about thirteen years rarely ever succeed. To make U.S. sanctioning efforts less costly and more successful, U.S. policy makers should impose and maintain fewer sanctions but far more rigorously enforce those they deem as priorities.

In counteracting the corrosive effects of aid-based sanctions busting, the U.S. government can potentially be more successful in recruiting multilateral cooperation from foreign governments. Because the states that engage in extensive aid-based sanctions are often motivated by their adversarial relations with the United States, they will be very difficult to dissuade. Although aid-based sanctions busters can provide a large amount of the foreign aid a target needs to survive, they can almost never afford to provide all that a target may need.[3] As such, the U.S. government can counteract the effects of aid-based sanctions busters by convincing the other third-party governments that aid target countries to reduce their foreign assistance. Cutting off their foreign aid to target states is apt to be far less costly (budgetwise, economically, and politically) for third-party governments than participating in sanctioning efforts via restricting their trade and/or investment relationships with a target. As such, the U.S. government should be able to obtain far more multilateral cooperation—with far less effort—from third-party governments when it asks them to cut off their foreign aid to target states instead of imposing trade sanctions.

Much more directly, the U.S. government can also stop offering aid to the states it sanctions. For example, the U.S. government provided North Korea with over $1.2 billion in combined food, energy, and medical assistance since 1995 in aid efforts that ran concurrently to its sanctions.[4] Even as the U.S.

economic sanctioning efforts helped cripple and isolate North Korea's economy, it undercut its own sanctions' effectiveness with the aid it provided to the country. In other words, U.S. sanctions contributed to the economic and humanitarian crises in North Korea that subsequently required U.S. foreign aid to remedy, which in turn undercut its sanctions' chances of success and left a hurting stalemate that continues to contribute to the humanitarian crises North Korea's citizens face.

Cutting off aid to sanctioned states is also apt to be effective in the longer run because it can place additional pressure on targets' patrons (if they have them) to replace aid shortfalls from other donors if they want their sanctions-busting efforts to continue to be effective. As in the Soviet Union's case, this can bleed a sanctions-busting patron dry over time as it becomes responsible for paying a larger share of the burden in supporting a target state. Because third-party patrons are almost always adversaries of the sender state, this strategy will be dually beneficial in making the sanctions more effective and sapping the strength of rival third parties. For example, this suggests that by denying aid to North Korea Western donors can make China pay an increasingly steep price for continuing to sustain the country—potentially to the point where it is no longer willing to bear those costs.

The policy recommendations that flow from this analysis also raise significant ethical and humanitarian concerns. Indeed, they run counter to the broader international movement to impose "smart sanctions" that minimize their adverse consequences on innocent populations in target countries.[5] Reducing or cutting off foreign aid to sanctioned states can exacerbate the damages and misery they inflict, and oftentimes those costs will be concentrated on constituencies in target states that have little control over the policies for which the sanctions were imposed. Before embarking on a strategy to deny target states foreign assistance, especially in areas like basic food and medical assistance, U.S. policy makers should carefully consider whether the potential human costs are worth the goals being sought by the sanctioning efforts. In many cases, those prospective costs may be too high. This also reinforces, however, that economic sanctions should not be considered a comparatively innocuous alternative to the use of military force; rather, they are a less direct but often far more corrosive policy tool that degrades the health, social, political, and economic welfare of their targets' populations. If U.S. policy makers commit to using economic sanctions, it may be better to employ harsh sanctioning efforts in an effort to rapidly achieve their goals than to allow them to persist unproductively in painful but survivable stalemates.

The last key policy-relevant insight relates to the adverse and often inadvertent effects that U.S. sanctions have on U.S. alliance relationships. Given the profiles of the closest U.S. allies and the political cover their alliance relationships with the United States offers them, they are often the best-positioned states to profit from the sanctions the United States imposes. As the analyses repeatedly revealed, U.S. efforts at coercing these states to refrain from taking advantage of sanctions-busting opportunities usually generate intra-alliance conflict and tend to be unsuccessful. Moreover, the profits allied sanctions busters earn provide them with salient interests in ensuring the U.S. sanctions' continued persistence. Rather than being partners in pursuing shared policy objectives, U.S. allies have incentives to impede the sanctions from being successful. The fact that U.S. sanctions encourage the closest U.S. allies to forge stronger commercial relationships with its adversaries can have consequences that extend beyond whether sanctions succeed or fail. In some cases, the U.S. government deems it appropriate to follow up its sanctions with the use of military force against a country it has sanctioned.[6] If U.S. allies have strong commercial ties to a target state, they may be far more likely to oppose the use of military force against those countries than they otherwise would. For example, French companies substantially profited from undercutting the sanctions against Saddam Hussein's regime in Iraq. Reportedly, Saddam Hussein's regime even preferentially selected trade partners in France that "espoused pro-Iraq views."[7] France emerged as a vocal opponent to the U.S. invasion of Iraq in 2003. In part, the country's opposition to the war could have been influenced by the significant commercial benefits it was receiving via its sanctions-busting trade with Hussein's regime. Overall, the potential for intra-alliance rifts adds to the growing list of indirect effects that scholars have identified regarding the use of economic sanctions.[8]

Directions for Future Research

The findings from this project contribute to a number of different areas of scholarship that are ripe for future research. Foremost, they contribute to the ongoing effort to better understand the broad set of consequences sanctions have on their targets and how their externalities also affect third-party states.

Initial work in this area has examined how sanctions affect the trade of states neighboring sanctioned countries with the rest of the world, their effect on neighboring states' corruption and involvement in transnational crime, and third-party states' likelihoods of attacking target states.[9] Aspects of this project suggest that further research into the political consequences of economic sanctions on third-party states' relationships with targets and senders states is important. For example, do trade-based sanctions busters develop closer political ties with target states and grow more hostile toward sender states? This could be a significant issue, given the findings regarding alliance dynamics this book has already uncovered. Also, studying how sanctioned states, such as Iran and Iraq, can work together to defeat sanctioning efforts constitutes a promising avenue of inquiry.

Another popular line of inquiry has explored the role that selection effects play in influencing sanctions outcomes. Various works have shown that merely threatening sanctions can sometimes be sufficient in convincing a target state to concede to a sender's demands and that some senders make empty threats that they fail to follow through on.[10] By implication, this suggests that the attempts at coercion that actually result in sanctions being imposed represent more intractable disputes. Potentially, the prospective sanctions-busting options available to target states could play a role in determining their susceptibility to sanctions threats. Once threatened with sanctions, target leaders can prepare for their imposition by lining up potential sanctions-busting partners. Senders could be deterred from threatening or following through on imposing sanctions if it looks as if target states could receive extensive sanctions-busting support.

An additional contribution of this book has been in adopting a more integrated approach toward understanding how different types of economic statecraft can interact with one another. Although David Baldwin stakes out a broad concept of what constitutes economic statecraft, the research agendas of economic sanctions and foreign aid have tended to remain siloed—especially in the quantitative study of the subjects.[11] This project has shown that changes in the amount of foreign aid flows that countries receive influence the success of sanctioning efforts, but being sanctioned could also affect the foreign aid flows that recipient states receive more generally. Gaining a deeper understanding of how aid-based sanctions busters and the efforts of sender states affect the aid flows that target states receive is another area of inquiry that could yield salient insights. Recent works by Glen Biglaiser and David

Lektzian on how economic sanctions affect the foreign direct investment flows of sanctioned states and by Paolo Spadoni on the impact of overseas remittances constitute other lines of inquiry complementary to those explored in this book.[12] Ultimately, the full spectrum of targets' commercial relationships could affect whether the sanctions imposed against them succeed or fail.

The book's findings regarding the effects of alliances also provide an interesting complement to previous work that has explored the comparative susceptibility of allies to economic coercion. Drezner argues that, because economic sanctions do not threaten the security of allied targets as much as adversarial targets, allies face fewer costs in conceding to sanctions.[13] When it comes to imposing sanctions, then, senders are advantaged in squaring off against their allies. The findings related to trade-based sanctions busting in this book, however, predict exactly the opposite: Senders face significant disadvantages in preventing their allies from undercutting their sanctions. This paints a complex picture of intra-alliance relationships, in which even close allies seek to exploit one another to the extent they can without jeopardizing the overarching viability of their alliance. Alliance relationships appear to incentivize far more exploitive behaviors than they do cooperation when it comes to economic sanctions.

Because U.S. policy makers show few signs of abandoning their reliance on economic sanctions any time soon, further research into the array of consequences that they have and the determinants of their success remains an important task. Reducing the humanitarian consequences that economic sanctions have on their targets is only one dimension of making sanctions smarter. For policy makers, finding an appropriate balance between the adverse costs citizens bear due to sanctions and maximizing their sanctions' prospects for obtaining quick, favorable resolutions constitutes another dimension by which sanctions policies can be made smarter. Addressing the problems posed by sanctions busting is one step in that direction, but far more needs to be done.