TRADING WITH SANCTIONED STATES

by

BRYAN R. EARLY

(Under the Direction of Jeffrey Berejikian and Douglas Stinnett)

ABSTRACT

What determines how economic sanctions affect their targets' trade with other countries? A gap exists in the literature as to how third party states and firms respond to the imposition of sanctions on their trading partners and what motivates their responses. This project seeks to uncover whether commercial or security prerogatives primarily drive third party responses and what factors affect whether third parties adopt policies favoring the sender of the sanctions or their target. I draw on the liberal paradigm to develop a theory that explains how commercial constituencies affect the way third parties respond to the imposition of economic sanctions. The theory asserts that the security prerogatives of third party governments tend to be trumped by their constituencies' commercial interests in shaping their responses. Counter-intuitively, I argue that countries allied to the state imposing the sanctions are, under some circumstances, more likely to increase their trade with their target after sanctions are imposed. I test my theory against a realist-based theory of sanctions-busting that is also developed in the dissertation. The empirical portion of the project employs a nested-analytic approach, conducting two large-n quantitative studies of how sanctions affect third party trade and two qualitative studies examining the third party responses to the American sanctions imposed against Iran and Cuba. The dissertation makes an important theoretical contribution by explaining why states engage in sanctions-busting behavior and in its exploration of the complex constraints that exist on the use of coercion in international politics. The study also yields policy-salient insights into what shapes how third parties respond to sanctions and which states are more likely to become sanctions-busters.

INDEX WORDS: Economic Sanctions, International Trade, Sanctions-Busting, Foreign Policy, Economic Statecraft, Alliances, United States, Iran, United Arab Emirates, Cuba

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by

BRYAN R. EARLY

B.A., Washington and Lee University, 2004

M.A., The University of Georgia, 2006

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BRYAN R. EARLY

Major Professor: Jeffrey Berejikian
Douglas Stinnett

Committee: Brock Tessman
Jaroslav Tir

Electronic Version Approved:

Maureen Grasso
Dean of the Graduate School
The University of Georgia
May 2009

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CHAPTER 1

INTRODUCTION

The U.S.-imposed economic sanctions against Cuba and Iran have been stalwart elements of American foreign policy for almost fifty and thirty years respectively. Yet, these two sanctioning efforts have notably failed to coerce their targets into changing their policies. While the sanctions have been high-level U.S. foreign policy prerogatives, the response of the rest world to the U.S.-led sanctioning effort has been mixed. For third party states, their responses to the sanctions often pitted their relationships with the United States versus their relationships with Cuba and Iran. The sanctions also often forced third party states to decide between pursuing what was in the interests of their commercial constituencies versus what was in their diplomatic interests. In both the Cuban and the Iranian sanctions episodes, how other states responded to the United States' sanctions and its attempts to recruit third party support have significantly affected the outcomes of these sanctioning efforts.[1]

In response to the U.S sanctions imposed against Cuba in 1960, the Soviet Union responded by initiating a massive assistance effort to replace the trade lost to the country by the economic sanctions. Also during this period, Japan and China—countries halfway around the world and the former a close ally of the United States—grew to become two of Cuba's leading trading partners (Kaplowitz, 1998). Following the Cold War's conclusion, the Russian successor state to the Soviet Union dropped its support of the Cuban regime, leaving an economic vacuum in the state. Firms in Europe and North America eagerly sought to take advantage of commercial

[1] Parts of this dissertation project also appear in Early (2009).

opportunities in Cuba, even as the U.S-imposed sanctions persisted. This wave of sanctions-busting support led the U.S. Congress to pass "Helms-Burton Act" in 1996, which imposed secondary, coercive sanctions directly on firms from third-party states that invested in Cuba. Almost no one in the United States was prepared for the political backlash this legislation created. As the chief U.S. negotiator responsible for responding to the political storm recalled: "[we] confronted demonstrations in Canada, a raft of tomatoes thrown at us in Mexico City and a stone wall of resistance in Europe" (Eizenstat, 2004: 5). Indeed, the political furor forced the U.S. to waive the measures it had imposed against the firms in those allied states. The more recent emergence of Venezuela, under the socialist banner of Hugo Chávez, as Cuba's leading patron also presents striking similarities to the assistance offered to Castro's regime by the Soviet Union. This raises the question as to what is really driving these countries' trade with Cuba: profits or politics?

In the case of the U.S.-imposed sanctions against Iran, an unlikely trading partner emerged as Iran's leading sanctions-buster: the United Arab Emirates. Following the Iranian Revolution in 1979, the United States imposed the first of what would become a string of harsh economic sanctions against Iran over the ensuing decades. After the defeat of Iraq in the first Gulf War, Iran sought to flex its regional strength by annexing two strategically-situated Persian Gulf islands that belonged to the United Arab Emirates (UAE) in 1992. The UAE responded by fostering closer security ties with the United States, which included signing a defense pact with it in 1994. Yet despite its alliance with the United States and adversarial relationship with Iran, the UAE grew to become the most widely acknowledged sanctions-buster on Iran's behalf. The current literature offers little explanation of what could explain why such a militarily-vulnerable state would go behind its greatest ally's back to aid its adversary.

As these examples highlight, the topic of third party responses to economic sanctions raises numerous interesting questions. Yet, to date, this broader topic of inquiry has received little attention from the academic and policymaking communities. The existing sanctions literature has been limited to conducting rough-cut evaluations of whether third party assistance hurts the likelihood of the sanctions being successful and whether economic sanctions have disruptive spillover effects on other states' trade. There have been no efforts, however, to develop a comprehensive explanation for what explains cross-national variation in how third party states respond to the imposition of sanctions. This manuscript develops and evaluates a theory that can explain why the countries described above responded to the sanctions as they did and, more generally, explain which states sanctions bust and why.

Economic Sanctions and Third Party States

Engaging in international trade provides states with opportunities to improve their material power and gain coercive leverage over their trading partners (Hirschman, 1945). Economic sanctions are instruments of statecraft that allow states to take advantage of that leverage to accomplish political objectives (Baldwin, 1985). Yet, the sanctioned state's incentives to concede to this form of coercion are dependent upon the sanctions' ability to inflict meaningful harm on the sanctioned state. As research has shown, even a single third party state can undermine sanctions' effectiveness through assisting and/or extensively trading with the sanctioned state.[2]

[2] For examples of this argument, see: Hufbauer, Schott, and Elliot, 1990; Martin, 1992; Lektzian and Mark Souva, 2007.

For third party states, the decision between siding with the state imposing the sanctions or with the state being sanctioned is not a given. Having interdependent relations with both states that could be affected by their response, third parties must be sensitive to both the economic and security implications of their trade. As such, the sanctions senders can convince or coerce third parties to join in their sanctioning efforts (Martin, 1992; 1993). Other third party states, however, choose to come to the sanctioned state's aid—acting as spoilers of the sanctioning effort (Hufbauer et al., 1990; Drury, 1998). The motives driving either behavior are not clear cut. Despite the acknowledged importance of third party response on sanctions effectiveness, there have been no systematic attempts to explain the cross-national variation in how third party states respond to the imposition of sanctions. This represents a black hole in the literature for a topic identified as crucial to determining sanctions' success.

So, why study trade with sanctioned states? In terms of the opportunity costs involved and lives disrupted or lost, sanctions represent one of the costliest diplomatic tools that states have at their disposal. Yet, former National Security Advisor Brent Scowcroft (2007) recently surmised that "Economic sanctions very rarely produce the effects that they want… in some part [they are] a frustration with what you do because we really don't have much between diplomacy and military force." This echoes a slew of academic studies that have questioned the effectiveness of sanctions (Hufbauer et al., 1990; Hufbauer et al., 2007; Pape, 1997; Morgan and Schwebach, 1997; Drury, 1998), but also gets at the policymaking dilemma of using methods of limited coercion. If policymakers think coercion is necessary but the use of military force is inopportune, economic sanctions are often the next-best alternative. Sanctions do not just hurt the states they target, though, they also impose significant domestic economic costs (Hufbauer and Oegg, 2003). As well, economic sanctions are a blunt policy instrument that often indiscriminately hurts civilian populations in sanctioned states—inflicting collateral damage on innocents (Cortright and Lopez, 2000). Finally, sanctions can create far-reaching economic externalities that can adversely affect trade networks and the commerce of third party states that trade with the sanctioned state (Van Bergeijk, 1994; Caruso, 2003). Thus, economic sanctions are a costly policy tool that rarely works as well as policymakers would like them to, but may often be one of the few choices available to policymakers. The principle question for policymakers, then, is when do their *potential* benefits outweigh the costs of their use?

Studying how third party states respond to sanctions can provide *ex ante* insight into the likelihood of sanctions being effective. Rough-cut attempts at operationalizing sanctions-busting indicate that the assistance of even a single state can be enough to significantly diminish the probability that sanctions will be effective in accomplishing their goals. Understanding why such assistance is proffered or withheld is thus very important. In that vein, Lisa Martin's trailblazing theory of coercive cooperation made notable advances in explaining "the conditions under which states cooperate to impose economic sanctions" (Martin, 1992: 10). The complement to this theory would be one could *explain the conditions under which cooperation occurs to evade sanctions*. Determining which states are likely to emerge as the greatest sanctions-busters has even greater implications than studying those willing to offer their lukewarm support. Better knowledge of the types of states more likely to sanctions-bust would be a valuable tool for policymakers in deciding whether to impose sanctions and what strategies to pursue in their implementation. Such knowledge could inform policymakers of the conditions when sanctions would be unlikely to be effective and whom the potential spoiler states might be. This could allow states to narrow their efforts on achieving the cooperation of a few crucial states rather than attempting to achieve the compliance of all of them.

Broadly cast, this project addresses how third party states balance their foreign trade policies between the competing interests created when other states' economic conflicts spills over to affect their relations with other states. It provides a venue for exploring some of the discipline's biggest questions that meet at the nexus between international security and international political economy. This research project evaluates whether security-based or economic prerogatives drive third party states' behavior and explores the comparative utility of theories seeking to explain sanctions effectiveness from both the state and societal levels. It also directly builds on the nascent research being conducted on the role played by indirect interstate relations (Polachek et al., 1999; Maoz et al., 2007). Finally, studying why cross-national variation exists in how states respond to the imposition of sanctions provides a tableau for developing a better understanding of how policymakers make foreign policy tradeoffs. It explores under what conditions states prioritize their relations with the sanctions sender over those with the target and vice-versa and the tradeoffs states make in balancing the economic incentives of international trade with the security externalities it may engender. All these issues are addressed in different respects through comparatively studying third party responses to the imposition of sanctions.

The rest of this chapter provides an introduction to the sanctions literature, the theories explored within the paper, and the approaches taken to evaluate them. It begins by laying out the literature on sanctions and its gaps in dealing with the role of third party trade with sanctioned states. Then it provides an overview of my theory of third party response, which builds upon the paradigmatic foundations of liberalism. It also discusses the alternative realist-based theory against which my theory of third party response is tested. Then the separate empirical studies to be conducted within the dissertation are overviewed. The chapter concludes with a discussion of this project's academic and policy-relevant contributions and offers a roadmap for the rest of the study.

The Existing Literature on Economic Sanctions' Effects on International Trade

In broad terms, policymakers' efforts to deliberately modify their states' trade policies to "antagonize governments, generate resentments in populations, hurt economies, influence the tenure of governments, [and] even provoke hostilities" (Schelling, 1971: 737) constitute forms of *economic statecraft* (Baldwin 1985: 206). Economic sanctions are but one form of economic statecraft. Following Askari et al.'s (2003a: 84) definition, "an economic sanction is 'a restriction placed (by the sender) on commercial activities with the intent to inflict economic losses on others.'" This definition is appropriate because it concerns itself more with economic sanctions as a coercive policy tool, as opposed to the underlying policy changes sought by their imposition. Since this project primarily focuses on the externalities that the imposition of economic sanctions have on their targets' trade with other states, this instrumental definition of economic sanctions fits well for this analysis.

States impose economic sanctions for deliberate political purposes. In imposing or threatening to impose sanctions, states are seeking to coerce other states into changing their behavior in some desired way. Most of the academic literature on sanctions examines the factors that affect their success in achieving the desired ends for which they were imposed. This work has focused on the dyadic relationship between the sender and the target states (Hufbauer et al., 1990; Martin, 1992; Pape, 1997; Dashti-Gibson et al., 1997). The predominant factors studied have been: the senders' pre-existing political and economic relationship with the target, the kind of sanctions imposed, the duration of the sanctions, and whether the sanctions have been unilateral or multilateral. Daniel Drezner (1999) has further demonstrated a counter-intuitive aspect of sanctions effectiveness, in that sanctions tend to be more effective when used against friendly nations than against hostile ones. The predominant view held by scholars who assume that states are rational, unitary actors holds that the degree to which sanctions impose real costs upon target states is the primary determinant of whether or not the sanctions will be effective (Doxey 1980; Dashti-Gibson et al., 1997; Hufbauer et al., 2007).

The effects that economic sanctions have on third party trade have been the topic of some debate. The dispute within the existing literature has been mainly divided over the issue of whether economic sanctions have disruptive effects on third party states' trade or positive effects on it. The disruptive thesis, first articulated by Peter Van Beregeijk (1994; 1995), argues that by interrupting or dislocating the trade networks in which sanctioned states are involved and through the additional uncertainty they create, economic sanctions hurt third party trade. Slavi Slavov (2007) has also theorized about the disruptive effects of sanctions on third party trade, but he looks at how the neighbors of sanctioned states have had their trade with the rest of the world affected by sanctions. His inquiry seeks to evaluate the claims of states neighboring the targets of UN sanctions that their trade has been unfairly hurt by disruptive spillover effects from the sanctions. Using a gravity model of international trade and examining 82 countries from 1989-2000, Slavov (2007) finds statistically significant support for this hypothesis. This perspective has thus received some empirical support.

The other predominant view asserts that economic sanctions will increase third party trade with sanctioned states. Indeed, the common practice for many sanctions researchers has been to assume an "if you're not with us, you're against us" perspective regarding participation in sanctions regimes—assuming non-participants will always try to sanctions-bust (Martin, 1992; Kaempfer and Lowenberg, 1999; Drezner, 2000; Morgan and Bapat, 2003). For the most part, this perspective places economic incentives at the forefront of the motivation of states' trade with sanctioned states—arguing that third parties will seek to exploit the targets' imbalanced terms of trade. In their study of U.S. economic sanctions, Yang et al. (2004) find that American sanctions had positive affects on their targets trade with countries from the EU and Japan. Another prominent example of third party sanctions-busting discussed within the literature has been the Soviet Union's sanctions-busting trade with Cuba (Hufbauer et al., 1990; Kaplowitz, 1998). Though this case supports the notion that third parties are inclined to sanctions-bust, the apparent motives behind the Soviet Union's trade with Cuba were political rather than commercial. Thus, it does not appear that a clear explanation exists for why third party sanctions-busting will occur even amongst those that assume that it will.

Surprisingly, there have been a dearth of studies that have attempted to test these two competing perspectives against one another. Raul Caruso (2003) has conducted the only study, to date, which has done so. In his study, Caruso (2003) finds that in the cases in which the sanctions imposed were the harshest, there was an aggregate negative impact on third-party trade, but when the sanctions were of weak or moderate severity, third-party trade with the target state increased. While this finding potentially reconciles the two competing perspectives, it also suggests that the effects sanctions have on third party trade are more complicated than a one-size-fits-all theory can capture. One of the deficiencies within this debate is that its frames the issue in terms of whether sanctions, in general, have consistently positive or negative effects on third party trade. Both competing perspectives and Caruso's comprise account ignore the fact that cross-national variation exists in how third party-target trade changes after the imposition of sanctions. In some cases, third party trade with sanctioned states increases and, in other cases, it declines—with the magnitude sometimes varying extensively across cases. For example, none of these theories can explain why Soviet, Mexican, Canadian, and Japanese trade with Cuba changed so differently after the United States imposed sanctions against it in 1960.

Assuming that third party responses will be uniformly negative or positive further ignores findings from both the economic and political science literatures that variation in states' economies and relationships with one another affects their trade. Several studies have addressed this issue. In her dissertation, Curovic (1997) uses a three-state Heckscher-Ohlin model of international trade to demonstrate why certain third parties could benefit from a sender's sanctions.[3] As Curovic (1997) formally demonstrates, this implies that the third party state will benefit from the sanctions if they are a net exporter of the same goods for which the target was sanctioned. Assessing the effects of geography on trade with sanctioned states, Kaempfer and Ross (2004) found that countries that were geographically proximate to South Africa traded more with it than states that were further away from it—irrespective of their political support for the sanctions. More broadly, the findings from the political determinants of international trade literature (Pollins, 1989a, b; Long, 2003; Keshk et al., 2004) suggest that the presence of conflicts, rivalries, and/or alliances affect the trade relationships that states have with one another. There is no immediate reason to think that the findings from these studies would not be applicable to trade with sanctioned states.

This review illustrates that there is little firm consensus amongst those who study economic sanctions about what their general effects upon third party trade are. Even more troubling, much of the subfield has appeared unconcerned about why variation exists in how

[3] Within this model, the sender's sanctions act as a trade restriction on goods produced by the target state using a certain factor endowment.

economic sanctions affect the trade of individual states. While scholars tend to agree that extensive third party trade with a target state can hurt the effectiveness of the sanctions imposed against it, there does not appear to be any consistent explanation of what third party states' motives in offering it are and which ones are likely to do it. While nascent steps have been taken towards exploring these issues, it remains very much a theoretical and empirical black hole.

As it stands, the sanctions literature lacks a sufficient explanation of third party trade with sanctioned states nor has it arrived at a sufficiently nuanced conceptualization of what constitutes sanctions-busting. This poses a "big problem / small literature" dilemma in attempting to theory-build in this area. Previous work on the political and economic determinants of international trade and on indirect interstate relations can each serve to fill specific voids in the current literature. These literatures offer insight into which levels of analysis and actor motivations provide the greatest leverage in explaining this hitherto unexplained phenomenon.

Security-driven accounts of interstate behavior, which predominately fall within the realist paradigm, can help to clarify the logic underpinning the political motives behind third party states' responses (Morgenthau, 1978; Hufbauer et al., 1990). With its focus on state security interests and assumptions regarding state governments' abilities to shape their international trade flows, the realist paradigm provides a distinct framework for understanding the preferences and policies of third party states. Theories from this paradigm argue that states trade strategically, trading more with their allies and states sharing similar interests and less with their rivals (Gowa and Mansfield, 1993; Gowa, 1994; Morrow et al., 1999; Long, 2003). From this perspective, the choices to sanctions-bust or participate in the sanctioning effort are acts of power politics, with states pursuing calculated strategic goals through their policies. Drawing on the core set of assumptions developed by realist theorists provides a theoretical underpinning for black knight behavior that its progenitors only hinted at. It engenders a clear set of expectations about the role that alliances and rivalries between third parties and both the senders and targets of the sanctions could play in affect third party-target trade.

By making the general assumption that economic incentives will always lead third party states to sanctions-bust, scholars have also ignored the potential role played by political and economic factors in affecting third parties' commercial incentives to trade with sanctioned states. That cross-national variation exists in how third party trade changes after the imposition of sanctions suggests that states have varying capacities to take advantages of the opportunities created by the sanctions. Insight from the liberal paradigm can provide significant leverage in helping to explain this phenomenon. By focusing on firms and societal actors as its primary unit of analysis, liberalism accounts for state trade behavior as the aggregation of individual-level decisions, not as a product of state government fiat (Moravcsik, 1997). While firms take political factors into consideration, they are driven by the narrow pursuit of profits instead of the broader set of interests pursued by states (Pollins, 1989a; 1989b; Li and Sacko, 2002; Keshk et al., 2004). As well, the *republican* variant of liberalism offers a conceptual framework for understanding how commercial interests within states can influence their home states' foreign trade policies (Moravcsik, 1997: 530-533; Kastner, 2007). This perspective offers a rich set of predictions regarding the nature of third party responses, offering insight into why certain states might be advantaged in trading with sanctioned states in general or certain states in particular.

The final avenue within the literature that deserves significantly more attention is in how to conceptualize and operationalize the nature of third party responses. The existing method of identifying third party sanctions-busting solely as it relates to target states precludes the systematic study of the factors relating to the emergence of sanctions-busting states (Hufbauer et al., 1990). Without directly addressing the specific nature of "which states, give what, to who," empirically-grounded theories of third party behavior cannot be developed. As well, the lack of clear coding criteria in Hufbauer et al.'s (1990) third party assistance variable (the "Black Knight" variable) provides little clarity concerning how much assistance target states actually received.[4] As it is the "Black Knight" variable is coded, scholars cannot answer the question of how much assistance is enough to undermine sanctions effectiveness.[5] Nor is it known whether sanctioned states do better with a one single patron in weathering the costs of sanctions or with many trading partners. These factors hearken to the need for the operationalization of variables that cross-nationally measure how third party states respond to the sanctions. Theoretical development in explaining both why sanctions affect third parties' trade with sanctioned states differently and how third party responses affect sanctions' likelihood of being successful depends upon having the necessary empirical tools to test the theories.

The Argument in Brief

The theory of third party response developed in this manuscript builds off of the paradigmatic assumptions of liberalism to explain how the interests of firms and their governments interact in shaping the response of third party states to the imposition of sanctions. It adopts a triadic framework of analysis, incorporating how third party states balance their political and economic relationships with both the senders and targets of economic sanctions. The theory asserts that third party states' responses are primarily motivated by the interests of

[4] Hufbauer et al. (2007) does not clarify how this variable was coded nor give any more specific information on which states provide the assistance, in what levels, and in what time frame it was given.
[5] Drury (1998) attempts to do this by measuring how dependent the sanctioned state is upon foreign trade, but this does not directly address the question of which states are providing assistance and in what quantities.

their economic constituencies. As the primary agents engaged in international trade and the main constituency affected by their governments' policy responses, firms play the dominate role in shaping third party responses. In response to the disruptions and transactions costs created by sanctions, firms seeking to trade with and from sanctioned countries will redirect their business to the third party states that present the most stable, secure, and profitable venues for conducting sanctions-busting commerce.

The triadic theory of third party response suggests that third parties with large, open economies that also have strong existing commercial linkages to the target constitute the most desirable sanctions-busting venues. It further contends that the presence of alliances between third party states and target states and, under some circumstances, between third parties and sender states also encourage greater amounts of sanctions-busting trade. In the first case, the vested interests of third party governments in their sanctioned ally's welfare both serve to increase firms' confidence that such states will not participate in the sanctions and increases the likelihood of government-sponsored subsidies that can encourage trade with the target. In the second case, the sender's desire to convince third party governments to join their sanctions regimes can conflict with third parties' commercial interests in trading with the target. To overcome these conflicting interests, senders must often rely upon the use of coercion. Yet as I argue, the presence of alliances between the sender and third parties constrains the sender from employing the harsh coercive tactics necessary to compel their participation for fear of damaging its alliance relationships with those states. This provides firms in third party states with political cover in exploiting the sender's lack of leverage over these states, making them ideal venues from which to engage in sanctions busting. More generally, the theory also explains how geography and illicit trade interact in affecting third party trade with sanctioned states.

An alternative account based upon the realist paradigm is also developed against which the theory of third party response can be tested. Within the discipline, realism comprises the leading alternative liberal accounts of international trade behavior and represents the strongest challenger to theory developed here. In contrast to my theory of third party response, realism asserts that states' security interests are the primary determinant of states' international trade flows. This alternative account incorporates Hufbauer et al.'s (1990) hypotheses regarding why third party states might provide assistance to sanctioned states. The theory focuses on explaining third party behavior in terms of the political relationships that the state has with the sender and the target, examining the effects of alliances and rivalries. It also leverages the findings of work on the indirect effects of political relationships on international trade (Polachek et. al, 1999; Maoz et al., 2007). These two theories provide divergent accounts of how states prioritize their commercial versus security interests, the predictions they make regarding the effects of certain types of political relationships, and the role played by states in influencing foreign trade flows.

Method of Inquiry

The empirical portion of this dissertation seeks to validate my theory and demonstrate that it offers a better explanation of how sanctions affect their targets' trade with third parties than the rival realist alternative. To evaluate my theory, I use a nested analytical research design that draws on both quantitative and qualitative methods (Lieberman, 2005). This approach entails first conducting a broad, large-n analysis, followed by either a process-tracing case study or a small-n analysis of individual cases used (i.e., "nested") in the quantitative study to evaluate theory's process-oriented arguments. The case analyses build off of insights provide by the quantitative studies, exploring weaknesses and dealing with issues of equifinality in one's explanatory account.[6]

The cases selection within this study is motivated by the desire to provide difficult tests for triadic theory of third party response, leveraging existing data to the greatest extent possible. George and Bennett (2005: 121) assert that "the strongest possible supporting evidence for a theory is a case that is least likely for that theory but most likely for all alternative theories, and one where the alternative theories collectively predict an outcome very different from that of the least-likely theory." This statement holds for quantitative as well as qualitative research. Therefore, the case selection in both the quantitative studies is based upon the values of realist variables that should be favorable to the rival realist account of third party response.[7] The first analysis focuses only on U.S.-imposed sanctions episodes—holding the sender constant as a military and economic hegemon. The second analysis, in turn, examines only cases of extensive sanctions-busting that occurred during the Cold War. According to Hufbauer et al. (1990), extensive sanctions-busting should be more prevalent in international systems defined by bipolar distributions of power. Yet aside from the criteria by which the cases were selected, the sample of sanctions episodes included in my studies comprise a diverse range of values for both the explanatory and dependent variables used.[8] Following the procedures entailed in conducting nested analyses, the cases used in the addendum qualitative studies were both selected from the pool of cases included within the quantitative analyses.

[6] Equifinality is the term used to describe the "fact that *different* causal patterns can lead to *similar* outcomes" (Bennett and George, 2005: 161).
[7] The selection of these cases on the basis of variables favorable to the realist account should not present any adverse inference issues (King, Keohane, and Verba, 1994: 137-138).
[8] Seawright and Gerring (2008: 300-301) categorize this as a "diverse" study.

With respect to the first analysis, I conduct a general test of the rival theoretical accounts using 102 episodes of U.S.-imposed sanctions from 1950-2000. This chapter uses an econometric gravity of model of international trade to develop a counterfactual measure of what trade would have been in the absence of sanctions and then assesses how states' actual trade under the sanctions differed from this prediction. This differential measure is used as the dependent variable of a cross-sectional times series analysis using Hausman-Taylor estimation. As the results of yield strong support for my theory, this study is followed upon with a detailed process-tracing case study of one of the cases in the dataset. This second chapter examines the micro-foundations of sanctions-busting behavior through process-tracing the United Arab Emirates' trade with Iran after the United States imposed sanctions against it. This type of "within-case analysis" evaluates "evidence about the causal processes and mechanisms that link the independent variable to the dependent variable" to provide a more robust account of the theoretical propositions being tested (Collier, Mahoney, and Seawright 2004, 96). Given its security ties to the U.S. and the security threat posed to it by Iran, the UAE's sanctions-busting behavior represents a strong "on-the-line" case for evaluating my theory's counter-intuitive predictions.

My second nested analysis focuses on examining those few states that become extensive sanctions-busters. It evaluates 76 Cold War sanctions episodes from 1950-1990 and develops a metric for identifying extensive sanctions-busting behavior amongst third party states. The case selection of this study is meant to be particularly amenable to the rival realist account, providing a difficult test for my theory. The theory of third party response and the rival realist account are tested within binary cross-sectional time series analysis using logistic regression. While the evidence from this test provides overwhelming support for my triadic theory of third party response, it also raises certain questions about what motivates the small number of sanctions-busting cases that do not appear commercially driven. As such, the fourth and final empirical chapter conducts a small-n analysis of third party states to the U.S. sanctions against Cuba over the roughly fifty-year time span they have been in place. This chapter seeks to explain why China, Japan, and the Soviet Union engaged in extensive sanctions-busting on Cuba's behalf during the Cold War while countries like Canada and Venezuela only became major sanctions-busters following the Cold War's conclusion. Through analyzing the equifinal sanctions-busting observations that are inconsistent with my theoretical account and the failures of the most-likely sanctions-busting candidates to emerge, I seek to provide a more nuanced assessment of my theory's limitations. This mixed-method approach poses a difficult challenge for my theory and can offer a high degree of confidence that the conclusions being drawn are robustly supported.

Contributions of this Project

While little existing research has explored the effects of sanctions on third party behavior, this project draws on the liberal paradigms and realist paradigms in the literature in developing its theoretical arguments. It develops an original theory of third party response that makes a novel argument about how both political and economic factors influence how third party states respond to the imposition of sanctions. It takes the further step of fleshing out the most likely alternative theory. As such, this project seeks to demonstrate that the theory of third party response provides not only a valid account of third party behavior but the best account. Taken individually, each of the paper's sections provides standalone insight into how the economic and political externalities created by sanctions affect third party trade with sanctioned states. Taken together, however, this project contributes to the broader paradigmatic debate within the discipline through the development of two nested veins of theory that explain state behavior at the nexus of trade and security. Utilizing the triangulation of different methodologies and data provides a rigorous test of the theories' explanatory usefulness. If the theory of third party response holds up under such scrutiny, it should inspire significant confidence that it provides an accurate account of how states respond to the imposition of economic sanctions.

With respect to the literature on economic sanctions, this project makes several significant contributions. First, it fleshes out the explanatory underpinnings of one of the most important determinants of economic sanctions' success—how the rest of the world responds. The project develops Hufbauer et al.'s (1990) account of sanctions-busting, which has stood as the implicit explanation of third party behavior for almost two decades, into a more fully fleshed out theory. It then tests the common wisdom approach of the subfield against a novel theory developed out of the closely-related but hitherto separately-considered research program on international trade and conflict. This moves the literature forward by challenging the untested assumptions that have come to under-gird the subfield's research and interjecting new ideas into an unexplored issue area. Second, the project provides a framework that can be used in future research to improve how the behaviors of third party states are modeled in models explaining sanctions' success. Third, it ties together existing work that has been conducted on whether economic sanctions have detrimental spillover effects upon third party states' trade to the political factors that also affect how third party trade. Finally, the arguments in the project both build upon and, in some cases, challenges the wisdom of classic works by Martin (1992) and Drezner (1999; 2000) regarding how and why economic sanctions affect state behavior. More broadly, the dissertation's insight into the constraints that alliances place upon sender states' ability to coerce the cooperation of their allies makes a broad contribution to the literature on alliance management and intra-alliance politics (Martin, 1992; Snyder, 1997).

This project also has potentially important policy implications. As this analysis will demonstrate, the prospective nature of the international response can be both understood and modeled in advance of the decision to impose sanctions. My theory of third party response can offer policymakers insight into which states are most apt to engage in significant levels of sanctions-busting trade. Such insight can help policymakers improved the efficacy of their sanctions in two ways. First, it can help policymakers decide among which states to direct their limited resources in attempting to convince them to support the sanctions. Second, it can provide policymakers insight into the cases in which—given the likely responses of third party states—economic sanctions are unlikely to be effective and should not be employed. These insights could help states avoid wasting their resources on ineffectual policies, raising the overall level of effectiveness when they are used. Finally, the arguments the theory of third party response also can provide insight into the types of measures sender states can use to deter sanctions-busting. By focusing their deterrent efforts at firm-level, instead of relying on state-to-state diplomacy, senders might be more effective in deterring sanctions-busting on the actual level at which it is being conducted.

The Project's Roadmap

My goal in the subsequent study is to develop a comprehensive, rigorously tested theory of why cross-national variation exists in how sanctions affect their targets' trade with third parties. In the subsequent chapter, I begin by developing my liberal-based theory of third party response and a competing realist account of third party responses. This chapter also lays out the theoretical issues involved in testing the rival theories and provides criteria for judging their comparative utility.

The following three chapters are devoted to testing these competing accounts and the fourth explores the gaps in my theory's explanatory coverage. In *Chapter 3*, I conduct a large-n analysis of the general effects that U.S.-sanctions had on their targets' trade with third parties in 102 sanctions episodes. The results of this analysis offer broad support to my theory and negligible support to the realist account. Following the study's nested analytical framework, the fourth chapter conducts a detailed analysis of the UAE's response to the U.S.-sanctions imposed against Iran. This study shows that my theory provides a descriptively accurate account of why commercially-motivated sanctions-busting takes place and why, under some circumstances, U.S. allies are more prone to engage in extensive sanctions-busting. The fifth chapter explores the general emergence of large-scale sanctions busters during the Cold War, analyzing 76 sanctions episodes from that era. This analysis offers strong support for the general validity of my theory and contradicts several key realist predictions. The sixth chapter seeks to redress a potential gap in my theory raised by the existence of third party states that engage in costly sanctions-busting, which the realist theory proved inadequate at explaining. Through conducting a small-n analysis of the states that engaged in extensive sanctions-busting on Cuba's behalf, I explore whether any common causal processes existed that can explain this type of sanctions-busting. The analysis reveals that ideological prerogatives played a major role in motivating the substantial assistance given to Cuba in four cases.

In the conclusion, I summarize the strong evidentiary support garnered by my theory in the empirical analyses and weigh its utility in light of the gaps that exist in its explanatory coverage. As an extension of this discussion, I address how the findings concerning ideological imperatives can be reconciled with my theory and explored in future analyses. I then discuss the theoretical implications of the project for the study of sanctions and broader literatures. Drawing on the insights yielded from empirical analyses, I discuss the policy relevant insights generated by my theory and provide a set of recommendations for both states imposing sanctions and states being targeted with sanctions about how to take advantage of the insights regarding third party responses that my research has uncovered. I conclude the dissertation by suggesting several avenues of future research that could build on the research agenda established by this study.

CHAPTER 2

THEORIES OF THIRD PARTY RESPONSE

This chapter develops the main theoretical argument of the project and lays out its general propositions that will be tested. The first section begins by presenting a triadic framework of analysis for investigating how third party states respond to the imposition of sanctions. Using this framework, the following section draws on the liberal paradigm to develop a cohesive account of how economic sanctions affect their targets' trade with third parties. This section discusses the theory's assumptions, fleshes out the theoretical account of firm and state behaviors they produce, and presents the testable propositions that flow from the theory. To serve as an alternative account, I next develop a realist-based theory of how third party states respond to the imposition of sanctions. This theory focuses on states' security motivations as the primary determinants of their responses. The chapter concludes by discussing some of the broader theoretical issues involved in the study's inquiry and how the competing theories will be evaluated against to one another.

A Theory of Third Party Response to Economic Sanctions

This section develops an original theory that utilizes a triadic framework of analysis and synthesizes insights from both state- and firm-level theories of international trade into an integrated theory of third party response. Bridging the gap between the societal and state-based theories of international politics, this theory explains how governments and firms interact in shaping third party responses. It provides an integrative account of how the political interactions between the sanctions' sender, their target, third party states, and internationally-trading firms influence the economic relationship between the third party and target. This theoretical account generates counter-intuitive expectations about the constraints placed upon sender states in seeking the support of third party states and demonstrates how target states are naturally advantaged in seeking third party assistance. While the theory is inherently both political and economic, it places the incentives of commercial interests squarely at the heart of third party states' motivations.

In this section, I begin by presenting the motivation behind using a triadic unit of analysis. Next, I discuss the three assumptions that comprise the core of the theory and the rationale behind their use. Drawing on these assumptions, I then develop an integrative theoretical account of third party response. The discussion of the theory explains the causal logics behind the theory's predictions about state and firm behavior and proposes five general hypotheses that will be tested within the project. In addition, I address how these hypotheses leverage different aspects of the observable implications produced by the theory.

The Triadic Framework for Analysis

To date, most of the sanctions literature has focused on the dyadic relationship between the sender and target states and ignored the broader effects that sanctions have on third parties.[9] By virtue of their interdependent relationships with both the target and the sender, the third

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[9] For examples of scholarship that do to some extent address issues related to third party states, see: Curovic 1997; Caruso 2003; Ross and Kaempfer 2004; Yang et al., 2004; Slavov, 2007.

parties can be affected by both commercial and political spillover from the sanctions conflict. The starting point for an explanation of third party behavior must be grounded in a firm understanding of how sanctions affect the trade of third parties and the strategic implications of the third party responses.

Figure 2.1 depicts the triadic relationship between the sender of the sanctions, the target of the sanctions, and the third party states that constitute the rest of the countries in the world.[10] The sender represents the "primary" state serving as the impetus behind the sanctions—even if other states agree to join it.[11] The sender's goal in imposing the sanctions is to compel the target to concede to its policy demands at the lowest possible cost. Conversely, the target's goal in responding to the sanctions is to mitigate the costs they impose so that it does not have to concede to the demands of the sender. As the figure shows, third party states have political and commercial relationships with both the sender and the target states. Depending upon the third party's profile and its relationships with the target and sender, both states may seek the third party's cooperation in achieving their goals.

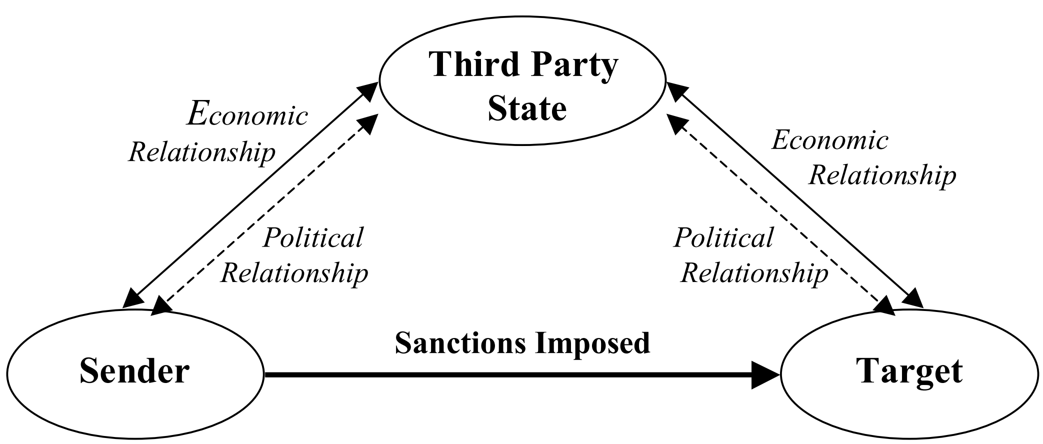

Figure 2.1: The Triadic Relationship between the Sender, Target, and Third Party

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[10] Third party states are considered all states besides the target and primary sender. Askari et al. (2003b: 75) and Curovic (1997) develop similar triadic frameworks of analysis in their evaluations of how sanctions operate.

[11] The designation of a "primary sender" constitutes the standard practice within the literature (Hufbauer et al., 1990; Martin, 1992; Drury, 1998).

The costs imposed by the sender's sanctions condition the target's response and the set of incentives for third parties interested in trading with the target. Foremost, economic sanctions disrupt the commercial relationships that exist between firms in the target and the sender, prohibiting otherwise profitable trade opportunities. The sender's sanctions can also disrupt trade networks in which the target state is involved, which can have substantial negative effects on the target's trade with third parties.[12] For example, if a good manufactured for export in the target state relies upon a sanctioned good from the sender, the additional costs or disruptions faced by the target state manufacturer will affect its clients in third party states. This forces firms in the target, sender, and third party states to accept the losses imposed by the sanctions, find new—potentially less profitable—trading partners, or seek out alternative ways for continuing their trade.

The responses of sender firms that have had their trade disrupted by the sanctions can have a significant impact upon third party trade with target states. On this point, Martin (1992: 36) argues that sender governments will always "be subject to domestic pressure to gain cooperation in a case of costly sanctions," as they do not want to be sole constituencies bearing the brunt of the sanctions' costs. From this perspective, sender firms are advocates of multilateral sanctions that similarly constrain foreign firms. Yet Martin does not consider that sender firms may prefer to relocate their business to foreign countries not constrained by the sanctions rather than expending their resources to impress the same restrictions they face on foreign firms. As Morgan and Bapat (2003) demonstrate, profit-seeking firms from sender states

[12] Van Bergeijk (1995) provides an in-depth discuss of the network effects that trade disruptions can have on third party states. Curuso (2003) evaluates Van Bergeijk's theory (1995), finding that in cases of severe sanctions the disruptions caused by the sanctions do adversely affect the target's trade with third parties.

are often genuinely opposed to their host governments' sanctions and actively seek ways of circumventing them if it is profitable to do so.

For example, some might find it surprising, that as CEO of Halliburton during the 1990s, Dick Cheney lobbied Congress to rescind the United States' sanctions against Iran.[13] As recently as 2000, Cheney publicly criticized the sanctions that prevented American oil companies [like Halliburton] from doing business with Iran (Weisskopf and Zagorin, 2000). While Cheney may have had an abrupt change of heart concerning the sanctions upon becoming Vice President, Halliburton did not. In the midst of the U.S. Government's major push for international sanctions against Iran from 2005-2007, Halliburton forged an agreement with the Iranian Government to conduct oil-related contract work on its behalf through a foreign subsidiary headquartered in Dubai. Importantly, Halliburton's strategic off-shoring did not explicitly violate any U.S. laws—even if it effectively undermined their intent.[14] Despite its close ties to the Bush Administration and billions of dollars in U.S. defense contracts, the firm could not resist the profitable opportunity afforded to it by skirting the American sanctions. In response to the sanctions that it objected to, Halliburton relocated its commercial activities to somewhere that allowed trade with Iran rather than lobbying the U.S. Government to press harder in multilateralizing its sanctions so that foreign firms would be likewise constrained.

This suggests that sender firms (when possible) will seek to relocate their business to countries where doing business with the target is allowed, as opposed to lobbying their home governments to close off those opportunities. Sender firms may indeed argue that it is unfair for them to be the only ones burdened by the costs of the sanctions against the target, but they cast

[13] See the *Lautenberg Report on Iran and Halliburton* (2004) for documents that detail this relationship.
[14] This issue of whether Halliburton did violate U.S. laws remains a point of contention. To date, however, Halliburton was not convicted of violating any laws with the offshore contract work it conducted through its Dubai subsidiary (Lautenberg Report on Iran and Halliburton, 2004).

their argument as a justification for rescinding the sanctions—not because they actually want other states to participate. Martin's (1992) theory seemingly conflates these arguments as genuine support for the sanctions policies, rather than a strategic ploy to undermine them. Lobbying for other states to adopt similar sanctions would self-defeating for firms, as it would close off venues that could be potentially used to circumvent the sanctions and bolster support for a policy that they would ultimately like removed.[15] I argue that sender firms respond to sanctions by generally opposing them domestically and seeking to circumvent them—if possible and profitable—abroad. Indeed, they may even lobby their home governments *not* to rigorously pursue foreign support for their sanctions. The decision by some sender firms to transfer or relocate their disrupted commerce to third party states can substantially alter those states' trade flows with the target following the imposition of the sanctions.

Despite the best efforts of sender firms, however, a substantial proportion of the trade disrupted by the sanctions is likely lost to them. This creates new opportunities for third party firms, as they may be situated to capitalize upon the target's imbalanced terms-of-trade. In the case of imports, target-state consumers of sanctioned-imports will have a smaller international supply of goods available to them for purchase. This creates opportunities for third parties to take advantage of the target's limited terms-of-trade by forcing its consumers to pay higher prices for those sanctioned goods. Especially if the sanctioned import is rare or has few suppliers, the product's price may increase substantially.[16] In the case of sanctions on target exports, exporters within the country may experience a diminished demand for their products if the sender's state was a significant consumer of that product. This means that exporters may be

[15] Even if the sender firms are from an import-competing sector that benefits from the sanctions against the target, it is not likely to be in those firms interest to lobby other countries to adopt similar embargos. For example, the American sugar industry has benefited immensely from the U.S. sanctions against Cuba.

[16] The latter case is most likely to occur in cases of export-controlled strategic goods, like nuclear or missile technologies.

left with product surpluses, forcing them to sell their products at lower prices to make up for diminished demand. Once again, this creates opportunities for third parties seeking to obtain good deals on cut-price exports from the target state.[17] This creates a "Catch-22" for senders in that the harsher the sanctions imposed against the target are (creating larger imbalances in its terms of trade), the more profitable it will be for third parties to trade with it (Kaempfer and Lowenberg, 1999: 44).

Finally, the sender's sanctions against the target create additional uncertainty for firms seeking trade with the target. For firms, uncertainty increases the costs of conducting trade.[18] It hinders firms' ability to properly assess the risks entailed in transactions involving trading partners from the target state. First, firms in third parties do not know how long the sender's sanctions against the target will last.[19] As such, they do not know whether the favorable or unfavorable conditions created by the sanctions will endure long into the future or end shortly. This makes forming long-term deals that lock-in contractual obligations more risky. Second, the existing sender-target political hostilities that have manifested themselves in the sender's sanctions indicate the potential for the sender to escalate to harsher sanctions or even military action.[20] Third, third party firms may be putting themselves at risk for punitive retaliation by the sender state if they trade with states the sender has sanctioned. The United States has frequently employed extraterritorial sanctions against firms in third party states that trade with states and/or

[17] For an extensive discussion of how third party states can benefit from the imbalanced terms of trade created by economic sanctions, see: Curovic (1997).

[18] See: Williams, 1985; Li and Sacko, 2002.

[19] Van Bergeijk and Marrewijk (1995: 76) assert that a "peculiarity of economic sanctions is that the implementation of a sanction today, does not necessarily imply that this sanction will be implemented in the next period as well... [As such], continuation of a sanction is uncertain."

[20] For more on the how political hostilities affect firms international trade behavior, see: Li and Sacko (2002) and Long (2008).

entities against which it has imposed sanctions.[21] There is also a risk for firms that trade with the sanction state that their home state governments will punish them if the country is pressured into joining the sanctions effort by the sender. As this discussion indicates, the uncertainties created by the sender's sanctions have broader effects on trade with the target, imposing transaction costs on commerce that does not even involve the goods or services being sanctioned by sender. Taken together, this suggests that economic sanctions have a profound effect on third party trade with sanctioned states—even if third party governments do not participate in the sanctions.

A target government's strategy for responding to sanctions may entail changing its domestic economic policies or altering the state's trade relationships with other countries. The sanctions may create strong incentives for the target government to seek external assistance in helping it mitigate the costs imposed by the sanctions. Such assistance may come in the form of state-sponsored aid or through policies that promote trade with the sanctioned state. For example, the massive assistance package Cuba obtained from the Soviet Union represents a prominent case of a target government seeking external state-sponsored assistance. Within the target's commercial sector, sanctions force firms (private and state-owned) to undergo the costly process of finding their "second-best" trading partners (Keohane and Nye 1989, 8-13). Firms within the target will seek out new trading partners—some domestically and some in third parties—to replace the commercial relationships the sanctions disrupted or made unprofitable. Given their shared incentives, both the target state's government and its firms will make concerted efforts to attract third party commerce to offset the losses imposed by the sanctions.

For senders, recruiting the participation of third party states represents one strategy for improving the likelihood that their sanctions will be successful. The participation of other

[21] For more in-depth discussions on the United States' use of extraterritorial sanctions, see: Martin (1992), Rodman (2001), and Shambough (1999).

sanctioners makes the strength of the direct sanctions harsher and denies the target secondary markets that it could use to replace lost trade with the initial sender. Yet, as policymakers realize, the additional participation of a third party state only makes a marginal contribution to the likelihood that the sanctions will be successful. Since the costs of imposing sanctions can be high and third parties' interests frequently differ from those of the sender, the sender must often rely upon the use of external persuasion in the form of inducements, threats, or punishments to obtain their participation (Martin, 1992).

In terms of the recruitment strategies open to senders, inducement-laden approaches tend to be more costly than coercive ones because they involve definitive payments to third parties. Conversely, coercive strategies reliant upon the use of threats may incur few actual costs if the sender does not have to following through on them. Inducement-oriented strategies are also more difficult to employ. Even if a sender offers to offset the costs of the third party's participation, calculating an accurate figure of what those cost are is a very difficult task (Hufbauer and Oegg, 1997; Slavov, 2008). Incentives in non-related issue areas may also be ineffective, as third party governments will still have to deal with the domestic political costs of the constituencies harmed by the policy. As such, coercive strategies that make the costs of not participating eminently more painful than doing so may sometimes be the only way of convincing third party governments to participate. Indeed, Martin (1992) demonstrates that the use of coercion is central to a sender's ability to obtain multilateral support for its sanctions.

Given that the participation of any third party state will—at best—only marginally improve the sanctions' likelihood of success, the costs entailed in recruiting a third party's participation often outweigh the potential benefits achieved by it. In general, sender states should not incur greater costs in recruiting the participation of third parties than they expect to gain from such cooperation. This suggests that senders employ coercion selectively, only using it when the benefits of doing so outweigh the costs.

As the triadic framework illustrates, sanctions disputes can have profound spillover effects upon third party states. The sender's sanctions create a milieu of costs and opportunities for trading partners of the target, substantially changing the commercial environments in which third party-target trade occurs. It also can generate political tensions for third party governments, which may be under pressure to adopt policies favorable to one side or the other. The third party's decision represents a zero-sum game in which the sender's gain is the target's loss and vice-versa. This framework indicates that both the commercial and political factors influencing third party responses must be accounted in any potential account of third party response.

The Triadic Theory of Third Party Response

My theory draws upon the liberal paradigm's core assumptions about the role played by societal actors within domestic and international politics and how their preferences motivate their political and economic behavior. Rather than focusing solely upon state governments, liberalism emphasizes the agency of individuals and groups, such as firms, in engaging in international behaviors, like trading.[22] The perspective acknowledges that governments are led by leaders with their own prerogatives, such as the preservation of national security, but asserts that a country's constituencies play a role in the formation of state interests. Liberalism provides a framework for understanding how, out of a plurality of interests that exist within societies and among their leaders, certain policies emerge to become the "national interest" pursued by their

[22] While theorists, like Buena de Mesquita et al. (2003) and Byman and Pollack (2001), argue that state leaders are the most important actors in international politics, Moravcsik (1997) couches his argument more generally at the societal-level.

governments. In particular, my theory builds on the liberal paradigm to explain the role played by firms as both the primary agents of international trade and the primary constituency affecting state behavior on this policy issue.

Moravcsik's (1997) social scientific conceptualization of liberalism offers a bottom-up account of international politics in which state behavior is explained in terms of societal preferences and the institutions that structure how they are aggregated. In the section below, I discuss three of the liberal paradigm's central assumptions and how they play a foundational role in my theory of third party response:

> *Assumption 1*: The primary actors in international politics are individuals and groups that, by and large, act rationally in pursuit of their individual preferences (Moravcsik, 1997: 516).
>
> *Assumption 2:* When engaging in economic transactions, individuals and firms are opportunistic and driven by profit-seeking preferences (Pollins, 1989; Williams, 1985; Li and Sacko, 2002).
>
> *Assumption 3*: "States (or other political institutions) represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics" (Moravcsik, 1997: 518).

These three assumptions lay the foundation for a cohesive theory capable of explaining what the interests of third party firms and governments are and, on the basis of how those interests interact, how third parties will respond to the imposition of sanctions against the target. *Assumption 1* asserts the primacy of societal actors in international politics and contends that these actors, in general, are rational decision-makers.[23] *Assumption 2* asserts that individuals and firms have a specific set of preferences when engaged in commercial activities. Within the

[23] This does not imply that decision-makers employ rational choice methods of decision-making (Elster, 1986) nor that they have complete information and the cognitive faculties to evaluate all potential options (Simon, 1995). Within this project, the conceptualization of "rationality" employed is loose enough to accept in practice that human rationality is "bounded" by cognitive and environmental constraints (Simon, 1995).

economic sphere, I assume that actors are driven by profit-maximizing preferences.[24] *Assumption 3* draws on liberalism's conceptualization of the relationship between societal actors and the state institutions that represent them. This assumption links the behavior of state leaders to the preferences of the societal constituencies upon whose support they are dependent.[25]

The liberal perspective emphasizes the primary role by profit-driven firms and individual actors in determining international trade flows (Pollins, 1989a; 1989b; Li and Sacko, 2002; Keshk et al., 2004; Kastner, 2007). As such, it explains the distribution of international trade flows as the product of the profitable of trading opportunities available to firms and their capacity to take advantage of them. Firms' capabilities, the political and commercial environments in which they operate, and the costs entailed in carrying out transactions affect which international trade partners they do business with, if they do so at all. Driven by the pursuit of profits and "…under the constraint of uncertainty, rational firms continuously formulate and update their expectations of future returns and adjust trade accordingly" (Li and Sacko, 2002: 33). In other words, firms are constantly seeking to recognize and take advantage of the economic opportunities available to them. Capitalizing on these opportunities, though, might sometimes require commercial and political action to realize.

The three core assumptions of my theory provide an implicit framework for explaining how firms will pursue their interests through interacting with their host governments. Governments create the institutional environments that can facilitate or stunt economic activity. Firms have incentives to lobby governments to adopt favorable policies when the benefits of

[24] Simon (1985) famously challenges this view, but with respect to firms this view remains predominant. While firms may have a broader interest in the national interests of the states they inhabit, they face a collective action dilemma. Firms have little incentive to make what may be individually large sacrifices on behalf of "national interests," when such sacrifices will likely only a minimal effect on national policies. While some individuals and firms may be have "patriotic" preferences that exist alongside profit-driven preferences, simply assuming that profit-driven behavior should generally be accurate.

[25] A more nuanced conceptualization of this model can be found in Buena de Mesquita et al. (1999) and Buena de Mesquita et al (2003).

doing so outweigh the costs. While state leaders are charged with the responsibility for protecting and pursuing the national security of their states, they are also beholden to domestic constituencies that have a stake in their state' foreign policies (Mansfield and Snyder, 1995; Bueno de Mesequita et al., 2003). Sometimes the interests of firms are congruent with those of their host government, but the existence of divergent interests will not necessarily stop firms from lobbying for favorable policies that could be detrimental to the rest of the state's constituencies.[26] This implies that states' more diffuse security interests are vulnerable to the concentrated interests of profit-driven firms when it comes to setting policies towards sanctioned states. My theoretical framework also acknowledges that firms may seek to circumvent or undermine their home states' policies if those policies clash with their economic interests (Morgan and Bapat 2003). This also helps explain why enforcement issues often plague sanctions efforts, as the costs and difficulty in enforcing them when individual and firm interests are opposed to them can be prohibitively high for governments to do effectively (Drezner, 2000: 83).

The liberal paradigm views states' trade flows as largely the aggregate product of the commercial transactions conducted by individual firms. Even if profitable opportunities for international trade exist, those opportunities are tempered by firms' ability to mitigate the costs involved in conducting it. Within Anderson and Wincoop's (2004: 691) expansive definition, trade costs "include all costs incurred in getting a good to a final user other than the marginal cost of producing the goods itself."[27] The transaction costs involved in international commerce

[26] Rent-seeking is defined as instances interest groups are able to convince leaders to adopt their self-serving policies "without necessarily providing offsetting gains for society as a whole, the result [of which] is likely to be inefficient, suboptimal policies from the aggregate perspective" (Moravcsik, 1997: 530-531). Indeed, Kastner (2007) has shown that internationalist commercial interests can pressure their host governments to adopt foreign trade policies contrary to the governments' security interests.
[27] Anderson and Wincoop (2004: 691-92) definition includes: "transportation costs (both freight costs and time costs), policy barrier (tariffs and nontariff barriers), information costs, contract costs, enforcement costs, costs

are also much higher than those involved in domestic exchanges. Transaction costs economic theory identifies four distinct costs that exist in carrying out commercial transactions: search costs, contracting costs, monitoring costs, and enforcement costs.[28] The extent to which these costs affect firms' ability to engage in commercial transactions depends heavily the degree that uncertainty and imperfect information shroud firms' decision-making. The less that is known about a potential trading partner, about the conditions under which the transaction will take place, the likelihood of future interactions, and potential for reciprocity, the riskier and more expensive it is to engage in trade.

This perspective argues that beyond the laws of supply and demand, the commercial environments in which the trade occurs strongly affects trade behavior. Stable, safe commercial environments that foster trust and transparency can mitigate the transaction costs of trade, while insecure, unstable, and opaque environments can exacerbate them. This implies that state's bilateral trade flows will be influenced not only by the domestic commercial environments within the individual trading partners, but also the nature of the relationship between the two states. For example, the presence of political conflict within states, between them, or along trade-routes raises the transaction costs involved in carrying out commercial transactions—diminishing the trade that occurs in its presence (Pollins, 1989a, 1989b; Keshk et al., 2004; Long, 2008). Conversely, states sharing democratic regimes and social linkages have been shown to trade more with one another (Dixon and Moon, 1993; Bliss and Russett, 1998). Long (2003) has also demonstrated that states sharing defense pacts, the most salient form of alliance,

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associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail)."

[28] Dyer (1997: 536) defines the costs as being the following: "*Search costs* include the costs of gathering information to identify and evaluate potential trading partners. *Contracting costs* refer to the costs associated with negotiating and writing an agreement. *Monitoring costs* refer to the costs associated with monitoring the agreement to ensure that each party fulfills the predetermined set of obligations. *Enforcement costs* refer to the costs associate with *ex post* bargaining and sanctioning a trading partner the does not perform according to the agreement."

also engage in more bilateral trade. This demonstrates that factors that reduce the uncertainty involved in international trade facilitate in its occurrence. These environmental considerations play a major role in shaping international trade flows and, as I argue, are especially salient in shaping firms' trade with sanctioned states.

Building upon the theoretical framework I have presented, I conceive of the responses of third party governments as being driven by their political interests vis-à-vis the target and sender states and the interests of their domestic economic constituencies. The interests of third party vary in accordance with the existing relationships they have with the target and sender states and how adopting particular policies will affect their commercial constituencies. As firms are driven by the pursuit of profits, third party commercial constituencies have a vested interest in exploiting opportunities for profitable trade with sanctioned states. In the absence of government intercession to prohibit such trade, firms in third party states should seek to trade with the target when it is profitable. To both promote and protect their interests, firms may lobby their host governments to adopt policies favorable to trade with the target or, at the very least, pressure their governments not to participate in the sanctions. *In cases in which a third party government's foreign policy interests are incongruent with those of its domestic commercial constituencies, third party governments will tend to privilege their constituencies' interests over foreign policy considerations on this issue.*

On the basis of this conception of third party interests and the triadic framework for modeling third parties' strategic interactions with the sender and target states, I develop a general explanation for why cross-national variation exists in how economic sanctions affect their targets' trade with third parties. This theory draws on a broad set of political, economic, and geographic factors to produce a coherent set of predictions regarding how third party states' characteristics and relationships affect firms' trading behavior. Cross-national variation in the degree to which these factors exacerbate or mitigate the transaction costs created by the sanctions explains why firms may be attracted to trade with the target from some states and deterred from doing it from others.

According to my theory, firms will seek out the most profitable means of exploiting the imbalanced terms of trade created within target by the sanctions. This means finding venues capable of either providing exports or absorbing imports from the target state and that minimize the associated costs involved in trading with firms from the target. Just as third party firms are interested in taking advantage of the opportunities within the target, firms from the target are seeking to find new trading partners to replace those lost due to the sanctions. Thus, tension exists between third party firms' desire to leverage target firms' vulnerability for greater profits and target firms' desire to mitigate the costs of finding and switching to their second-best trading partners. In adjusting to the sanctions, the target state's commerce should be redirected to the third party countries that provide firms with competitive advantages in trading to and from the target profitably.

In the following sub-sections, I develop my theoretical expectations regarding the leading set of factors that make certain states more attractive venues for trading with sanctioned states than others. These factors fall under a broader umbrella hypothesis that predicts that the differences in the degree to which sanctions-imposed transaction costs affect third party states explains why variation exists in how sanctions affect third party trade with target states. Under this argument, the profitability of the commercial opportunities available to individual firms motivates the nature of third party government responses and, ultimately, the aggregate trade flows of the states that are observed.

The Effects of Third Party States' Commercial Profiles

The commercial profile of third party states conditions the opportunities available to firms seeking to trade with or from the target. Third party states with large economies capable of absorbing surpluses from the target and/or capable of shifting production to fulfill unmet demands within the target can offer firms greater flexibility in responding the commercial opportunities within the target. Firms operating in large domestic markets will have larger consumer bases to absorb inexpensive imports from the target than those in states with small economies. As well, states with small economies may not be able to shift their production to fulfill the needs of the target, as the products sought by the target may rely on economies of scale to be profitable (e.g., high-tech goods, vehicles, and heavy industrial equipment). For example, there often only a limited number of supplier states exist for certain types of strategic goods, which tend to be produced only in countries with large economies.[29] This limits the alternative sources available to target states in skirting export sanctions to those few states.

Additionally, the transaction costs involved in responding the sanctions creates incentives for target firms to redirect their trade to a single market or small number of markets. The costs of finding new trading partners, negotiating new contracts, and monitoring those agreements should be comparatively less for target firms if their efforts are concentrated in only a few markets, as opposed to diffused over many. Thus, countries with large economies will be the focus of a disproportionate share of target firms' efforts to adjust their commerce in response to the sanctions. These transaction-cost driven clustering effects are likely to be at play across a

[29] For an extensive discussion of export controls and their logic, see: Bertsch et al., 1994; Grillot and Bertsch, 1998; Cupitt, 2000.

wide number of factors. *Ceteris paribus*, then, the larger a third party's economy is, the more advantaged the state's firms will be in responding to the target's imbalanced terms of trade.

The expected effects of economic size are premised on the notion that the products traded between the target and third parties are directly produced or consumed within the third party trading partners; however, this is often not the case. Countries can have competitive advantages in operating as commercial hubs for international trade. Countries that are heavily involved in international trade should have more developed logistical infrastructures to engage in trade and more developed commercial sectors geared towards trade brokerage. Heavily trading countries tend to be better connected by overland distribution networks and have large air- or sea-ports, which reduces the costs of transporting products through them (Limão and Venables, 2001). The economies of scale involved in maritime commerce already lead firms to utilize hub-and-spoke models of trade distribution, whereby all traffic passes through a principle hub or base port. In their study, Andriamananjara et al. (2004) found that one in six shipments involve transshipment and, in many cases, four or more countries may be involved in shipping products from their country of origin to their final destination. While hub countries may not produce or consume the products the target firms wish to broker, they may serve as loci for target states to use in conducting commerce with the rest of the world.

Trade hubs, such as Hong Kong, Singapore, and Dubai, may also have easier time of diverting trade to sanctioned states because of the cover they can provide for sanctions-busting transactions. Such venues offer firms from the sender and third party states discrete alternative means for continuing their trade with the target when direct transactions are illegal. Transshipping their products through middle-men in third parties or selling their products to third party firms with the implicit assumption that target is the end destination can either legitimate firms' sanctions busting activities or, at the very least, make them more difficult to detect. The sheer amount of trade conducted within these ports can obfuscate the identities of the parties involved in the sanctions-busting transactions. Frequently, the additional trade costs associated with "laundering" products through these venues are outweighed by the benefits of doing so. American firms could claim to be sending their products to Dubai either knowing deliberately or remaining blissfully ignorant of the fact that they would be re-exported to Iran.

The target and third-party states' regimes may also have an effect on their trading relationship, as liberal democratic states' relationships tend to be more stable, transparent, and less prone to conflict. Cox and Drury (2006) have empirically demonstrated that democratic states are significantly less likely to sanction one another—even if democratic states, on the whole, impose sanctions more often than non-democracies do. Dixon and Moon (1993: 11) contend that "expected stability is also key [for firms] because so much modern trade has a long-term component… private actors will be drawn to partner choices that minimize political risk that could disturb long-run relations. This implies that trade relationships are most likely to prosper under conditions where diplomatic conflict is least likely to pose a serious threat." The additional transparency and stability created by the joint presence of democratic institutions should lead to higher levels of trade between the third party and target when both states are democracies than in cases when one or both is not.[30] When both the third-party and target states are democracies, it provides an additional degree of certainty and stability in the two states' relations. This should be attractive to firms in democratic target states that are attempting to establish new commercial relationships.

[30] Lektzian and Souva (2001) also find that jointly democratic dyads returned to their previously established trade levels faster than in mixed-polity dyads, after one of the states had employed sanctions against the other. The authors (2001: 63) posit that democratic institutions play an important role by helping to re-establish "trust" and certainty between the economic actors in both states.

Geography, Opportunity, and the Unobserved Specter of Illicit Trade

Finally, a third party's geography can provide it with advantages and disadvantages in trading with sanctioned states. Geography is both a monadic and relational variable. For example, being landlocked is a distinct geographical characteristic of states that creates substantial barriers to their ability to conduct international trade (Limão and Venables, 2001). Yet, the distance between two states and the presence of a shared border are relational characteristics. The general finding within the literature on international trade is that distance has a negative effect on two countries bilateral trade while a shared border has a positive effect. The farther a third party is from the sanctioned state, the more difficult it may be for the commercial transactions to take place, depending upon the sender's aggressiveness in recruiting third party participants and deterring third party trade. It may also be easier for the target's regional trading partners to divert their trade flows to the target, as are likely to have close commercial, social, and infrastructural linkages with one another (Blumenfeld, 1991: 119; Andreas, 2005). In examining third party trade with apartheid South Africa during the 1980s, Kaempfer and Ross (2004) found that third parties that were geographically proximate to South Africa traded more with it than third parties that were further away—irrespective of their political support for the sanctions. As such, there are strong reasons to expect that countries proximate to the target are more likely to have their trade with the state increase following the imposition of sanctions than those that are far away.

The consequences of sharing a border with a sanctioned state on third parties' bilateral trade are more complicated. For individuals and firms, engaging in illicit trade entails greater risks, in general, than legitimate trade. Under some circumstances, however, it is more profitable to trade illicitly when legitimate trade is prohibited or raises the risk of external retaliation. As Andreas (2005) has shown, sanctions regimes can facilitate in the development of transnational criminal networks to service the commercial needs of sanctioned states. These networks thrive in conducting cross-border smuggling from the target's regional neighbors. Border countries represent the ideal points from which to engage in illicit transactions because the trade is bilateral not international—preventing both the sender and the broader international community from monitoring or policing the commerce. Especially in cases in which a sender state is actively persecuting sanctions-busters or a sanctions regime has broad multilateral support, it may be cheaper to engage in illicit or clandestine trade with the target than legitimate trade. This expectation conforms to my theoretical account, as individuals and firms are employing the most cost-effective means of achieving their desired commercial transactions. Third party governments might be complicit in this trade (Dadik, 2003) or just unwilling to invest the resources in stopping it (Drezner, 2000). During the U.N. sanctions imposed against Iraq after the first Persian Gulf War, illicit trade with Jordan, Syria, and Turkey served as key sources of income that helped Saddam Hussein's regime weather the sanctions (Iraq Survey Group, 2005: 24-27). Thus, while it could be expected that the target's contiguous neighbors are the most likely states to have their trade with the target increase after sanctions are imposed, a large proportion of that trade may be conducted illicitly.

The practical issue this raises is that the legitimate trade flows of states bordering sanctioned countries are likely to suffer from an under-reporting bias of the true value of the bilateral trade being conducted. Little data exists on the scope and size of illicit trade flows with sanctioned countries, however, and especially not in a cross-sectional time-series format amicable to statistical analysis.[31] Limiting my theory's predictions to observed levels of bilateral trade, it could be expected that the offsetting effects of illicit trade would, in general, cause bordering states' legitimate trade flows with sanctioned states to remain neutral or decline after sanctions are imposed. Under this account, increases in neighboring countries' trade with the target are likely to be conducted illicitly by individuals and firms. Thus, the presence of a non-effect, or even a negative effect, for sharing a border with a sanctioned on legitimate trade flows could be viewed as being supportive of my theory's predictions.

The Effects of Third Party-Target Commercial Interdependence

The degree to which the third party and target states are commercially dependent upon one another dramatically affects both firms' and states' incentive structures in responding to the imposition of sanctions. Dating back to Immanuel Kant, scholars have been interested in the relationship between economic interdependence and international politics. Three broad steams of literature address this relationship: one focuses on the effects of international commerce upon conflict (Barbieri, 1996; Russett and Oneal, 2001), one examines the effects that conflict has effect upon commerce (Pollins, 1989a; 1989b; Li and Sacko, 2002; Keshk et al., 2004), and one explores the use of economic statecraft in foreign policy (Hirschman, 1980; Baldwin, 1985). As Barbeiri (1996) points out, commercial interdependence has two distinct characteristics that affect its influence upon state's political relationships: the salience of the trade to both parties and the symmetry of the trade relationship. The salience of a commercial relationship affects both the benefits it provides and the costs associated with its disruption. Asymmetrical

[31] Most of the available data comes in the form of comprehensive case studies. For several very good examples, see: Dadik, 2003: Andreas, 2005; Iraq Survey Group, 2005.

dependence in commercial relationships provides states with leverage that can be used to coerce or manipulate the states that are dependent upon them (Hirschman, 1980). The extent to which the third party is commercially dependent upon the target and the target is dependent upon the third party influences both parties' responses to the sanctions. The sanctions also create a form of asymmetrical dependence for the target states, which can make them dependent upon the responses of their large trading partners.

Economic sanctions, whether imposed unilaterally or multilaterally, have the cumulative effect of making their target more commercially dependent upon the third parties that do not participate in them. Target states are especially dependent upon the responses of their largest trading partners, whose defection to join the sender's sanctions could do them the most of harm and whose assistance could do them the most good. Indeed, if the target can receive substantial assistance from just one third party, it significantly diminishes the likelihood of the sanctions being successful (Martin, 1992; Lektzian and Souva, 2007). As the target's largest trading partners are likely to be capable of providing it with such assistance, I argue that the lion's share of the target government's efforts tend to focus on recruiting the support and commerce of such states. By concentrating its commercial and diplomatic efforts on ensuring the support of a few key states, the target can offset at least some of the costs imposed by the sanctions and make it much more difficult for the sender to recruit the support of the states upon which the target is most dependent.[32] This implies that a small number of the target's largest trading partners are apt to have their commerce with the target increase significantly after sanctions are imposed against it. Yet given the asymmetrical position from which the target is bargaining, the third parties that become benefactors of the target should be in a position to exploit the target's

[32] The greater the third party's existing commerce with the target, the higher the opportunity costs for participating in the sender's sanctions will be.

vulnerability for either commercial or political gains. Interestingly, apartheid South Africa showed little sympathy for the white-minority Rhodesian Government during the broad international sanctions regime imposed against it in the 1960s. As Blumenfeld (1991: 55) observes, “South Africa extracted its full pound of flesh for bailing Rhodesia out of its trade and transport problems.”

Conversely, the presence of substantial third party commercial dependence upon the target plays to its advantage in recruiting third party assistance. The greater a third party’s commercial dependence upon the target is, the higher the opportunity costs of disrupting that trade will be, as will be the domestic political opposition to joining the sanctions. Individuals and firms from sectors that would be hurt by the third party government’s imposition of sanctions will lobby hard to prevent them being imposed. Since the utility state leaders derive from foreign trade policies “depends in part on the trade policy preferences of their core constituents,” third party governments will seek to avoid “taking actions detrimental to foreign commerce” when it alienates those constituencies (Kastner, 2007: 670). Due to the tax revenues lost because of the sanctions and the resources necessary to implement and enforce them, third party governments also face high opportunity costs in participating in the sender’s sanctions regime. Unless the third party government is truly committed to the sanctions’ policy goal (which is not often the case), the sender must offer a package of threats and/or side-payments that makes not participating a worse choice than doing so. The costlier it is for third party governments to join the sanctions due to their commercial ties to the target, the less likely it is that the sender will be able to compel their participation or find the costs of doing so acceptable.

The costs of the sender’s efforts to coerce the cooperation (Martin, 1992) of third parties can be made even higher by the coercive strategies employed by target governments.

Governments of third party states that are commercially dependent upon the target may be deterred from participating in sanctions against the target for fear of jeopardizing their broader economic relationships with the country. South Africa was effective in leveraging the commercial dependence of its regional neighbors to force them to cooperate in sanctions-busting on its behalf. Land-locked countries, like Zimbabwe, Botswana, and Malwai, and Zambia, were especially dependent upon South Africa's commercial infrastructure as their lifeline to the outside world. While this situation created some degree of "involuntary" dependence (Blumenfeld, 1991: 131), South Africa was effective in exploiting these countries' own broader economic interests to its own ends. Iran has also been able to use third party states' dependence upon foreign oil supplies to its advantage in blocking U.S. efforts to garner multilateral support for its sanctions. China's consistent opposition to U.S.-led efforts to sanction Iran over its clandestine nuclear activities also illustrates this point. The Chinese Government's desire for Iranian oil and its fear of disrupting its burgeoning commercial relationship with the country has allowed Iran to create a rift in the UN Security Council that has blocked the imposition of harsh UN-sponsored sanctions against it (Beyers, 2007). This is not to say that states that are commercially dependent upon the target cannot participate in the sanctions, only that it becomes much more costly for them to do so.

For firms within targets and third parties, the extent of a third party and target's mutual interdependence positively influences its attractiveness as a sanctions-busting venue. Since states that are highly dependent upon the target are less likely to participate in sanctions against it, firms in sanctioned-states find it comparably safer to shift their commerce to countries that already trade heavily with their home states. For target firms, having trading partners that rely heavily on their commerce may also reduce the risks that their trade will be disrupted—as such firms will be more difficult for the sender state to deter with extra-territorial sanctions. This diminishes the likelihood of future disruptions in the trade due to the sender's efforts.

The transaction costs involved in finding new trading partners also provide incentives for target firms to focus on the network of existing commercial relationships they already have. Target firms will often find it less costly simply to increase the amount of trade they conduct with existing trading partners than to find out new ones. When it is necessary to find new trading partners, it will be less costly for target firms to seek them out in countries in which they already do business than to find them in new countries. The search, monitoring, and enforcement costs involved in establishing commercial operations in new countries can be prohibitively high for firms already hurt by the sanctions. Given the uncertain duration of the sanctions, firms may also be unsure as to whether it is worthwhile to invest in establishing new commercial networks that absent the sanctions may not be unprofitable. The transaction costs involved in pursuing a diffuse adjustment strategy drive target states towards concentrating their efforts on states with which they already have strong commercial linkages. These factors suggest that the greater the level of commercial interdependence between the target and third party states is, the more those states will have their trade increase after the imposition of sanctions.

Alliances and Sanctions Cooperation

States form military alliances as a means of improving their national security and ability to pursue their national interests. Prospectively, alliances can be formed to "balance" against more powerful states or alliance blocs to deter them from attacking, or to provide states with relative power advantages over adversaries that make aggression a more attractive option.[33] The formation of formal alliances provides information about the degree of commitment that exists between potential military partners to aid one another once a conflict is initiated.[34] Leeds (2003) has shown that, in particular, defense pacts exercise a potent deterrent effect, decreasing the likelihood that states will initiate conflicts with other states that are party to such pacts. While such treaties can be effective deterrents, they do not actually guarantee that the promised assistance will be provided if invoked. Leeds, Long, and Mitchell (2000) find that alliance partners tend to renege on their commitments about 25% of the time. This raises two conceptually important points for this analysis: 1) alliance partners do not always have congruent security and foreign policy interests; and, 2) the quality of intra-alliance relations may affect the likelihood of states abiding by their alliance commitments. As such, the management of intra-alliance relations on the issues where divergent interests exist has salient implications for the well-being of alliances.

Few authors, aside from Glenn Snyder (1997), have explicitly taken up the issue of alliance management. The issues involved in how allies maintain their relationships are complicated and often messy. As Snyder writes (1997: 180), "Allies bargain with each other to settle immediate disagreements, often about how to deal with an opponent, but they also seek to preserve the long-term health of their relationship, and their own interests within it, apart from specific conflicts with an adversary." From this perspective, the management of intra-alliance relationships extends far beyond crisis situations or the immediate decision to fulfill alliance

[33] For discussions of various strategies of using alliances to balance vs. bandwagon, see: Mearsheimer, 2001; Paul, Wirtz, and Fortmann, 2004; Little, 2007.
[34] Formal alliances constitute more "credible" commitments to aid in potential conflicts than informal promise because of the costs entailed in violating them. As such, alliance treaties serve as "costly signals" to other states about the strength of the commitment between two allies and the likelihood that they will come to one another's aid. For more on the use of "costly signals," see: Morrow 1994. For discussions of this point related to alliances, see: Smith (1995) and Leeds (2003).

commitments. Allies must factor in the foreign policy considerations of their partners into their decisions, as policies that do not even relate to states' alliance commitments can alienate or upset their partners. This implies that allies should not take their alliance partner's willingness to cooperate on peripheral issues for granted or exploit partners' alliance commitments to their detriment. States that do so can harm to their own interests in the long-run. To avoid being abandoned in their time of need, states must seek to maintain positive intra-alliance relations with their partners.

The expectations that alliances create between their members can complicate the task managing intra-alliance relationships. Snyder explains that alliances have a "halo effect" that produces expectations that mutual cooperation should extend beyond immediate obligations of alliance agreements: "Having tied their fates together on the most crucial issue—survival—it is only natural that the partners come to feel they ought to give each other mutual support on lesser issues, most especially those that relate somehow to the ultimate military contingency" (Snyder, 1997: 356). Economic sanctions can be used as a coercive measure short of the use of military force or as an augment to it. Especially if the economic sanctions involve a security dimension (e.g., they are imposed in response to a conflict or to restrict adversaries' access to strategic goods), the sender is likely to expect that its allies should participate in its sanctions. On the other side, the targets of such sanctions may also expect to receive assistance from their allies to mitigate the damage they do.

While both the sender and the target states may expect to receive assistance from their allies, these expectations can be misplaced. As I will demonstrate, alliances between senders and third parties actually promote opportunistic third party sanctions-busting instead of fostering cooperative participation in the sender's sanctions. For target states, however, my theory predicts that alliances with third party states do have positive effects on third party responses to the sanctions. Third party alliances thus serve to constrain senders' ability recruit multilateral participation in their sanctions regimes on two fronts.

The Effects of Third Party Alliances with the Target

Both commercial and political incentives exist for third party allies of the target to come to the state's assistance after it has been sanctioned. Hufbauer et al.'s (1990) discussion of "black knight" sanctions-busting alludes to the strong political incentives that third party governments can have in supporting sanctioned allies. The sender's sanctions can weaken the economies of target states, destabilize their regimes, disrupt their participation in trade networks, and cut them off from strategically important goods that weaken their military strength. These effects can have negative consequences on third parties' security, as declines in the target's relative power will weaken the alliance blocs to which it is party. Given the sanctions' consequences, allies of the target should, at the very least, refrain from participating in the sender's sanctions. Moreover, since governments have been shown to craft strategic general trade policies designed to bolster the strength of their alliance blocs (Gowa and Mansfield, 1993; Gowa, 1994; Long, 2003), the responses of the targets' allies are likely to be similarly shaped by strategic considerations. By offering direct aid to the target or through policies that encourage their private sectors to trade target, third party governments can help mitigate the damage the sanctions do to their allies. In seeking assistance, target states would seemingly have the highest expectations of receiving some sort of support from their allies. Thus, if a target's ally fails to deliver the support that is expected of it or, even worse, joins the sender's sanctions, then its alliance relationship may suffer deleterious consequences. In terms of the foreign policy considerations involved, third parties have strong incentives support their sanctioned allies.

For firms, allies of the target are preferable trading partners for several reasons. Firms may prefer trading to and from the target's allies because there is less of a risk of those states joining the sanctions regime. Target firms that redirect their commerce to the allies of their home state decrease the uncertainty regarding the potential for future sanctions-related disruptions comparable to if they chose to trade with firms in non-allied states. As well, trade promoting policies adopted by allied third party governments may increase the number of profitable opportunities available to firms in such states. For example, third party allies can provide tax breaks, tariff exemptions, or subsidies to firms that trade with the target.[35] Such policies can not only promote growth in the trade conducted by indigenous firms but also attract foreign firms to relocate their commercial operations to the states offering the incentives. As this analysis demonstrates, the interests of the governments of states allied to the target are congruent with those of their commercial constituencies. The incentive structures of both firms and governments work in conjunction to increase the amount of trade conducted by the target with its allies after sanctions are imposed against it.

The Effects of Third Party Alliances with the Sender

Contrary to the common wisdom, alliances can inhibit cooperation between partner states just as they can some times help foster it. Alliances constrain senders from using the types of

[35] While import-competing industries could protest the imposition of such policies, the foreign policy incentives of doing so make it more likely that the third party governments will be willing to bear their domestic political costs than non-allied states. Such costs may also be counterbalanced by the lobbying efforts of internationally-oriented commercial sectors.

coercive policies that are necessary in many cases to compel their allies to stop trading with the states they sanction. As such, alliances hamper senders' ability to coerce the cooperation of their allies relative to non-allied states. Third party allies of the sender can exploit the senders' restraint to create commercial environments that are conducive to sanctions-busting and beneficial to their countries' firms. Sender firms seeking to continue trading with their sanctioned trading partners also have strong incentives to relocate their commerce to or through states allied to the sender. Rather than syncing the sender's foreign policy prerogatives with their own or fostering spillover collaboration, alliances provide third parties with leverage that they can use opportunistically to profit from the sender's costly sanctions. The willingness of sender allies to exploit their alliances for commercial gain is intrinsically tied to the extent of their commercial ties to the target. I argue that third parties support their allies' sanctions when the costs of doing so are cheap, but seek to exploit the opportunities created by the sanctions when the costs of participating are high. This outcome reflects both a sophisticated strategy of balancing domestic political and foreign policy prerogatives on the part of third party governments and the constraints that tie senders' hands when confronted with their allies' opportunism.

While firm interests and governmental foreign policy interests are congruent in the case of a target-third party alliance, they are likely to be divergent when the third party has an alliance with the sender. Firms interested in pursuing the profitable opportunities created by the sender's sanctions will pressure their governments not to join in the sanctioning effort. As such, third party governments may face strong domestic opposition to participating in their allies' sanctions. Moreover, even if a third party state has a generally close security relationship with the sender, it does not mean that the third party state has the same specific interests in achieving the policy goals pursued by the sender with its economic sanctions. For example, despite their alliances with the United States, most U.S. allies have few security interests at stake with respect to the American sanctions against Cuba. Commercially, however, firms within countries like Great Britain, Canada, and Japan have much to gain by exploiting the imbalanced terms of trade created within Cuba by the American sanctions. The strength of the commercial constituencies favoring trade with the target and the commercial linkages between the target and third party affect how costly it is for third party governments to participate in the sender's sanctions. In cases in which the third party has few commercial ties to the target, it may be much easier for the government to support its ally's sanctions. The more extensive the third party's linkages to the target are, however, the greater the domestic pressure not to participate will be.

Aside from domestic political considerations, third party governments also have to balance the implications of their response on their foreign policies. Irrespective of whether their expectations of receiving assistance justified, senders may still be upset by their allies' failure to participate. The third party governments must factor the costs of potential punitive responses by the sender and the intra-alliance tensions that their refusal to participate may engender into their decisions. Third party governments must also consider the potential damage they may do to the strength of their alliances in contributing to the failure of their allies' sanctions policies. Undercutting the sender's sanctions may sap the state's attention and resources, making it a weaker alliance partner. By sanctions-busting, a third party may also be contributing to the strength of its ally's adversary that the third party could someday have its alliance obligations invoked against. For example, Germany has emerged as one of Iran's largest trading partners in recent years—despite the looming threat that the United States (its NATO ally) could take military action against it. Yet, as the German case reveals, the long-term costs of potential blowback are susceptible to the more pressing interests of commercial constituencies.[36] In terms of the benefits of participating, third party allies may strengthen their alliance relationships with the sender or accrue political capital for future cooperation from the sender when they need it.

Additionally, third party states must factor the potential response of the target state into their foreign policy calculus. When a target state is highly dependent upon trade with particular third parties (including allies of the sender), it will make strong diplomatic efforts to prevent the third party from participating in the sanctions. When the third party is highly dependent upon commerce with the target, the target can leverage that dependence to force the third party into assisting it—despite the repercussions that doing so may have on third party's alliance with sender. This pits third party governments' foreign policy considerations vis-à-vis an allied sender against those of the target and the interests of their domestic commercial constituencies.

For senders, the task of recruiting the participation of allied states is made more difficult by the limitations alliance considerations place upon the tactics they can use. There are diplomatic costs involved in using coercion against allied states that do not exist for using it against non-allied states. As the discussion above indicates, the benefits provided by alliances are not fixed and immutable. Intra-alliance conflict can affect the certainty that exists in whether alliance partners will honor their commitments or contribute to their termination. I argue that senders are sensitive to the damage that coercing the participation of their allies can have on the well-being of their alliance relations. To compel their allies' participation, senders may have to employ punitive measures, like extra-territorial sanctions, against their allies that will anger their governments and constituencies. Even if an allied state accedes to the sender's threats before such measures are employed, participating in the sanctions could be domestically very unpopular

[36] In 2007 and 2008, several industry-sponsored conferences were held in Germany addressing how firms could circumvent the sanctions against Iran. This falls against the backdrop of a substantial spike in the amount of German trade conducted with Iran spiking from 2007 to 2008 (Ravid, 2008).

for its government. Twisting allies' arms to participate in costly side-projects in which they have little at stake could breed strong resentment within them. This can create rifts in their alliances with the sender and make it more difficult for the sender to obtain their cooperation in the future. Since the marginal contribution of any third party's participation (including an ally's) to the likelihood that a sanctions regime will be successful is apt to be marginal, the diplomatic costs of using coercion to compel an ally's participation can quickly outstrip the benefits achieved by it. This places senders in a strong disadvantage in attempting to recruit the participation of its allies compared to non-allies.

My theory does not assert that senders will never attempt to use coercion against their allies. It does imply, though, that senders are limited to fewer, weaker coercive policy options in compelling the cooperation of their allies compared to non-allies and that they have a limited willingness to escalate disputes with allies over the issue. The sender's uncertainty regarding when its use of coercion will become truly detrimental to its alliance relationships also implies that it should be cautious in employing coercion against its allies. Often times for the sender, the opportunity costs of accepting its allies' refusal to participate in its sanctions are less than the costs of attempting to coerce their cooperation.

This perspective modifies the insights proposed by Daniel Drezner in *The Sanctions Paradox* (1999) by endogenizing the role played by alliances in the strategies of states employing coercion. Drezner (1999: 41 and 115) argues and finds support for the notion that: "No coercion event should generate greater opportunity costs for the sender country than the target country." Drezner's analysis takes into account the potential differences that using coercion against allies versus non-allies can have, asserting that allies of senders will be more likely to make concessions than will adversaries. He even proposes that if a target breaks its alliance with the sender during the coercion event, the likelihood of the sanctions yielding concessions diminishes. Yet in his account, Drezner assumes that the coerced state's decision to change its political alignment is exogenous of the sender's policies. There is a strong case to be made that a target may shift its political alignment against a sender as a result of the sender's use of coercive policies against it. If we hold Drezner's first proposition to be true, then senders should constrain their use of coercion against their allies because of the potential harm it could do to their alliances. From a strategic perspective, this constraint signals to the sender's allies that the state lacks the incentives and resolve to compel their participation—diminishing the credibility of the sender's threats and effectiveness at coercing their cooperation.

Evidence of this constraint is apparent in the most frequently analyzed case of multilateral sanctions failure: the U.S.-backed gas pipeline sanctions against the Soviet Union in 1981-82.[37] In the episode, the United States sought to respond to a Soviet-supported political crackdown in Poland with a set of economic sanctions directed at Poland and against a planned transcontinental pipeline that would transport natural gas from Siberia to Western Europe. President Ronald Reagan made the imposition of multilateral sanctions, including the participation of its NATO allies and Japan, against the Soviet gas-pipeline a high-profile American foreign policy prerogative. Initial European recalcitrance to support the United States' proposed sanctions led the U.S. to impose unilateral sanctions against the Soviet Union in December of 1981. President Reagan also threatened to impose extra-territorial sanctions against individual European firms involved in pipeline related commerce (Martin, 1992: 211-220). The intra-alliance showdown occurred as European governments, such as Great Britain, France, West Germany, and Italy, came out in public opposition to the U.S. attempts at coercion

[37] For previous analyses of the gas-pipeline sanctions, see: Jentleson, 1986; Martin, 1992; Shambaugh, 1999; Rodman, 1995; 2001.

in the summer of 1982. The French and British governments actually ordered their firms to fulfill their contractual obligations with the Soviet Union, despite the threatened retaliation they faced from the U.S. Government if they did so (Shambaugh 1999: 99). While the President Reagan initially followed through with his threat to impose extra-territorial sanctions against its allies' firms, he balked in the face of the united opposition of its alliance partners and the looming threat of a highly divisive intra-alliance trade war. Unwilling to escalate the dispute any further, President Reagan ended the crisis by unilaterally suspending the United States' extra-territorial sanctions against its allies—having failed to achieve the concessions he had sought with them (Martin 1992: 224).

The episode is instructive in that it demonstrates the willingness a sender state's allies to oppose its sanctions and champion their firms' commercial interests with respect to the target. This is especially notable in that the Western European states' were highly dependent upon alliance relationship with the United States for their own security. Calculating that the U.S. did view the sanctions as important enough to warrant disrupting its alliance relationships over, European leaders effectively stood up to their senior alliance partner in refusing to participate. In addition, the Soviet Union was also able to wield a significant amount of leverage over its European trade partners because the issue concerned its supply of natural gas to these states. These countries' dependence upon foreign energy supplies magnified their commercial dependence upon the Soviet Union and the gas-pipeline it was constructing to service these markets. As such, the decisions of countries like France and West Germany to break with their ally to support its adversary were shaped by both the interests of their domestic constituencies and their broader foreign policy interests.[38] This high-profile case not only reassured firms

[38] Martin (1992: 228-234) argues that Western European governments were not so dependent upon the proposed pipeline that they had no other choice but to support the Soviet Union. I would agree with this assessment, but still

within U.S.-allies that they would be protected if they continued to trade with the Soviet Union in the pipeline's construction, but also signaled to them that they would be protected by their governments in seeking to trade with other states sanctioned by the United States.

Finally, alliances between the sender and third party states can affect third party trade with sanctioned states in one additional way. The sender's alliance relationships can affect firms' choices in where to relocate their business operations if they seek to continue trading with the target. It is reasonable to assume that because of the transaction costs involved, firms will often use their existing commercial networks in their efforts to circumvent their home states' sanctions. Since firms tend to have much stronger commercial linkages with states to which their home countries are allied (Gowa, 1994; Long, 2003), it follows that a large portion of the trade redirected by sender firms will go through partners or subsidiaries in allied states. Another salient motive for sender firms is the political cover provided the alliance relationship. Savvy sender firms realize that their governments are less able to punish theirs allies for harboring sanctions-busting firms. This makes relocating their business operations to allied states less risky than transferring their business to non-allies. The firms' sanctions circumvention may also foster less negative attention if the firm is trading with target from a state allied to the sender instead of from one of its adversaries. For example, numerous American firms seeking to do business with Cuba simply shifted their commercial operations to Canada or began using Canadian middle-men to carry out their transactions with the Cuba (Kaplowitz, 1998). Thus, the relocation of sender state's firms to countries with whom it is allied may also partially account for the increase in trade that the sender's allies may experience after the imposition of sanctions.

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argue that the pipeline was salient enough to these countries' energy needs that it afforded the Soviet Union a significant degree of leverage in compelling these states not to join the sanctions.

Both the sender's behavior in seeking multilateral support for its sanctions and the responses of its third party allies to those efforts can detrimentally affect their alliances. Yet, the coercive policies that a sender must pursue to achieve the cooperation of disinterested allies can do significantly more damage to alliance relationships than third party refusals to participate. Compelling an allied government to participate in a foreign policy initiative that could severely damage its economy and domestic political support breeds far more resentment than the ally's initial unwillingness to participate. Because senders are limited in the coercive policies can employ against their allies, domestic commercial constituencies within states allied to the sender will have an easier time exerting enough domestic political pressure on their governments to make the costs of participation higher than not doing so. The incentives that third parties' commercial ties to the target create for sanctions-busting and the constraints that prevent senders from employing the coercive measures capable of deterring such trade play a crucial role in explaining when the sender's allies will support its sanctions and when they will exploit them.

The effects that sender's alliances have third party-target trade are conditional upon the extent of the third party's commercial ties to the target. In cases in which a sender's ally has weak linkages with the target, the diplomatic benefits of cooperating with the sender will likely outweigh the costs of doing so. If an allied state has few commercial ties to the target, only a small segment of the state's commercial constituencies are likely to be hurt by the imposition of sanctions and the state has little to fear in terms of reprisals from the target government. Importantly, the sender will be much less reliant upon the use of coercion to obtain its allies' cooperation in these cases. As such, sender-allies with only marginal commercial ties to the target should be more likely to support the sender's sanction, leading those countries to decreases their trade with the target after the imposition of sanctions.

As the strength of the commercial linkages between a third party and target states increase, the costs of participating in an ally's sanctions against the target rise dramatically for the third party. This means that sender states will have to increase its persuasive efforts to keep pace with the growing leverage exercised by both third party's domestic commercial constituencies and the target government. The stronger the third party's commercial ties to the target are, the more the use of coercion becomes necessary to compel the state's participation in the sanctions—exactly the tactics the sender's alliance considerations constrain it from using. As such, alliances with the sender have the opposite effect on trade with the target when the third party and target are commercially interdependent upon one another. The political insulation accorded to sender allies amplifies the positive effects that commercially interdependence has upon the target's trade with the country. Thus, firms will be attracted to conduct their trade with such states both because it is unlikely these state's will join the sender's sanctions and the diminished likelihood that they will face reprisals from the sender for the trade they conduct from these states. Also, due to the stronger linkages that sender firms tend to have with allied countries and the political cover offered by the alliance relationships, sender firms will be more likely to relocate their sanctions-busting trade to states allied to the sender that appear unlikely to join the sender's sanctions (e.g., those with strong commercial ties to the target). As such, the presence of an alliance with the sender should have a positive effect on third party trade with the target in cases in which salient commercial ties between the target and third party exist.

The Sender's Dilemma and the Emergence of Extensive Sanctions-Busters

The triadic interactions between the sender, target, and third party states play out simultaneously all over the world after sanctions are imposed. For sender states seeking to craft sanctions policies that have a maximal chance of being effective, this poses significant challenges. One of the puzzling findings within the sanctions literature has been that multilateral sanctions efforts tend to be less successful than unilateral sanctions, unless the multilateral sanctions are supported by international organizations (Drezner 2003). I argue that the ineffectiveness of multilateral sanctions makes sense, given the incentives that harsh sanctions create for non-participating third parties to sanctions-bust on the target's behalf. Research has shown that sanctioned states only need the support of a one or two avid sanctions-busters or "black knights" to alleviate the sanctions' ill-effects (Hufbauer et al., 1990; Lektzian and Mark Souva, 2007). This means that the target need not convince every state to adopt favorable policies to weather the sanctions, only need cultivate the extensive assistance of a crucial few. This places senders at an enormous tactical disadvantage, as the emergence of a single extensive sanctions-buster could undermine the rest of its efforts. The "Catch-22" (Kaempfer and Lowenberg, 1999: 44) for senders is that the more effective they are in recruiting third parties to participate in their sanctions, the greater the incentives they provide for other third parties to become extensive sanctions-busters on the target's behalf. Tactically, this provides the target with enormous advantages in obtaining the third party support it needs to defeat the sender's sanctions compared to what the sender must do to prevent the target from receiving such assistance.

As the section above also discussed, there are strong commercial incentives for firms to concentrate their adjustment strategies upon a small number states. The transaction costs involved in finding substitutes for the commerce disrupted by the sanctions lead firms to focus their trade on existing trade partners and countries that pose the least risk of joining the sender's sanctions. By virtue of these characteristics and their broader commercial profiles, certain third party states may comprise ideal venues for the targets to obtain the sanctions-busting assistance they need. Both the strategic incentives of target states and the commercial incentives of their firms are conducive to a handful of states experiencing disproportionate increases in their bilateral trade with the target after it has been sanctioned. As such, only a limited number of extensive sanctions-busters should exist during a particular sanctions episode.

The question then becomes which, of the third party states that have the opportunity to become extensive sanctions-busters on the target's behalf, also have the willingness to do so.[39] While the brief and often anecdotal explanations that exist for the emergence of extensive sanctions-busters have tended to focus solely on the political motives of such states (Hufbauer et al., 1990; 2007), I argue that my theory should also explain the behavior of these outlier states. My framework suggests that the same factors that make third party states attractive trade partners for the target, such as the presence of strong commercial or security ties, also increase the third party states' incentives to engage in extensive sanctions-busting. This creates an intractable problem for sender states: the states most capable of becoming extensive sanctions-busters on the target's behalf (hence, those that would do the most damage to chances of the sender's sanctions being success), will also be the most difficult states to compel into participating in the sanctions. Given my theory's logic, I also would predict that allies of the sender with close commercial ties to the target are especially prone to becoming extensive sanctions-busters. This counterintuitive

[39] For an explanation of the opportunity and willingness framework, see: Most and Starr, 1989.

prediction suggests that a sender's allies potentially represent the most salient threats to its sanctions' success. Since extensive sanctions-busters can have such substantial effects on sanctions' sanctions, there are both strong theoretical and pragmatic reasons to specifically examine whether such states are driven by the same motives that govern the general behavior of other states.

Summarizing the Triadic Theory of Third Party Response's Implications

The triadic theory of third party response paints a complex, multi-causal picture how both firms and states respond to the imposition of sanctions. The responses of third party governments balance both the state's foreign policy considerations with the interests of their domestic commercial constituencies. None of the factors discussed above is sufficient on its own to determine in the aggregate whether a third party's trade with target will increase or decrease after it has been sanctioned. Rather, it is the combined commercial and foreign policy profiles of third party states relative to those of their peers that determine their attractiveness to firms. The propensity of individual factors' to increase or decrease sanctioned states' bilateral trade with third parties will be probabilistic and dependent upon the abilities of both firms and states to recognize and take advantage of opportunities afforded to them. Within this project, I will mostly focus on evaluating the following set of hypotheses that flow from my theory:

- The larger the size of a third party's economy and the more open its economy is to international trade, the more attractive firms will find the third party state to be as a venue for conducting trade with sanctioned states.

- Third party states that are geographically proximate to the target will have their trade with the target increase more than countries that are distant from it during the period in which the target is being sanctioned.

- The stronger the commercial ties between the third party and target state are, the more their trade will increase during the period in which the target is being sanctioned.

- The presence of an alliance between the third party and target will increase the states bilateral trade during the period in which the target is being sanctioned.

- The presence of an alliance between the third party and sender will increase the third party state's trade with the target during the sanctions when the third party has salient commercial ties to the target, but decrease it when no such linkages exist.

While these hypotheses do not capture all the observable implications produced by theory, they provide a broad assessment of my arguments concerning the commercial incentives driving firm responses and strategic incentives guiding state behavior. In my subsequent analyses, the general predictions outlined above will be sharpened into more precise operational hypotheses depending upon whether they relate to general third party responses or those of extensive sanctions-busters. As it relates to specific empirical tests, I will also develop related auxiliary hypotheses that extend from the theory. For example, my framework would also predict that the presence of political conflict, like rivalries, between the third party and target states would exacerbate the sanctions-imposed transaction costs involved in trading between the two states, while close cultural ties might mitigate them. Within the project's qualitative analyses, I will also evaluate whether my theory's explanation of the strategies employed by firms and their interactions with their home state governments are descriptively accurate. To demonstrate the utility of my theory, however, I must not only prove its viability but also show that it does a comparatively better job than alternative accounts. As such, in the following section I flesh out an alternative account of third party behavior based upon the realist paradigm.

An Alternative Realist Account of Third Party Responses

The realist perspective can provide an alternative account of how the imposition of economic sanctions affects third party-trade with the target state. Realism can help flesh out Hufbauer et al.'s (1990) concept of "black knight" sanctions-busters and the motivations driving the responses of third party states to the sanctions. It also provides specific insight into how great powers use and respond to economic sanctions. Finally, realism offers an alternative explanation of the causal processes at work in determining third party behaviors to the one posed by my triadic theory of third party response. This provides the means to test my theory's comparative accuracy in explaining the causal processes involved in determining third party responses.

A Realist-Based Theory of Theory of Third Party Response

Realists view the world in terms of unitary states existing in an anarchic, self-help international system (Morgenthau, 1978; Mearsheimer, 2000). Classical realism has four principle characteristics that define its many variants: a focus on states as the primary international actors; an assumption about the aggressive nature of humankind; an assumption "that states tend to rely primarily on the use or threat of military force to secure their objectives; and a focus on the material distribution of power's effects on international politics (Brooks, 1997: 455). From the realist perspective, states must be constantly concerned about relative gains made by potential rivals. As such, realism's principal concern regarding international trade addresses its effect on security considerations. Hirschman (1980) and Gilpin (1981) have tied international trade to the provision of externalities that can enhance national power. Realist scholars have also explored how international trade can provide states with coercive leverage over trading partners as a complement to or substitute for military force (Hirschman, 1980; Baldwin, 1985). According to Mearsheimer (1990: 12), the anarchical international system conditions states to "seek opportunities to weaken potential adversaries." Thus, a realist account of “economic statecraft” is one in which states use their trade policies to weaken rivals and bolster national security through material gains or alliance building. Prominent realist accounts international trade have focused on the strategic considerations that motivate states’ trade policies. These studies have argued security-conscious states seek to trade more with allies and those states sharing similar strategic interests, while they seek to limit their trade with rivals (Gowa and Mansfield, 1993; Gowa, 1994; Morrow et al., 1999; Long, 2003). Examinations of the strategic export controls during the Cold War limiting East-West trade (Mastanudo, 1992; Martin, 1992; Cupitt and Grillot, 1997) demonstrate the logic behind denying rivals goods that could improve their relative power at the cost of economic benefits that would be derived from such trade.

In particular, my analysis draws insights from the “offensive” variant of realism (Snyder, 1991; Mearsheimer, 1990; 2001). Similar to past incarnations, offensive realism assumes that states are the primary actors in international politics and the international system is fundamentally anarchical (Morgenthau, 1978). Yet in offensive-realism, great powers drive and define the nature of international politics and thereby receive most of the theory’s attention. John Mearsheimer argues (2001: 29-35) that the primary goal of great powers is survival and that achieving hegemony is the best way of guaranteeing it. This implies that states seek to maximize their relative power in their bids to become hegemons, creating a world in which “not only do [states] look for opportunities to take advantage of one another, they also work to ensure that other states do not take advantage of them" (Mearsheimer 2001:35).

Great powers have been shown to use economic sanctions significantly more than weaker states (Morgan and Heinrich, 2008). Since economic sanctions are primarily used by great powers, offensive realism should be capable of providing significant leverage in understanding how such states use and respond to them. While offensive realism is neither a theory of foreign policy nor of economic statecraft (Elman, 1996), it provides a contextual framework for understanding the role played by economic sanctions in great power politics. In particular, it provides insight into how great powers will respond to the imposition of sanctions by other great power states.

The "balance of power" hypothesis is one of the fundamental insights into international politics provided by realism.[40] The balance of power hypothesis has frequently been used to explain the formation and management of competing alliance blocs in bipolar distributions of power (Little, 2007: 4). From Mearsheimer's (2001: 139) perspective, *balancing* is a specific strategy, among others, that survival-seeking states employ when they decide it is necessary to "commit themselves to containing their dangerous opponents." To the extent that offensive realism addresses economic issues, it focuses on the link between national wealth and military strength. Yet more nuanced power-based approaches in the realist school have demonstrated that economic coercion can play a large role in great power politics (Hirschman 1980; Baldwin 1985). Great powers may employ foreign trade strategies designed to constrain the power of rivals, such as the U.S.-led COCOM export controls against the Soviet Union, or as power-plays

[40] For a comprehensive discussion of "balance of power" theories and how the concept has evolved, see: Little (2007).

designed to achieve relative-power advantaging objectives, such as the Soviet blockade of Berlin.

Anecdotal evidence about the responses elicited in the latter cases can illustrate the insight provided by offensive realism. The theory asserts that great powers seek to gain advantages and prevent losses vis-à-vis rival powers: the great power responses in both cases demonstrate the willingness of third party great powers to intervene on behalf of the target as part of a balancing strategy. In the case of the Soviet blockade of Berlin from 1948-49, the United States—at great expense to itself—engineered the largest airlift in human history too keep the city supplied and prevent its capitulation. In response to the U.S.-sanctions imposed against Cuba, the Soviet Union offered Cuba a significant amount of state-sponsored assistance. Political objectives rather than commercial incentives drove how the U.S. and Soviet Union responded to each others' use of economic sanctions. The realist explanation of these episodes is that the third party great powers attempted to balance against the policy prerogatives pursued by the sender through assisting the target state.

Great power balancing strategies yield two specific predictions about how economic sanctions will affect their target's trade with other countries. The first prediction is that third party-target trade is likely to be greater in triadic observations in which both the sender and third party are great powers than in cases when one or both are not. This explanation of third party response is predicated on the notion that great powers will have the greatest incentive to engage in politically-motivated sanctions-busting when it involves thwarting the prerogatives of other great powers. The proposition also reflects that great powers have the largest pool of material resources at their disposal with which to respond to the sanctions. The second prediction is that sanctions-busting should be more likely to occur under bipolar distributions of power, in which there are clearly defined alliance blocs, than under unipolor or multipolar distributions of power. Thus, as Hufbauer et al. (1990) predict, greater levels of politically-motivated sanctions-busting should be observable during the Cold War Era than in the period afterwards.

More generally, realism enunciates a broader set of hypotheses about how all survival-seeking states (not just great powers) should manage their commercial relationships with their allies and adversaries. In terms of direct influences, third party states' political relationships with the target should influence how their bilateral trade changes after the imposition of sanctions. Empirical findings show that allies, trade more with one another than non-allied states (Gowa and Mansfield, 1993; Long 2003). The logic behind these propositions is consistent with Hufbaer et al.'s (1990) assertions about third party behavior. When a target gets sanctioned, its allies have strong incentives to come to its aid. As alliance partners rely on one another for mutual security, third party allies have greater incentives than non-allies to increase their trade with the target to preserve their alliance's power (Gowa and Mansfield 1993; Long 2003).

This theory attributes changes in third party-target trade after the imposition of sanctions to a governmental decision on the part of third party states to increase trade with the target for security purposes. The state itself—not the marketplace—motivates the trade; thus, the trade does not have to be profitable to occur. In these "black knight" sanctions-busting episodes, third party states seeks to provide the target with commercial support to allows it to offset the negative effects of the sender's sanctions. Importantly, this behavior entails the third party state explicitly prioritizing its relationship with the target over its relations with the sender. By providing assistance to the target, the third party risks worsening of its relations with the sender and even potential retaliation. At the same time, providing such assistance may have effect of strengthening the third party-target alliance—demonstrating the third party's "loyalty" under duress (Snyder, 1997). Given their incentives, allies of the target should be much more willing to engage in sanctions-busting trade with the target than other states.

The triadic approach also gives rise to a political explanation focusing on the relationship between the sender and the third party on third party-target trade. Using the "enemy of a friend is an enemy" logic (Polachek et al. 1999), third party states that have close relations with the sender should be more likely to decrease their trade with the target after sanctions are imposed. Indeed, senders should have more leverage in convincing their allies not to violate their sanctions against the target than other states. Especially if the sender invokes security justifications for the sanctions to an ally, the third party's response should be more supportive of the sender's policies.[41] Unlike my theory's emphasis upon the influence that firms have on their governments' policies, realism asserts that governments' foreign policy decisions are solely driven by their security interests. As such, the potential damage that states allied to the sender could do to the strength of their alliance by refusing to participate in the sanctions or avidly sanctions-busting on the target's behalf, should make them more likely to adopt policies that restrict trade their countries' trade with the target. These policies could entail full participation in the sender's sanctions or, at a minimum, the prevention of large-scale sanctions-busting from taking place within their countries. As such, the realist perspective predicts that the presence of alliances between the sender and third party states should have an unconditionally negative effect on its allies' trade with the states the it sanctions.

Just as alliances can play significant roles in shaping how third party states respond so can rivalries. A broad literature exists on how interstate rivalries develop / evolve, are sustained,

[41] This is consistent with Snyder's (1997) expectations regarding the "halo effect."

and die off.[42] Even though the realist perspective cautions that all states may potentially become enemies, rivals constitute the states that present the most salient, pressing security threats. Rivalrous dyads are pairs of states that have been engaged in conflict and/or competition for a sustained period of time and have higher likelihoods of engaging in future conflict than non-rival states (Geortz and Deihl, 1995: 32). As such, rivals represent the salient security threats that realism posits states should seek to weaken in their foreign policies (Mearsheimer, 1990: 12). A rivalry between a target and third party would create strong incentives for the third party government to support the sender's sanctions, or at the very least, restrict its firms from trading in excess with the target.

Conversely, the presence of a rivalry between a third party state and the sender could motivate the third party to offer assistance to the target in an effort to undermine the effectiveness of the sender's sanctions. While Hufbauer et al. (1990) mention this potential motive, they provide few details as to its salience beyond the Soviet Union's sanctions-busting on Cuba's behalf. More broadly, seeking to foil a rival's policy prerogatives is consistent with realism's expectations of balancing behavior and flows from the logic that "the enemy of my enemy is my friend." Resources spent by the sender on the imposition of sanctions against the target are tied up and cannot be used for other purposes, imposing opportunity costs on its ability to act in other areas. Assistance given to targets by third parties will likely undercut the sanctions' negative impact upon the target. This could force the sender to make its sanctions even more stringent, lengthen the time it takes for the sanctions to work, or ultimately contribute to the sanctions' failure. Thus, by aiding the targets of its rival's sanctions, a third party state can

[42] For more on this literature, see: Geortz and Diehl, 1995; Hensel, 1999; Stinnett and Diehl, 2001; Tir and Diehl, 2002; Goertz, Jones, and Diehl, 2005.

potentially thwart the policy goals pursued by the sender and bleed it of its resources it could have used elsewhere.

Summarizing the Realist Alternative

The black knight theory draws on insights from the realist paradigm to develop a coherent account of the motivations driving third party responses to the imposition of sanctions. The theory argues that state security interests, as opposed to the commercial interests of domestic constituents, primarily determine how third party states will respond. It emphasizes the tradeoffs, in terms of its security interests, that third party states must make in choosing whether to support the sender or the target of the sanctions with its policies. Finally, it explains how the use of economic sanctions plays into great power politics and how great power competition conditions the responses that sanctions may engender.

The realist theory makes several distinct claims about great power behavior and the effects that the sender's relationships with third party states have on their behavior that differentiate it from my triadic theory of third party response. First, the realist theory asserts that allies of the sender should be stronger supporters of the sender's sanctions than non-allies and should be the least likely states to engage in extensive sanctions-busting. Second, it predicts that rivals of the sender should be stronger supporters of the sender's sanctions than non-rivals and should be more likely states to engage in extensive sanctions-busting. In both cases, realism's predictions with respect to extensive sanctions-busting strongly emphasize the role played by third party security considerations in shaping their behavior. Third, the perspective contends that the political component shaping third party responses will be most salient when the sender and/or third parties are great power states. Finally, realism asserts that foreign policies are driven by government's security interests and that state's behave as unitary actors in executing their chosen policies. Thus, it almost completely ignores the important role that my theory asserts that firms play in both affecting governmental policies and shaping trade flows. Within each of my empirical chapters, I will focus on developing the realist counter-logic to my theory to test whether it can provide a better explanation for the observed phenomena.

Equating Commerce with Cooperation: Conceptual Issues for Theory Testing

Though the research question asked by this project focuses on explaining variation in how sanctions change third party trade with sanctioned states, the competing explanations interpret those changes as having interrelated political and commercial causes and consequences. In assessing the foreign policy implications of the outcomes, an increase in a third party's trade with the target would be viewed as favorable to the target state, while a decrease in its trade with the target would be viewed as favorable to the sender state. Conversely, a purely commercial assessment of the outcomes would be that a decrease in third party-target trade meant that the sanctions made the states' trade less profitable, while an increase would mean that the sanctions made bilateral trade between the states more profitable. In measuring aggregate changes in third party trade with the target, market-driven increases in bilateral trade can be observationally-equivalent to politically-driven, state-sponsored aid packages. Similarly, decreases in a third party's trade with a sanctioned state may be due to the state's decision to participate in the sanctions *or* because the sanctions-imposed transaction costs that make doing business between the two countries unprofitable. Thus, distinguishing between politically versus commercially motivated changes in third party trade with the target using trade flows alone can be difficult.[43] This makes the qualitative assessment of the causal processes driving third party responses a crucial component of the tests that need to be conducted to validate the theory. Beyond this point, the multi-dimensional aspects of the trade also relates to the theoretical issues at stake in answering the research question.

The set of policies that a third-party government could adopt can be conceptualized as continuum between those that would restrict all its trade with the target to those that would completely subsidize all losses imposed by the sender's sanctions. Policies favorable to the sender would also include partial or full participation in the sender's the sanctions regime. Policies favorable to the target would entail providing state-sponsored assistance to the target or adopting policies to facilitate trade with the sanctioned state. A non-response by the third party state would also constitute a favorable policy for the target, as it would allow firms to continue their existing trade with the target and take advantage of whatever new opportunities may arise. This implies that, in the sender's view, there are no politically "neutral" policies for third party governments to adopt.

Since "individuals, firms, and governments all shape trade flows" (Keshk, Pollins, and Reuveny 2004, 1164), parsing out the individual role played by any those parties is exceptionally difficult. Having the assent of third party governments is a necessary but not sufficient condition for positive increases in third party trade with the target to occur: individuals and firms must also view the trade as profitable for them to engage in it. As such, increases in third party trade with the target imply that a policy that is beneficial to the target is in place within the third party states. On the other hand, third party governments' participation in the sender's sanctions or environmental conditions that make trade between the third party and target unprofitable for

[43] This is especially true, as my theory explains, given that the two factors are endogenously related.

firms are both sufficient (but not necessary) conditions for decreasing the states' bilateral trade.[44] This means that declines in third party trade are not always attributable to the policies their governments have in place.

This gives rise to an important theoretical issue for interpreting the causes of the declines or increases experienced by third party states during sanctions regimes. Simply put, it raises the questions of: When is trade just trade? And, when does it represent an active choice made by third party states to manipulate the sanctions' outcome? To assume that all increases or decreases in third party trade with sanctioned states are deliberate and politically-motivated would be a mistake. However, at the extremes of third party responses, in which the consequences of states' trade can have salient implications on sanctions' success, it is much safer to assume that governments are aware of and involved in shaping their states' trade flows. Just as Martin (1992) considers a third party's decision to participate in the sender's sanctions as an inter-governmental decision to cooperate, a third party's decision to allow or support extensive sanctions-busting on the target's behalf could be considered an instance of inter-governmental cooperation.[45] The realist account is likely to perform the strongest in accounting for extensive sanctions-busters because those are the cases in which governments are most likely to have had to have made a deliberate decision about their official policies in response to pressure from the sender and the target states. In such cases, third parties' security prerogatives should play a major role in their responses. The magnified theoretical issues at stake in the emergence of extensive sanctions-busting states provide a strong justification for singling them out for individual study.

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[44] For a discussion of necessary and sufficient conditions in causal processes, see: Most and Starr, 1989.
[45] This is consistent with past work by authors such as Downs et al. (1998) that have equated trade with cooperation.

Theory Falsifiability and Validation

Part of theory's social scientific utility stems from the ability of researchers to readily assess whether it is wrong. Popper (1968) argues that theories can never be proven absolutely, they can only be falsified. King et al. (1994: 100-104) take a more measured stance. Though they agree that theories should be amenable to falsification, they argue that finding disconfirming evidence need not invalidate an entire theory. From this perspective, if the balance of evidence supports a theory, then it can withstand some exceptions. Yet in formulating a new theory, the empirical validation needed to demonstrate that it is worthy of deeper inquiry is quite high.

In the subsequent chapters, I test my theory using cases that, at face value, should be more amenable to the rival realist account. By selecting cases hostile my theory, I seek to demonstrate my theory can withstand testing against those cases that it should be most likely to fail at explaining. If my theory is not shown to have evidentiary legs in these tough cases, then it will not be worthwhile to test it using easy ones. If the evidence shows that commercial considerations play either a substantively or statistically insignificant role in shaping how sanctions affect third party trade with target states, it would largely falsify my theory. Additionally, if it can be shown that third party governments' security interests consistently trump their domestic constituencies' commercial interests, it would strongly invalidate my theory. In that vein, my hypothesis concerning the willingness of sender states' allies to engage in sanctions-busting trade constitutes a crucial test of my theory's validity.

The realist counter-logic to my theory is developed to provide a comparable benchmark for evaluating the utility of my theory. Not only do I seek to demonstrate that the evidence validates my theory, but also that it does a better job than its leading rival. Several clear issues of contention exist that can be used to determine which theory provides a comparatively better account. First, my theory contends that third party responses will prioritize firm interests, while realism asserts that state governments will prioritize their security interests. The clearest fault-line on this issue involves third party states that have defense pacts with senders and whether they support or undercut their allies' efforts. Second, my theory contends that the states most likely to engage in *extensive sanctions-busting* are motivated primarily by commercial considerations, while the realist perspective asserts that political-considerations drive such behavior. Third, my theory and realism make different process-based accounts about what explains, in general, how third party states respond. The realist account contends that state-based intervention accounts for third party responses, while my theory argues that firms play the primary role in directing trade flows both to and from sanctioned states. If it can be demonstrated that in cases in which states should have strong incentives to intervene in re-directing their states trade flows to or away from the target but instead let commercial interests dictate foreign trade policy, it would be a strong repudiation of the realist argument.

CHAPTER 3

THE INTERNATIONAL RESPONSE TO U.S. SANCTIONS, 1950-2000

The United States is the world's most prolific user of economic sanctions, using them to compel states to stop unfair trade practices, improve their human rights policies, and change their ruling regimes. It has also employed sanctions to disrupt foreign military adventurism, weaken adversarial regimes, and punish state for supporting terrorism and proliferation (Hufbauer et al., 2007). Despite the high costs borne in imposing them, U.S. sanctions have frequently failed to achieve their objectives.[46] One potential explanation for the frequent failure of U.S. sanctions is the nature of the international response to them. To date, no studies have conducted an extensive analysis of what explains cross-national variation in third party states' responses to the imposition of U.S. sanctions. This chapter seeks to explain why some third party states' trade with sanctioned states increases after the imposition of sanctions while others have their trade with those states decline.

The chapter proceeds as follows. The first section provides an overview of the United States' use of sanctions from 1950-2000 and discusses past efforts to evaluate the impact had by U.S.-sanctions on third party trade with sanctioned states. Next, I discuss the counter-factual technique employed to code the dependent variable used in the analysis. I explain why this *differential* variable, which measures the degree to which third party-target trade was different during sanctions than it would have been absent the sanctions, is the best tool for assessing the

[46]For summary information on the United States' use of sanctions, see Hufbauer et al. (2007). For more on the costs of U.S. sanctions, see: Hufbauer and Oegg (2003).

determinants of cross-national variation in third party responses. I then outline the operational hypotheses tested within the analysis, detailing the predictions made by my theory and the rival realist account. Following this discussion, I explain how model is operationalized and discuss the additional controls included within the analysis. I also talk about the estimation technique used to assess the data. Finally, I present the results of the quantitative analysis and evaluate the results' implications for the triadic theory of third party response.

Evaluating the United States' Use of Economic Sanctions

To evaluate my theory's general performance, I examine the effects that sanctions had on third party trade with sanctioned states during 102 episodes of U.S.-imposed sanctions.[47] Having employed economic sanctions far more than any other country in the world, the Untied States represents the substantively most important sender state to evaluate. Limiting the analysis to a single-sender state also provides for a degree of unit homogeneity within an analytical framework that otherwise includes a significant degree of interactive complexities. Finally, United States' status as an economic hegemon and military superpower places it at the far end of the spectrum of sender state capabilities. Thus, it represents a critical test subject for assessing the effects that sender states can have on third party behavior. If it can be shown that even given its overwhelming coercive power the U.S. can only marginally affect the responses of third parties, it would suggest that weaker states would not be able to do so either. This sole focus on cases of sanctions imposed by a hegemon should strongly favor the realist account.

[47]This sample only includes politically-motivated sanctions. It does not include trade sanctions, like those imposed under Section 301 of the *Trade Act of 1974.*

The body of U.S.-imposed sanctions cases still provides for a rich degree of temporal, geographic, and case variation. The U.S. used economic sanctions 28 times in the period from 1949-1969, 54 times in the period from 1970-1989, and 40 times in the period from 1990-2000 (Hufbauer et al., 2007: 129).[48] The targets of its sanctions included states in Europe, Latin America, Africa, and Asia, comprising large states, like China and the Soviet Union, and small states, like Nicaragua and Libya. The body of U.S.-sanctions cases also provide for substantial variation in the types of sanctions imposed, whether or not support was provided by international organizations, and the duration for which sanctions were imposed. The only major limitation of holding the sender state constant as the U.S. is that its potential behavior as a third party state cannot be observed.[49]

Past Efforts of Studying the International Response to U.S. Sanctions

While there have been several efforts to assess the trade losses suffered by the United States because of the sanctions it has imposed (Hufbauer and Oegg, 2003; McPhearson and Trumbull, 2006), few studies have examined the effects of U.S. sanctions on third parties trade with target states. Yang et al. (2004) provide one of the first such assessments, examining the effects of U.S. sanctions on EU and Japanese trade with target states. They find evidence that, in some cases, severe U.S. sanctions promoted target states' trade with EU countries and Japan. While this study does not explain cross-national variation in third party state responses, it does

[48] Due to the availability of data, I was only able to evaluate 102 of the 122 sanctions episodes imposed by the United states from 1950-2000.
[49] This has potential implications in fully assessing the impact that being a great power state has on third party behavior. For a full list of the sanctions episodes included, see *Appendix A*

indicate that at least some states do have their trade flows significantly affected by U.S. sanctions.

Hufbauer et al. (2007) provide a much more ambitious test of the effects of U.S. sanctions on third party-target trade. The authors (2007: 204-210) construct a gravity model of international trade for the year 1999 using a set of common econometric control variables that include distance, contiguity, colonial relationships, common language, and economic development in their models. In addition to these variables, they also include variables for different types of sanctions. Hufbauer et al. (2007) produce several interesting findings relevant to the current study. Similar to the findings of Caruso (2003), they find that some types of sanctions decrease third party trade with the target while others cause it to increase. In contrast to Caruso's findings, however, Hufbauer et al. (2007) find that third party states' trade with the target increased the most when the U.S. imposed the harshest sanctions. This led the authors (2007: 207) to conclude that "severe US-inspired sanctions encourage target countries not only to redirect their trade away from the United States and toward third-countries but also to enlarge their commerce with the world at large." While Hufbauer et al.'s (2007) econometric models provide a first step in understanding how sender sanctions affect third party-target trade, their approach does not allow for the evaluation of what explains cross-national variation in how the sanctions affected their trade.

Assessing How American Sanctions Affected Their Targets' Foreign Trade

Since I seek to explain why economic sanctions affect sanctioned states' trade with third parties differently, the analysis requires the use of a dependent variable that can measure the extent to which the sanctions actually changed third parties' trade relationships with target states. As such, the dependent variable of the analysis is NOT how much trade third parties conduct with the target during the sanctions, but the difference between the amount traded by the countries during the sanctions from what they would have traded had the sanctions not been imposed. Without a baseline reference (e.g., a control group) for what the trade would have been had the sanctions not been imposed, the effects that the sanctions actually had in changing trade flows cannot be assessed. While determining what these baseline values for comparison should be in large-scale quantitative analyses presents an array of operational challenges, they are crucial to determining how much the sanctions increased or decreased the third parties' trade with the target. Only with a measure for how much sanctions changed the states' trade can subsequent models be developed to evaluate what factors affected the direction and extent of those changes.

Within this chapter, I seek to evaluate the effects that American sanctions had third party trade with the countries it has sanctioned sanctions over a 51-year period. For the sanctions episodes involving countries like Cuba, Iran, and North Korea, U.S. sanctions have caused much more than short-term disruptions to foreign trade with these states. Rather, these decades-long sanctions have caused deep, enduring changes to the structure of international trade with these countries. To assess the changes they produced, it is not enough to know how states responded to the sanctions' relative to what their pre-sanctions relationship had been. This is especially important given that the sample time-period spans from the Cold War era to the following period in which the U.S. became the world's lone superpower. As such, a dynamic model is needed that can incorporate changes in the third party states' economic profiles and the international environment in which they operate.

For these reasons, I opted to use the counterfactual approach of calculating the *differential* between third party states' trade with target states during the sanctions and what that trade would have been had the sanctions not been imposed. This methodology relies upon the use of a gravity model of international trade that can generate counterfactual predictions of what trade would have been without the sanctions. With this approach, I can construct a measure of the degree to which third parties' trade with the target state during the sanctions was different from what it otherwise would have been absent the sanctions, controlling for some of the exogenous changes that may have affected the states' commerce over time. Such counterfactual models have received increasing attention within the field of international relations, even if scholars have been cautious about their use (King and Zeng, 2007; Morrow, 2007). One of the principle justifications for conducting counterfactual analyses is that it allows for hypotheses to be tested that otherwise be impossible to evaluate (Lebow, 2000). While there are risks that the counter-factual predictions may not provide an accurate reflection of what the true "baseline" trade values should be, the gravity model used to produce the estimates has both sound theoretical and empirical foundations validated through decades of use by econometricians.[50] The method has already been employed to assess the costs imposed by sanctions on sender-target trade (Hufbauer and Oegg, 2003) and on aggregate third party-target trade (Hufbauer et al., 2007). I take the approach a step further to produce individual calculations of what the difference is between observed trade flows and the counter-factual estimates of what the countries' trade would have been without the sanctions. This *differential* value can be used to evaluate the effects that specific factors had on whether sanctions increased or decreased individual third parties' trade with sanctioned states. In the following section, I will explain my

[50] For extended discussions on the gravity model, see: Anderson, 1979; Egger, 2002; Anderson and Wincoop, 2004.

approach for modeling the counterfactual trade predictions and why they accurately reflect trade in the absence of American sanctions.

To construct the differential variable, it is first necessary to produce a prediction value of what the trade between third party states and the target states would have been had the sanctions not occurred. The standard econometric approach to modeling bilateral trade relies upon the gravity model of international trade. Using the gravity model framework, a bilateral trade model can be created that can make out-of-sample predictions of what trade would have been had the sanctions not occurred. This section details the theoretical and operational foundations of the predictive model of international trade used to generate the counterfactual trade values. The gravity model is estimated using Prais-Winston regression with panel-corrected standard errors (PCSEs) that controls for first order autocorrelation. The predicted values produced by the gravity model are then used construct a differential variable that assesses whether third party state's trade with the target was more or less than it otherwise would have been had the sanctions not occurred.

The gravity model of international trade is the workhorse of econometricians who study international trade.[51] Loosely mirroring the principles of Newtonian physics, the gravity model predicts that the larger states are and the closer they are together, the more they will trade with one another. A key additional insight to these foundational mechanisms is that physical, political, and economic factors can impose transaction costs that serve to impede trade (Anderson, 1979; Anderson and Wincoop, 2004; Pollins, 1989b). While economists and political scientists have tested a wide array of factors that can potentially affect bilateral trade

[51] The gravity model has frequently been used to model international trade, for examples see: (Anderson, 1979; Caruso, 2003; Rose, 2004; Long, 2003; 2008; Pollins, 1989b).

flows, a basic set of geographic, cultural, and economic factors that frequently serve as a base model and account for much of the model variation.

To operationalize the gravity model, I draw on one of the version of the model specified by the economist Andrew Rose (2004). Indeed, Hufbauer et al. (2007) use Rose's gravity model to produce their counter-factual estimates of the trade costs imposed by economic sanctions. I use largely the same parameters specified by Rose (2004), but draw on a broader set of observations and use different source data. The dataset's unit of analysis is the dyad-year, coding observations for state *i* and state *j* in year *t*. The bilateral trade data is obtained from the Correlates of War Project's (2008) "Trade Data Set, v2.0." The dataset's observations for 14,398 non-directed dyads from 1950-2000 provides base population of states for my dataset. The equation below displays the parameters used in gravity model.

$$\begin{aligned}\ln(TRADE_{ijt}) = \; & B_0 + B_1 \ln(DIST_{ij}) + B_2 \ln(GDP_{it} * GDP_{jt}) + B_3 \ln(POP_i * POP_j) \\ & B_4 (LANDLOCK_{ij}) + B_5 (ISLANDS_{ij}) + B_6 \, BORDER_{ij} + \\ & B_7 (COMLANG_{ij}) + B_8 (COLONY_{ij}) + \varepsilon_{ijt}\end{aligned}$$

Bilateral trade ($TRADE_{ijt}$), the distance between the two states ($DISTANCE_{ij}$), the product the states' GDP values ($GDP_{it} * GDP_{jt}$), and the product of the states' populations ($POP_i * POP_j$) are all logarithmically transformed in the model. The data for $TRADE_{ijt}$ is obtained by taking the combined value of country *i*'s imports from country *j* and country *j*'s imports from country *i* in the "Trade Data Set, v2.0" (Barbieri et al., 2008).[52] The values for $GDP_{it} * GDP_{jt}$ and $POP_{it} * POP_{jt}$ came from Gleditsch's (2008) "Expanded GDP Data, v5.0." The variables

[52] To include observations in which countries had no bilateral trade, one was added to all the trade observations before the logarithmic transformation was made. This subsequently set these countries' trade values as 0 in the transformed functional form of the variable. This approach has been commonly employed in other studies.

LANDLOCK$_{ij}$ and ISLANDS$_{ij}$ are coded using the "Landlocked and Island States in the International System, 1950-2005" data set (Early, 2008). LANDLOCK$_{ij}$ is an ordinal variable coded as 0 if neither state in the dyad is landlocked, 1 if state in the dyad is landlocked, and 2 if both states in the dyad are landlocked. The variable ISLANDS$_{ij}$ is coded in the same fashion, counting the number of states in the dyad that have islands.[53] DISTANCE$_{ij}$ codes the distance from countries' capital cities, except for those sharing a border. Those are coded as being zero miles apart (Bennett and Stam, 2000). BORDER STATES$_{ij}$ is a dummy variable for whether states share a land or a river border (Stinnett et al., 2002).[54] The data for PAST COLONY$_{ij}$ and SHARED LANGUAGE$_{ij}$ are taken from the CEPII's (2006) "Geodesic Distances" dataset. COLONY$_{ij}$ is a dummy variable for whether the states in the dyad at any time had a colonial relationship with one another, coded as a 0 or 1. SHARED LANGUAGE$_{ij}$ is a dummy variable for whether or not state$_i$ and state$_j$ share a common official language.

Before the model can be estimated, several issues concerning the data's scope and content must be addressed. The first issue relates to the need to build a gravity model that produces predicted values of what trade is like if no U.S. sanctions exist. To do this, the body of cases in which the U.S. has imposed sanctions against one of the states in a given observation year must be excluded from the sample. This ensures that the sanctions-effected values of these states' trade does not contribute to estimating the parameters of the model of trade in which sanctions did not occur. Second, due to technical limitations that prevent running the entire dataset in a single model[55] and because the data, itself, only represents a sample of the broader population of trading states, a sampling technique must be employed to estimate the model.

[53] This coding approach is used by Rose (2004).
[54] Version 3.1 of the "Direct Contiguity Data, 1816-2006" data set was used.
[55] The number of matrices needed to calculate full dataset with the PCSE estimator (xtpcse) exceeds the software capacity of Intercooled STATA 9.0.

From the full set of possible dyads, 30 simple random samples of 800 dyads apiece are taken. The gravity model is then run using these 30 sub-samples and excluding the observations in which one of the states had U.S.-sanctions imposed against it.[56]

The full dataset of non-sanctioned observations contains 13,091 distinct dyads, spanning a 51-year time period. While this type of dataset is conventionally considered panel data, scholars studying trade often use time-series cross-sectional (TSCS) estimators on such datasets because the panel data approaches, like fixed effects estimation, prevent slow-moving and time-invariant variables from being tested.[57] As such, I follow Beck and Katz's (1996) suggestions regarding TSCS data and employ Prais-Winsten regression with panel-corrected standard errors (PCSEs).[58] The standard errors employed were set to control for first-order autocorrelation common to all panels.[59] Pairwise matching was used because the exclusion of observations in which one of the states in the dyad was sanctioned left gaps in the dyad pairs' time-series observations. The results of one of the sub-sampled models are displayed in *Table 7.1*, but the discussion will be cast in more general terms regarding all of the sub-sampled models.

The results shown in *Table 3.1* indicate that the variables behave consistently with how they could be expected to perform. Since certain dyads are excluded because they had sanctions imposed against them, the sample set contained 737 dyad pairs and 17,438 observations.[60] The distance between states, if they border one another, and the number of states in the dyad that are landlocked exert negative, significant effects on bilateral trade. Economic size, the number of

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[56] The output of all 30 models is available from the author upon request.
[57] For the debate over using FE estimation on TSCS data, see: Green, Kim, and Yoon (2001) and Beck and Katz (2001).
[58] For an example of recent work that uses this approach, see: Long (2008). I consulted this piece in determining that the methodological approach used in this analysis was appropriate.
[59] Panel-specific standard errors were not used because of the significant number of dyads within the dataset that only had a small number of observations. This was due in part to the exclusion of observations in which one of the states in the dyad was the target of sanctions.
[60] These figures are fairly consistent across the samples.

states with islands, sharing a common border, and the presence of past colonial ties have significant effects on bilateral trade. In some of the models, population has a positive, statistically significant effect but that effect is inconsistent across the 30 sample models. In general, most of the results are consistent across the 30 different samples: that some variation exists indicates that sampling the data is warranted.

Table 3.1: Results from One of the Sub-Sampled Gravity Models of International Trade[61]

Variable	*Coef.*	*PCSE*
$\ln(DISTANCE_{ij})$	-.74†	.05
$\ln(GDP_{it}*GDP_{jt})$	.38†	.02
$\ln(POP_{it}*POP_{jt})$	.03	.02
$LANDLOCK_{ij}$	-.39†	.05
$ISLANDS_{ij}$	.29†	.05
BORDER $STATES_{ij}$	-3.78†	.36
SHARED $LANGUAGE_{ij}$	.10	.06
PAST $COLONY_{ij}$	1.61†	.13
CONSTANT	-10.7†	.69
# of Observations	17,438	
# of Dyad Groups	737	
Rho	.897	
R^2	.181	
Wald Chi^2	871.65	

*,**,† denotes statistical significance to the 95%, 99%, and 99.9% confidence levels respectively.

Each of 30 models created using the non-sanctioned observations is then used to make out-of-sample predictions on the body of cases in which the United States had imposed sanctions on at least one of the states in the dyad. This set of U.S.-sanctioned dyads includes 8,950 distinct non-directed dyads and 82,669 dyad-year observations. These predicted values are used to create

[61] This table contains the results produced by one of the sample models, it is not an aggregation of all 30 of the models' results.

a mean predicted value of all 30 samples of what the two states' bilateral trade should have been had the sanctions not occurred. An examination of the correlation matrices of the sample and mean predicted values reveals a very high degree of consistency across predictions.[62] The mean value of the 30 sample predictions is taken to aggregate the results from separate models. This mean value constitutes the counterfactual trade prediction that will be used to generate the differential variable.

The final step of this procedure is to use the counterfactual trade predictions to produce the trade differential variable. To calculate the differential, the mean predicted trade value is transformed from its logarithmic functional form back into normal trade values.[63] This predicted value is then subtracted from the observed trade flows between the target and third party states to produce a differential value for how much greater or lower trade under the sanctions regimes was than it otherwise would have been.

Positive values of the trade differential denote that observed trade was greater than predictions and negative values denote that actual trade was lower than predictions. This differential value (*DIFF*) serves as the dependent variable for the subsequent analysis, allowing for the factors contributing to whether third party states' trade increased or decreased with target states after sanctions were imposed to be studied. In 60% of the differential values produced, observed trade was less than predicted trade, while in 33% of cases observed trade was greater than predicted. In 7% of the cases, the predictions were identical.[64]

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[62] These tables can be made available upon request.
[63] The predicted values produced by the gravity model are in logarithmic functional form.
[64] In all these cases, observed trade and predicted trade equaled 0.

Operationalizing the Hypotheses and Model

I begin this section by explaining how the triadic framework is used to structure the dataset used in the quantitative analysis. Next, I present the hypotheses produced by the triadic theory of third party response and explain how they are operationalized. I then present the set of predictions produced by the rival realist perspective. In some cases, these predictions are congruent with those my theory, they make opposite predictions in several instances, and, in others, the realist predictions are not really addressed by the core of my theory. I discuss how each of the realist propositions relate to those of my theory and how they should be summarily evaluated. I conclude with a discussion of the additional control variables used in the analysis.

Structuring a Triadic Dataset

The dataset's unit of analysis is the triad-year. It includes observations from 102 case of U.S.-imposed sanctions from 1950-2000. For each sanctions episode, observations are coded for every individual triad formed between the U.S., target, and the rest of states in the world. In a given year, a country can be coded as both the target of sanctions and as a third party state. Overlapping sanctions regimes are coded jointly for each individual observation year in which a target has been sanctioned, recording the aggregate set of characteristics of all the sanctions that are in place in a given year. For example, this would produce identical observations for an observation-year in which a single sanctions regime entailed both export and financial sanctions as one in which separate financial and export sanctions regimes were ongoing against the state at the same time. *Table 7.2* presents sample observations from two sanctions episodes that took place during 1990. It shows how the directed aspect of the triadic observations makes Iran the "target state" and Iraq a "third party" in one observation and Iraq the "target state" and Iran a "third party" in a distinct observation during the same year.

Table 3.2: Structure of the Observation-Years

Sender	*Target*	*Third Party*	*Year*	*Sanctions Type*
United States	Iran	France	1990	Export, Import
United States	Iran	Iraq	1990	Export, Import
United States	Iran	UAE	1990	Export, Import
United States	Iraq	Iran	1990	Export, Import, Financial
United States	Iraq	UAE	1990	Export, Import, Financial
United States	Iraq	France	1990	Export, Import, Financial

Operationalizing the Hypotheses of the Triadic Theory of Third Party Response

This section outlines the hypotheses produced by the triadic theory's explanatory variables and details the data used to code them. To begin, my theory predicts that countries with large, open economies are more attractive sanctions busting venues than countries with small, isolated economies. In this analysis, the variable denoting the third party's economic size (LN(ECONOMIC SIZE$_3$)) is operationalized using the logarithmic transformation of the third party's GDP taken from Gleditsch's (2008) "Expanded GDP Data, v5.0." This variable seeks to capture the capability of third party state's consumer and production bases to absorb the target's surplus exports and fulfill its unmet demands for imports.[65] Within the literature, the standard quantitative measure used as the proxy for trade openness has been the ratio of a country's total imports and exports to its GDP (Barbieri, 1997; Gartzke and Li, 2003). This trade openness

[65] Wherein this operationalization may be insufficient is capturing instances in which the sanctions target specific categories of specialized goods, such as high-tech strategic products or oil. In such cases, access to these particular goods, as opposed to the potential for pure commercial volume, may be more important to firms. Overall, this variable constitutes the best general measure of states' economic capacities.

variable is meant to serve as a proxy for the structure of a state's economy. States with low openness values denote countries with autarkic economies and those with high values denote countries with more internationally integrated economies. The variable representing trade openness (LAG(TRADE OPENNESS$_3$)) is coded using data on the total yearly trade conducted by third party states using data from Barbieri et al. (2008) and GDP data from Gleditsch (2008). The variable is lagged one year to prevent for simultaneity bias. The greater that both variables are for a particular state, the more it could be expected that the state's trade with the target during the sanctions will be higher than it otherwise would have been.

My theory also predicts that firms in democratic target states will prefer to trade with firms that are also in democratic states. Given the greater political risks entailed in conducting sanctions-busting trade, I argue that firms from democratic countries will prefer trading partners that are also in democracies. To measure this concept, I draw on POLITY2 scores from the POLITY IV database that provide aggregate measures of the degree to which countries' governing institutions have autocratic and democratic features (Marshall and Jaggers, 2004).[66] The POLITY2 measure ranks country's regimes on a 21-point continuum, with pure autocracies scored as -10s and pure democracies scored as +10s. The variable is derived from an index of scores that measure the degree of constraints that exist on its executive's powers, how the executive is selected, and the competitiveness of the selection process (Marshall and Jaggers, 2004). Liberal democracies are generally accepted as states with regime scores of +6 or above. As such, I consider the third party and target as being jointly democratic (JOINTLY DEMOCRACTIC$_{3T}$) if both countries have POLITY2 scores of 6 or above in the year in question.

[66] Previous research assessing the relationship between democratic regimes and sanctions have also relied on this measure (Lektzian and Souva, 2001; Cox and Drury, 2006).

> H1: The size of a third party's GDP has a positive affect on its trade differentials with sanctioned states.
>
> H2: The extent to which a third party state's economy is open to international trade has a positive affect on its trade differentials with sanctioned states.
>
> H3: The joint presence of democratic institutions in both the target and third party states has a positive affect on the states' trade differential.

In terms of the role played by third parties' geographic relationship to the target, my theory predicts that distance has a negative effect on trade with sanctioned states. As such, states that are distant from the target should have their bilateral trade with the country decrease more during sanctions than would otherwise be predicted. Yet, the converse of this prediction is not necessarily true according to my theory due to the role of illicit trade in shaping cross-border trade flows of neighboring states. Given that the international trade data used in this analysis only captures legitimate trade (COW, 2008), it is possible that a substantial proportion of the bilateral trade between the target and states sharing a border with it will not be accounted for in the analysis. Thus, I would not expect that states sharing a border with the sanctioned states should necessarily experience a positive increase in their legitimate trade flows with the target. The LN(DISTANCE$_{3T}$) and BORDER STATES$_{3T}$ variables are operationalized in the same way they were in the gravity model.

> H4: The distance of a third party from the target has a negative affect on its trade differential with sanctioned states.

My triadic theory asserts that third party states' commercial and political linkages with the target and sender states dramatically affect their responses to the sanctions. In terms of commercial interdependence, my theory contends that the degree of a third party's commercial dependence upon the target positively affects its trade with the country during the sanctions. Within the literature, the *TRADESHARE* variable has been prevalently used to measure the degree to which a state is commercially dependent on other states (Gartzke and Li, 2003: 556-557). The variable measures the proportion that a state's bilateral trade with a given partner state constitutes of the total trade that it conducts altogether (Trade_{ij} / Total Trade_{i}). Using data from Barbieri et al. (2008), I code the variable LAG(TRADESHARE_{3T}) to represent the degree to which the third party is commercially dependent upon the target.[67] This variable is lagged one year to prevent simultaneity bias.

The triadic theory of third party response also makes two distinct predictions with respect to the effects that third party military alliances have on trade with sanctioned states. Yet, not all alliances are created equally (Leeds, Long, and Mitchell 2000).[68] Of their multiple variants, defense pacts represent the strongest form of alliance commitment that can made between states and the most effective at deterring military aggression (Leeds, 2003). Indeed, Long (2003) has found that defense pacts constitute the only form of alliance relationship that exert a significantly positive effect on partner states' bilateral trade. As such, I chose to focus solely on the effects of defense pacts in my quantitative analysis. To operationalize these alliance variables, I use data from Gibler and Sarkees' (2004) alliance dataset to produce dummy variables for whether third parties had defense pacts with either the United States (DEFENSE PACT_{3US}) or the target (DEFENSE PACT_{3T}) in a given year. The presence of a defense pact between the third party and sender should increase trade between partner states during the sanctions more than otherwise could be

[67] In this analysis, the target's commercial dependence upon third party states is not included because such dependencies should exercise the strongest pull on only the target's few largest trading partners—not the general population of states.
[68] Gibler and Sarkees (2004) have identified three categories of alliances: ententes, non-aggression pacts, and defense pacts. Alternatively, Leeds, Long, and Mitchell (2000) identify five types of alliances that relate to offensive cooperation, defensive cooperation, neutrality, non-aggression, and consultation.

expected. This effect is unconditional. The effect that a defense pact between the third party and sender has, however, depends upon the extent of the commercial linkages between the third party and the target. My theory predicts that a defense pact between the third party and sender will diminish third party-target trade when the third party has minimal commercial linkages to the target, but will have a positive affect on the two states' trade when they have stronger commercial linkages. I operationalize the extent of the commercial linkages between the third party and target in this analysis using third party's commercial dependence upon the target. To capture this conditional effect, I include an interaction term for DEFENSE PACT$_{3T}$ and LAG(TRADESHARE$_{3T}$).

> H5: The extent of a third party's commercial dependence upon the target positively affects the states' trade differentials.
>
> H6: The presence of a defense pact between the third party and target positively affects the states' trade differentials.
>
> H7: The presence of a defense pact between the third party and sender will increase the third party and target states' trade differential when the third party is commercially dependent upon the target, but decrease it when no such dependence exists

Operationalizing the Rival Realist Predictions

While the theory section provided a broad outline of the realist account, I distill the theory into a set of distinct hypotheses in this section. The realist theory produces an observationally-equivalent prediction to that of the theory of third party response concerning the effect of third party-target alliance (DEFENSE PACT$_{3T}$). Both theories assert that such an alliance will exert a positive effect on the bilateral trade during sanctions episodes. In contrast to the theory of third party response, however, realism predicts that the presence of an alliance between the United States and the third party (DEFENSE PACT$_{3US}$) should have a negative effect third party-target trade. From this perspective, a third party state's security interests vis-à-vis the United States should take priority over its domestic constituencies' commercial interests.

In terms of the predicted effects of rivalries, data from Klein et al.'s (2006) "The New Rivalry Dataset" is used to code the presence of enduring third party rivalries with the target state and United States. RIVALRY$_{3US}$ is coded as a 1 if a rivalry between the third party and United States exists in a given year and a 0 otherwise. The realist account predicts that such a rivalry should make it more likely that a third party engages in trade with the target that the sender is seeking to punish via sanctions (Hufbauer et al., 1990). RIVALRY$_{3T}$ is coded as a 1 if a rivalry between the third party and target exists in a given year and a 0 otherwise. Realism predicts that such a rivalry should increase the incentives of the third party state to also cutoff trade with the target and support the United States' sanctions. Yet this prediction is also observationally-equivalent to the predictions made by the triadic theory of third party response, as it contends that political conflict between the third party and target will tend to exacerbate the sanctions-imposed transaction costs.

In addition to these variables, the capabilities of third party states and distribution of power in the international system may also have significant effects on whether third party states' trade with the target is apt to increase or decrease following the imposition of sanctions. If the third party state is a major power (MAJOR POWER$_3$), it is more likely to have an active interest in the policy prerogatives sought by the United States in imposing sanctions and the capabilities to respond to them.[69] This variable is operationalized using the COW Project data (2004). If a third party state is engaged in a militarized international dispute with the target in a given year, it

[69] As Mearsheimer (2001) argues, great powers have broad interests in preventing other states from surpassing them in power and take active steps to prevent other states in making relative gains in power.

could also be expected that the third party state would be more inclined to support the sender's sanctions against the target. The variable MILITARIZED DISPUTE$_{3T}$ is operationalized as a dummy variable for whether a militarized dispute occurred in the given year using Maoz's (2003) data set.

In terms of the systemic effects, Hufbauer et al. (1990) posited that sanctions-busting should become rarer following the Cold War's conclusion. They argue that the incentives of politically-driven sanctions-busting are substantially diminished in a world not divided by two competing rival blocs. Reinforcing this logic is the contention that following the Cold War's conclusion the United States emerged as the world's sole superpower, able to exercise a substantial degree of hegemonic power. In realist terms, this period of unipolar American predominance implies that the U.S. would be less likely to have its policies challenged by other states, making sanctions-busting less apt to occur. POST-COLD WAR ERA is operationalized as a dummy variable with the years before 1992 coded as 0 and the years from 1992 onward coded as 1. This variable denotes the shift from a bipolar distribution of power to a unilateral distribution of power.

The Control Variables

In addition to the theoretical variable, several additional variables are needed to control for the target's economic conditions, the socio-cultural relations between the third parties and target, and the nature of the sanctions imposed. To control for the target's economic conditions, LAG(TRADE OPENNESS$_T$) and LN(ECONOMIC SIZE$_T$) are coded in the same way for the target as they were for the third party states. The total trade conducted by the target state in the previous year (LAG(TOTAL TRADE$_T$)) is included to control for target state's total involvement in international trade. The greater the target's involvement in international trade, the greater the opportunity is for the sanctions to impose significant effects. This variable uses the Barbieri et al. (2008) dataset.[70]

Several controls are included that assess the socio-cultural linkages between the third party and target states. Previous research suggests that states with close social linkages, such as past colonial relationships or a shared language, trade more with one another than with other states (Bliss and Russett, 1998). PAST COLONY$_{3T}$ is a dummy variable for whether the states in the dyad had a colonial relationship at any time with one another, coded as a 0 or 1. In addition, dummy variables for whether the third party and target had a common colonizer (COMMON COLONIZER$_{3T}$) and whether they share a common language (SHARED LANGUAGE$_{3T}$) are included. All these variables draw on data from CEPII (2006).

Three separate variables are coded to denote particular types of sanctions employed by the United States. EXPORT SANCTIONS, IMPORT SANCTIONS, and FINANCIAL SANCTIONS are coded as dummy variables for the years in which the U.S. imposed export, import, and financial sanctions respectively, with a 1 representing the sanctions of the particular type are in place and a 0 denoting they are not. This data was coded from Hufbauer et al.'s (2007) dataset that includes detailed information on each of the individual sanctions regimes. For cases in which distinct sanctions regime's overlapped, additional sanctions imposed upon existing sanctions are coded to be 1 both if the additional sanctions imposed a new type of sanction and if they reinforced existing sanctions of a particular type. In addition, the Hufbauer et al. (2007) data set includes cases in which sanctions that do not fit these three archetypes, such as travel bans.

[70] Drury's (2001; 2005) analyses of U.S. sanctions have shown that American presidents primarily take U.S. foreign policy considerations vis-à-vis the target into account in their decisions to initiate economic sanctions, not domestic factors. This suggests that domestic factors in the U.S. economy can be safely ignored in this quantitative analysis.

To control for the salience of security considerations involved in the particular sanctions episodes, I include two variables that represent the foreign policy motivations driving the United States' imposition of sanctions. Using data from Hufbauer et al. (2007: 120), I code a dummy variable for if the sanctions were imposed by the United States to disrupt the military adventurism of a target state (DISRUPTIVE MOTIVE). This category of cases includes episodes such the sanctions imposed by the United States against Great Britain during the Suez Canal Crisis and against the Soviet Union following its invasion of Afghanistan. In addition, another variable is coded for whether the sanctions were imposed impair the military capacity of their targets (SECURITY MOTIVE), including wartime sanctions (Hufbauer et al., 2007: 121-122). This category includes cases like the strategic export controls imposed against the Soviet Union during the Cold War and the sanctions against Iraq following the first Persian Gulf War. Given the expectations of both my theory and the realist theory, I expect that, if these variables do exert a significant effect, it will be a negative one.

Finally, the variable IO SUPPORT is coded as a dummy variable representing whether an international organization acted as either a co- sender of the sanctions with the United States or was identified by Hufbauer et al. (2007) as offering intuitional support to the sanctions effort. The neo-liberal institutionalist wisdom asserts that sanctions efforts receiving international support should be more effective at deterring third party trade with the target (Martin, 1992; Drezner, 2000).

Conducting the Quantitative Analysis

This section evaluates the models using two techniques of econometric estimation for panel data that can test the theory's predictions. The first approach used is standard fixed effects estimation (Green et al., 2001). A fixed effects estimator is needed to account for potential omitted variable biases created by the pooling together of heterogeneous observations in CSTS datasets. Whiles this estimator always produces consistent results, it is less efficient than other estimators and prevents the use of time-invariant variables. As such, I also chose to employ Hausman-Taylor (HT) estimation (Hausman and Taylor, 1981). HT estimation uses endogenous instrumental variables to control for the unaccounted effects of omitted variables within the model. It *can* share the fixed effect model's desirable characteristic of consistency, but is more efficient and allows for the inclusion of time-invariant variables.[71] However, the HT estimator requires more parameters to specify than the FE estimator, has additional identification requirements, and requires effective instrumental variables to produce consistent results. The functional form of the HT estimator is specified in the equation below (McPherson and Trumbull, 2006).

Equation 2: The Hausman-Taylor Estimator Equation[72]

$$Y_{ijt} = \alpha_0 + \beta'_1 X1_{ijt} + \beta'_2 X2_{ijt} + \delta_1 Z1_{ij} + \delta_2 Z2_{ij} + \varepsilon_{ijt} + \mu_{ij}$$

[71] For more on HT estimation, see: Hausman and Taylor 1981; Egger, 2002; McPherson and Trumbull, 2006.

[72] The HT estimator differentiates between random error (ε_{ijt}) and the error correlated with the time invariant variables contained within the model (μ_{ij}). The model addresses the bias problem produced by the second type of error (μ_{ij}) by designating instrumental variables correlated with the error term to control for the omitted variables' effects. The model requires that the researcher specify two sets of time-variant (X1 and X2) and time invariant variables (Z1 and Z2): one set that is endogenously related to the omitted variable bias (X2 and Z2) and one that is exogenous (X1 and Z1). The model is identified as long as the number of X1 variables is greater than the number of Z2 variables. A Hausman test of the results produced by the HT estimator with the results produced by FE estimation can test if the results its produces are consistent (McPherson and Trumbull, 2006).

The statistical analysis is conducted using both the FE and the HT estimators for three separate models, but only the results yielded by HT estimation are displayed. All three models meet the HT estimator's identification requirements and Hausman tests using the results from FE estimation confirmed that the results they produce are non-biased. Model 1 contains the full model, absent the interaction term DP_{3US}*LAG($TRADESHARE_{3T}$) and the variables denoting the sanctions' motivations. Model 2 includes the interaction term but not the sanctions' motives. Model 3 contains all the variables included in the analysis.

Table 3.3: Trade Differential Models Using HT Estimation[73]

	Model 1		Model 2		Model 3	
VARIABLE NAME	Coef.	S.E.	Coef.	S.E.	Coef.	S.E.
DEFENSE PACT$_{3US}$	-29.86	21.96	-53.87*	21.91	-55.17*	21.84
DEFENSE PACT$_{3T}$	116.63†	35.80	113.48†	35.68	115.85†	35.57
LAG(TRADESHARE$_{3T}$)	5141.97†	157.25	3932.92†	164.72	3934.67†	164.22
DP$_{3US}$*LAG(TRADESHARE$_{3T}$)			12510.86†	524.50	12531.86†	522.90
LAG(TRADE OPENNESS$_{3}$)	4.38*	2.35	4.68*	2.34	4.64*	2.33
LN(ECONOMIC SIZE$_{3}$)	50.68†	6.26	52.65†	6.28	51.92†	6.26
JOINTLY DEMOCRACTIC$_{3T}$	-9.26	10.60	-9.66	10.57	-8.41	10.55
LN(DISTANCE$_{3T}$)	-97.00*	44.02	-98.47*	44.46	-107.65*	44.76
BORDER STATES$_{3T}$	-458.39	328.54	-484.53	331.93	-453.48	340.43
RIVALRY$_{3US}$	-12.62	16.13	-16.37	16.08	-17.28	16.03
RIVALRY$_{3T}$	-464.45†	26.56	-460.52†	26.47	-458.59†	26.40
MAJOR POWER$_{3}$	1417.03†	51.54	1429.78†	51.37	1407.79†	50.99
MILITARIZED DISPUTE$_{3T}$	93.29*	37.41	102.31**	37.29	104.41**	37.20
POST-COLD WAR ERA	-20.23†	6.06	-15.82**	6.04	-15.53**	6.03
LAG(TOTAL TRADE$_{T}$)	689.31†	12.60	678.97†	12.57	678.78†	12.60
LAG(TRADE OPENNESS$_{T}$)	-33.18*	14.60	-47.78†	14.56	-49.06†	14.53
LN(ECONOMIC SIZE$_{T}$)	-49.63†	6.38	-54.62†	6.39	-54.72†	6.44
PAST COLONY$_{3T}$	-8542.29†	1348.03	-8918.56†	1359.60	-8049.05†	1337.64
SHARED LANGUAGE$_{3T}$	795.76*	386.90	688.53	390.71	180.43	423.02
COMMON COLONIZER$_{3T}$	-598.36	498.12	-511.75	503.15	-694.34	540.45
EXPORT SANCTIONS	5.78	10.44	5.53	10.40	16.57	11.33
IMPORT SANCTIONS	2.02	14.72	4.72	14.68	-7.60	15.03
FINANCIAL SANCTIONS	-33.76*	13.40	-32.63*	13.33	-31.81*	13.82
DISRUPTIVE MOTIVE					-29.08	15.02
SECURITY MOTIVE					-16.70	11.50
IO SUPPORT	-32.61†	10.11	-33.8†	10.08	-32.17†	10.28
CONSTANT	775.4	413.42	873.55*	417.03	1051.25*	425.73
# Observations	78046		78046		78046	
Rho	.92		.93		.93	
χ^2	6075.38		6682.44		6670.46	

Note: *, **, and † denote statistical significance at the 95%, 99%, and 99.9% confidence levels respectively. Variables tested as part of my theory are reported using one-tailed tests. All others are reported using two-tailed tests.

[73] The HT parameters are specified in the following categories: Time Invariant Exogenous Variables - LN(DISTANCE)$_{3T}$ and BORDER STATES$_{3T}$; Time Invariant Exogenous Variables - MAJOR POWER$_{3}$, MILITARIZED DISPUTE$_{3T}$, POST-COLD WAR ERA, JOINTLY DEMOCRACTIC$_{3T}$, ECONOMIC SIZE$_{3}$, ECONOMIC SIZE$_{T}$, IO SUPPORT, EXPORT SANCTIONS, IMPORT SANCTIONS, FINANCIAL SANCTIONS, DISRUPTIVE MOTIVE, and SECURITY MOTIVE; Time Invariant Endogenous - PAST COLONY$_{3T}$, SHARED LANGUAGE$_{3T}$, and COMMON COLONIZER$_{3T}$; Time Invariant Endogenous - LAG(TRADESHARE)$_{3T}$, LAG(TRADE OPENNESS)$_{3}$, LAG(TRADE OPENNESS)$_{T}$, RIVALRY$_{3US}$, RIVALRY$_{3T}$, DEFENSE PACT$_{3US}$, DEFENSE PACT$_{3T}$, and DP$_{3US}$*LAG(TRADESHARE)$_{3T}$. These specifications identify the models.

The results of quantitative models provide strong support for the triadic theory of third party response and generally weaker support for the rival realist alternative. For the most part, the rival realist account's best performing predictions were the ones that were congruent with the ones produced by my theory. Despite the strong evidence the analysis provides for many of the triadic theory's core propositions, the analysis also revealed several puzzling findings. This section begins by summarizing the results of the analysis for the formal hypotheses being tested and then proceeds to discuss the performance of realist and control variables.

The Results' Implications for the Triadic Theory of Third Party Response's Hypotheses

Of the seven core hypotheses from the triadic theory of third party response, six are well-supported by the evidence from the 102 American sanctions episodes. The first hypothesis asserts that the size of third party states' economies positively affects their trade differentials with sanctioned states. In all three models, the economic size of third party states demonstrated a positive, statistically significant effect on the trade differential at the 99.9% confidence level. This reveals that states with large economies are better able to respond to trade imbalances created within the target, as they are enabled to better absorb target surpluses and produce products made scarcer within the target by the sanctions. The second hypothesis contends that the degree that a third party's economy is open to international trade positively affects its trade differentials with sanctioned states. The third party's trade openness (LAG(TRADE OPENNESS$_3$)) had a positive, significant effect on the trade differential at the 95% confidence level. This finding evidences that states with active internationally-trading commercial sectors are better equipped to adjust and profit from the trade disruptions created by sanctions than are commercially-closed states.

The results provide little support for the third hypothesis, which predicts that the presence of democratic institutions within both the target and third party states positively influences their trade differentials. Indeed, the coefficient for JOINTLY DEMOCRACTIC$_{3T}$ is negatively signed and insignificant in all three models. In further analysis, I disaggregate the constituent democracy-autocracy scores (the POLITY2 variable) for the individual target and third parties. Running the model with individual polity scores for both states reveals that the level of democracy in the third party actually exerts a statistically significant negative effect on the trade differential. One explanation for this finding is that fellow democratic states could be more sympathetic to the sanctions imposed by the U.S. and seek to deter domestic trade with those states. On the other hand, autocratic states are more likely to have foreign policy interests that are odds with the United States. As such, they may engage in sanctions-busting behavior in order to thwart U.S. prerogatives. Holding the sender constant as a liberal democracy may also be biasing the results, as the imposition of sanctions against fellow democracies tends to be a fairly rare event (Cox and Drury, 2006) and, within the sample of cases included within the analysis, JOINTLY DEMOCRACTIC$_{3T}$ actually signifies that all three states in the triad are democracies.[74] The individual polity score tests also reveal that the regime of the target does not have a significant effect. This is particularly interesting considering that Lektzian and Souva (2003: 648) argue that democratic states tend to strive harder "to offset or counter" sanctions than do authoritarian ones. Given these puzzling findings, further tests that include sanctions imposed by non-democratic states are likely needed to properly evaluate this hypothesis.

[74] This is because the United States is scored as liberal democracy throughout the entire observation period.

The fourth hypotheses related to the effect that the distance of third parties from the target had on their trade differentials. The results indicate that distance has the predicted negative effect on the third party trade with sanctioned states, which is statistically significant at the 95% confidence level in all tests. It should also be noted that a shared border with the target did not increase a third party's trade with the state in any significant way. Indeed, the effect of a shared border was negative. While the distance variable suggests states distant from the target will be more likely to have their trade flows with the target hurt by the sanctions than states that are proximate to the target, the insignificance of the border variable suggests that this effect is somehow being disrupted. As I suggest, this finding is likely the unobserved result of cross-border illicit trade. In response to the sanctions, individuals, firms, and governments all have incentives to shift their legitimate trade with sanctioned states to illicit, clandestine channels that will not be captured in official trade flows (Naylor, 2001; Dadik, 2003; Andreas, 2005). The shift to illicit trade channels could cause true trade value to under-reported in official figures, washing out the positive effects that sharing a border has on the transaction costs of doing business. Unfortunately, few quantitative options exist to assess the degree of illicit trade occurring and factor that into the model; however, this topic can be explored in the qualitative portions of this study.

The fifth hypothesis concerns the effect that the third party's commercial dependence upon the target has upon its trade differential with the state. In accordance with my theory's expectations, the third party state's commercial dependence upon the target (LAG(TRADESHARE$_{3T}$)) exercises a positive, significant effect on the trade differential at the 99.9% confidence level in Model 1. This indicates that the more salient the third party's commercial relationship with the target becomes, the greater its bilateral trade with the target will be beyond predictions of what that trade otherwise would have been absent the sanctions. This implies that firms in target states are more apt to redirect their trade to those states that are least likely to join the sanctions regime and with whom they have previously established commercial linkages.

My theory's sixth hypothesis asserts that the presence of a third party defense pact with the target has a positive effect on the states' trade differentials. The rival realist account makes an identical prediction. The results show that third party-target defense pacts (DEFENSE PACT $_{3T}$) have a positive, statistically significant effect on the states' trade differentials at a greater than 99.9% confidence level across all three models. This finding is supportive of both my theory and the realist alternative account.

The seventh and final formal hypothesis tested in the analysis relates to the effects that the presence of a defense pact between the third party and the U.S. (DEFENSE PACT$_{3US}$) has on third parties' trade differentials with the target. The triadic theory of third party response argues that the effect that DEFENSE PACT$_{3US}$ has on the trade differential is conditional upon the third party's degree of commercial dependence upon the target. When the third party has no commercial ties to the target, it predicts that DEFENSE PACT$_{3US}$ has a negative effect. Conversely, it asserts that the presence of a defense pact with the sender exercises a positive effect when the third party is commercially linked to the target. In contrast, the rival realist account asserts that DEFENSE PACT$_{3US}$ should have an unconditional negative effect on third party and target states' trade differentials. Model 1 tests the realist prediction. As the results indicate, DEFENSE PACT$_{3US}$ does not have a statistically significant effect when the interaction term is not included model.

Yet when the interaction term is included in Model 2, the variable does exert a negative, statistically significant effect on the trade differential. The DEFENSE PACT$_{3US}$ has a very specific conditional interpretation, however: it denotes the effect that a third party defense pact with the United States has when third party has no commercial dependence upon the target. These findings are consistent with my theory's predictions—indicating that when a third party is not commercially dependent upon the target, it is more likely to support the sender's sanctions. In a similar vein, the coefficient for LAG(TRADESHARE$_{3T}$) denotes the effect the variable has on the trade differential when the third party is not a defense pact partner of the United States. Just as in Model 1, it has a positive, statistically significant effect on the trade differential. While the coefficient for interaction term (DP$_{3US}$*LAG(TRADESHARE$_{3T}$)) is statistically significant, the conditional effect of DEFENSE PACT$_{3US}$ on the trade differential is actually measured as:

$$DIFF = B_{CONSTANT} + B_{DEFENSE\ PACT\ 3US} + (B_{LAGTRADESHARE3T} + B_{DP3US*LAGTRADESHARE3T})* X_{LAGTRADESHARE3T} + \varepsilon$$

Note that the sum of the coefficients of LAG(TRADESHARE$_{3T}$) and the interaction term DP$_{3US}$*LAG(TRADESHARE)$_{3T}$ is positive, denoting that the joint effects of the two variable result in a positive effect on the trade differential. This statistical significance of this interaction effect can best be shown graphically.[75] *Figure 3.1* depicts the marginal effects that having a defense pact with the United States have on the trade differentials dependent upon third party states' degree of commercial dependence upon the target. The table shows that when the third party has no commercial dependence upon the target, the effect of the alliance is negative (if only briefly). Yet as third parties' commercial dependence upon the target increases, the defense pact with the U.S. rapidly begins to assert a substantial positive effect on the trade differential. When both the

[75] The graph for the interaction term's marginal effects and method of interpreting the interaction term both drew upon Brambor et al. (2006).

dashed lines are above or below the "0" line, the marginal effects of the variable are statistically significant at the 95% confidence level.

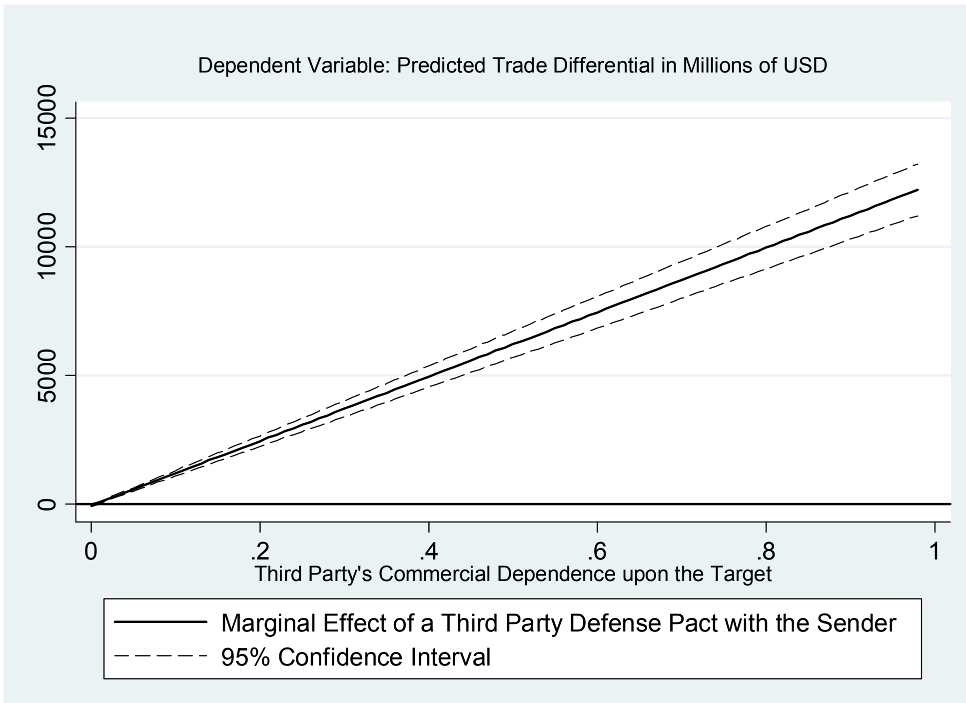

Figure 3.1: The Marginal Effects of Having a Defense Pact with the U.S. on the *Trade Differential* as the Third Party's Commercial Dependence upon the Target Changes

The effect of having a defense pact with the U.S. is both substantively, as well as statistically, significant. *Figure 3.2* depicts the results of simulating the difference in the predicted values of the third party and target states' trade differentials dependent upon whether the third parties had an alliance with the U.S. or not.[76] The black line denotes the predicted values of U.S. allies, while the red line denotes the predicted values for countries not allied to the U.S. As the table illustrates, the LAG(TRADESHARE$_{3T}$) has an unconditionally positive effect upon the trade differentials in both cases; however, that effect is substantively much stronger

[76] To provide a clearer illustration, cases in which the third party and target shared a colonial relationship are not shown. The effect for these states is comparable, though.

when the third party has a defense pact with the United States. These results must also be assessed in light of the actual distribution of the LAG(TRADESHARE$_{3T}$). The figures in *Table 3.4* show that in roughly 96% of the observations in the dataset the target states' share of third parties' overall trade does not surpass 2.5%. Moreover, in roughly a third of the observations, third party states have no existing commercial dependencies upon the target. This suggests that the negative effects that alliances with the sender are found to have when the third parties lack any commercial dependence upon the country are quite meaningful.

On the other hand, these data also indicate that there are a limited number of cases in which third party states' levels of commercial dependence *actually* have the extreme effects on their trade relationships that they can in theory. So while the substantive significance of sender alliances in cases in which a third party is highly trade dependent upon the target high (greater than 20%) may be great, such cases are rare. This should be taken into account when interpreting the significant divergences between U.S. allies and non-U.S. allies on the right hand side of *Figure 3.2*. All told, there are slightly more than 700 cases in the dataset in which allies of the sender also have commercial dependences upon the target that are higher than 2.5% of their total trade share. This suggests that while the United States has a lot of allies, it does not necessarily need to worry about every one of them engaging in extensive sanctions-busting. It should focus its attention mainly on those that have extensive commercial ties with the target.

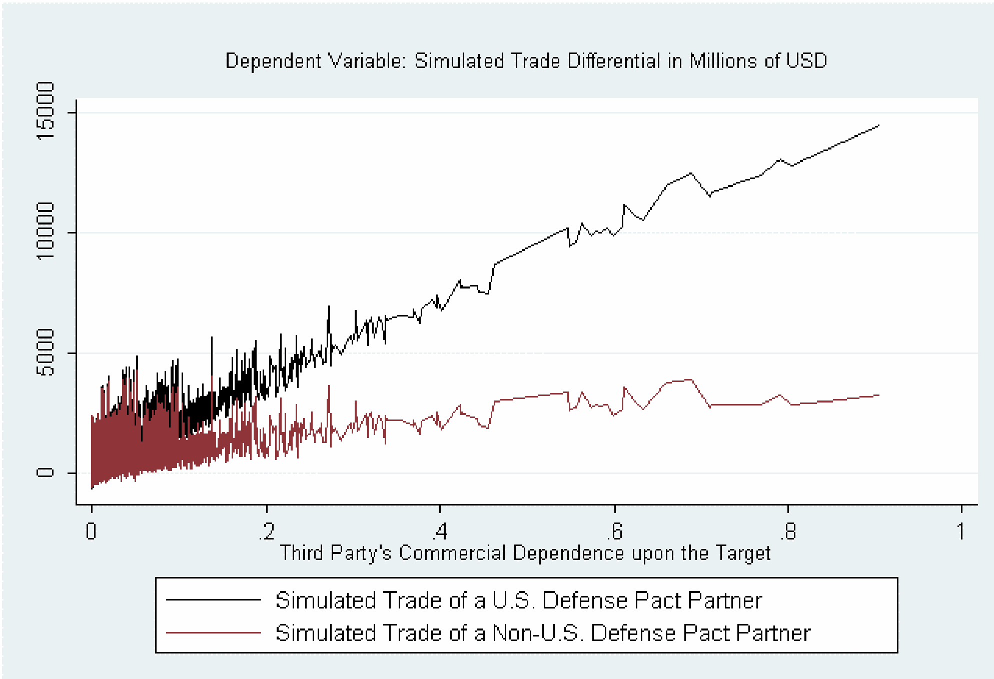

Figure 3.2: The Simulated Effect of the Being Allied Versus Not Allied to the United States on Third Parties' Trade Differentials with the Target

Table 3.4 : Distribution of the Conditional Variable

3rd Party's Level of Commercial Dependence	*Observations*	*Percentage*
LAG(TRADESHARE)$_{3T}$ = 0	25,177	31.53%
0 < LAG(TRADESHARE)$_{3T}$ < 2.5%	51,746	64.81%
2.5%≤ LAG(TRADESHARE)$_{3T}$< 5%	1,577	1.98%
5%≤ LAG(TRADESHARE)$_{3T}$< 10%	786	0.98%
10% LAG(TRADESHARE)$_{3T}$ < 20%	391	0.49%
20% ≤ LAG(TRADESHARE)$_{3T}$< 30%	98	0.12%
30% ≤ LAG(TRADESHARE)$_{3T}$≤ 100%	65	0.08%

The results of this test offer substantial support to the triadic theory of third party response. My theory argues that third party allies of the United States will tend to be supportive of its sanctions when the costs of doing so are very low, but will refuse to participate when the costs of participation become higher. Firms in both third party states and the U.S. sometimes seek to capitalize on the protections afforded to U.S. allies by using those states exploit the commercial opportunities created to them by the sanctions. The evidence confirm this account's plausibility, by revealing that trade differentials of U.S. allies are much higher than those of non-allies. While this behavior may be somewhat detrimental to third party governments' alliance relationships with the U.S., this arrangement is both domestically popular and lucrative for third party governments—more than warranting foreign policy tradeoffs involved in it.

In contrast, the realist account's contention that governmental foreign policy considerations trump domestic political interests in determining state behavior cannot be reconciled with results. The evidence reveals that allies of the most powerful economic and military state in the world consistently exploited their ally's sanctions for the benefit of their domestic constituencies. Ironically, the results show that the states whose participation in the sanctions would likely be of the most benefit to the United States (because of their heavier trade flows with the target) and whose support the United States would most expect to have, actually tend to engage in the most prolific amount of sanctions-busting trade. It is simply inconsistent with the realist logic that U.S. allies would exploit their alliances on their domestic constituents' behalf and that the United States would let them get away with such behavior. This poignant finding demonstrates one area in which the explanatory power of the triadic theory of third party response performs much better than the rival realist account.

Performance of the Realist Variables

Despite its head-to-head failure against the triadic theory in explaining the effects of U.S. alliances, the realist account also made predictions about a wider array of potentially important variables. These variables focused on the effects that political conflict between had on the trade differentials. Even on this topic, the realist predictions have a mixed record.

First, the realist account asserts that rivals of the United States should be more willing to encourage sanctions-busting trade on the target's behalf. A rivalry with the sender constitutes one of factors driving Hufbauer et al.'s (1990) predictions for sanctions-busting. The results indicate the presence of a rivalry between the United States and third party (RIVALRY$_{3US}$) does not significantly affect the third party states' trade differentials with sanctioned states.

Secondly, the rival realist account also asserts that the presence of a rivalry and or military conflict between the third party and target should decrease the countries' trade differentials. These predictions are also consistent with ones that could be made by the triadic theory of third party response. The evidence shows that, indeed, the presence of a rivalry between the third party and target has a negative, statistically-significant effect at the 99.9% confidence level across all three models. Surprisingly, however, the occurrence of a militarized dispute between the third party and target during the observation year has a positive and statistically significant affect on the countries' trade differential. The degree of this variable's statistical significance varies across the models, but is always above the 95% threshold. This finding contradicts the expectations of both theories and poses an interesting quandary. While Barbieri and Levy's (1997) find that, in some cases, bilateral trade between states does increase during conflicts, this expected to be the exception to the case rather than the rule. Neither the realist account nor my theory off-hand has a good explanation for this puzzling finding. As such, the realist perspective's account of the effects of rivalries and military conflict between the third party and target states offers no greater insight than the triadic theory of third party response.

The realist account did offer some unique insights that my theory did not address related to great power politics and the effects of system polarity. Also drawing on Hufbauer et al.'s (1990) logic, the realist account asserted that politically-driven sanctions busting would be more prevalent during the Cold War than after it. The results of the analysis support this prediction, as POST-COLD WAR ERA has a negative, statistically significant effect across all the models at the 95% confidence level. Substantively, this indicates that third parties were less willing to trade with the states sanctioned by the United States following the Cold War's conclusion. The power status of third party states (MAJOR POWER$_3$) also demonstrated a significant positive effect on the states' trade differentials at the 99.9% confidence level. Even controlling for the size of countries' economies, being a great power state still exercises an extremely large substantive effect on a third party state's trade differentials with sanctioned countries. On average and holding all other factors constant, a great power will have a trade differential that is roughly $1.4 billion higher with a sanctioned state than a non-great power will. This supports the notion that great powers use sanctions episodes as battle grounds to play out their great power politics—with "tragic" results for the efficacy of American sanctions.

Discussion of the Control and Sanctions Variables

The economic and cultural control variables provide a few interesting results. First, the results show that the size of the target's economy has a negative affect on the target's trade differentials, while the total amount of trade it conducts has a positive affect on its differentials. Both variables are significant at the 99.9% confidence level. This makes sense because the larger the target's domestic economy is, the less it will have to rely on markets in foreign countries to adjust to the sanctions. It also follows that the greater the amount of trade conducted by the target, the more trade there is to be affected by spillover affects from the American sanctions. Finally, the target's degree of trade openness has a negative, statistically significant effect (at the minimum of a 95% confidence level) on its trade differentials. This denotes the greater the degree that trade constitutes of the target's overall economic activity, the lower its trade differentials will tend to be. The substantive impact of this variable is small. Neither the effects of a shared language (SHARED LANGUAGE$_{3T}$) nor a common colonizer (COMMON COLONIZER$_{3T}$) exercise consistently significant effects on the third party and target states' trade differentials.

The presence of a past colonial relationship between the third party and target has a significant and substantively large negative effect on the states' trade differentials (at the 99.9% confidence level). On average and holding all other factors constant, third party and target states having a past colonial relationship (PAST COLONY$_{3T}$) have trade differentials that are \$8-9 billion dollars lower than countries without such relationships. Given my theory's expectation that social and political ties should reduce the uncertainty entailed in trading with sanctioned states, the direction and salience of this variable's effect is puzzling. The cases involving past colonial relationships between the third party and target only constitute about 1% of the observations in the dataset. Of that number, 67% of the cases involve Great Britain, France, Spain, Turkey, and Japan as third party states. Interestingly, all five of these countries were large colonizers at one time and all had alliances with the United States during the sample period—though Spain did not join NATO until 1986. One potential explanation for this effect is that these states are willing to cooperate more with the U.S. in intervening in the affairs of their former colonies on human rights and security issues.

With respect to the type of sanctions imposed, only financial sanctions had a statistically significant effect on the trade differentials (at the 95% confidence level). That import and export sanctions do not have positive or negative general effects on trade differentials is consistent with my theory, as I argue that sanctions can make some countries' trade with the target more profitable even as it makes others' trade unprofitable. All three models show, however, that financial sanctions tend to have a general dampening effect on the target state's trade with third parties. Indeed, Hufbauer et al. (2007: 168-171) find that financial sanctions tend to be more successful when used alone or in concert with both import and export sanctions than any other combination of sanctions. Given the United State's power in the financial markets, the limited number of states capable of wielding comparable levels of resources, and the greater ease the U.S. has in monitoring and punishing violators of its financial sanctions, it is not surprising that financial sanctions do have a consistently negative effect on their targets' trade with other countries.[77]

With respect to motive, sanctions imposed by the United States to disrupt target states' military adventurism had a negative, statistically significant effect on trade with target states at the 94% confidence level. Substantively, this effect might be as much from other countries' shared disapproval of the target's behavior as a product of enhanced U.S. efforts to recruit greater third party participation. It makes sense that the policy salience of sanctions imposed to disrupt military conflicts could make third parties more amenable to cooperating with the U.S. on the issue. It is also possible, however, that third party firms are deterred from trading with the targets of such sanctions because of the very conflicts the targets initiated in the first place that warranted the sanctions' imposition. The results in Model 3 also show that sanctions imposed by the United State to impair a target state's military strength do not have a significant effect on third party trade with the target. Thus, sanctions imposed by the U.S. for security reasons are

[77] For an extended discussion of why financial sanctions are potentially more effective than import or export sanctions, see: Hufbauer et al. (2007: 46-48).

only more likely to damage third party-target trade when they are imposed to disrupt external military conflicts—not when they are imposed to check the power of a military threat.

The last finding relates the effects that international organizations have the sender's ability to garner third party cooperation for its sanctions and monitor the compliance of participating states once they have agreed to participate. The results across all three models indication that the additional support of an international organization has a negative and statistically significant effect on targets' trade differentials at the 99% confidence level. This finding supports Drezner's (2000) contention that international organizations play a crucial role in supporting the effectiveness of multilateral sanctioning efforts. While Drezner's tests his theory regarding the effects of international organizations on multilateral sanctions using the sanctions' outcomes, he never conducts an individual-level analysis on third party behavior. This finding confirms a crucial causal link in Drezner's theory that previously had gone untested, demonstrating that international organizations do generally deter third parties from trading with sanctioned states.

Weighing the Balance of Evidence

The results of the quantitative analysis provide robust support for the triadic theory of third party response. Of the seven hypotheses that were formally developed and tested, six were strongly supported by evidence. This included the theory's counter-intuitive predictions regarding the effects of alliances between third party and sender states in which its predictions outperformed the rival realist account. As for the failure of the hypothesis involving the effects of jointly democratic institutions, there are reasons to think that a lack of variation in the regime type of the sender may have prejudiced the results. This research design issue will be remedied in the second analysis, in which the sender state is allowed to vary. Finally, the triadic theory was also able to explain just as many of the results regarding the effects of rivalry and conflict on the third party and target's trade differentials as the realist account. This demonstrates that my liberal-based theory not only does a better job explaining the effects of commercial incentives, but that it also does as good of—or better—job at explaining the effects of alliances and rivalries as the realist theory.

This does not mean that the realist theory is completely bereft of insight. The evidence demonstrated third party great powers have significantly higher trade differentials with states sanctioned by the U.S. than weaker countries. This suggests that sanctions are a major issue in which great power politics play out. Secondly, the evidence also validated Hufbauer et al.'s (1990) prediction that sanctions busting trade would occur more during bilateral distributions of power. In terms of its other predictions, however, the realist account incorrectly predicted the effects that third party alliances and rivalries with the sender have on third party trade with sanctioned states. And while the evidence validated its predictions regarding the effects of third party alliances and rivalries with the target, they provided no value-added beyond my theory's insights. On the whole, the balance of evidence supporting the rival realist account was much weaker than it was for the triadic theory of third party response. The analytical leverage provided by my triadic theory in identifying the salient factors that affect how sanctions affect their targets' trade with third parties is also greater in scope. At the very least, this analysis's results concerning the salience of great power politics and bipolar distributions of power suggest that the second quantitative study examining cases of extensive sanctions busting during the

Cold War is a critical test between the two theories: if the realist account cannot out perform my triadic theory under those circumstances, it is unlikely that it can do so at all.

The Substantive Implications for U.S. Sanctions Policies

The results of this study have particular salience for the American policymaking community, as they shed light on the previously unknown consequences of U.S. sanctions during the latter half of the 20th Century. Since the United States remains the most prolific user of sanctions in the 21st Century, lessons learned from the past performance of its sanctions can yield potentially beneficial insight to improve their contemporary use. My study provide somewhat surprising results concerning both the limits of the United States' ability to coerce foreign cooperation—even among its allies—and suggests methods of improving the effectiveness of sanctions in the future.

Allies with Alibis and the Pathologies of American Sanctions

Despite its privileged position as a military and economic superpower, the United States' ability to garner multilateral cooperation for its sanctions regimes is severely circumscribed. As my theory explains, the U.S. Government is often unable to prevent its own firms from seeking out ways to violate the sanctions it imposes—let alone prevent foreign firms from doing it. The irony of the United States' plight is that the countries whose support would do the most to strengthen its sanctions regimes are also the countries best-suited to undermine American sanctions. Given their privileged alliance relationships with the United States that prevent harsh retaliation and their large, openly trading economies, countries like Great Britain, France, [West] Germany, Canada, and Japan are perfectly suited to exploit the commercial opportunities created by American sanctions. While the "black knight" analogy is frequently invoked to explain how third party assistance contributes to the failure of American sanctions, the evidence suggests that the United States' allies have contributed much more to the frequent ineffectiveness of its sanction than its rivals have. Indeed, findings suggest that the American sanctions policies have a broad pathological interaction with its alliance relationships.

The exploitation of the commercial opportunities created by American allies can create a vicious cycle, in which the sanctions-busting conducted by these countries contributes to the enduring failure of the sanctions regimes. This has led the United States keep its sanctions in place longer and, periodically, to ratchet up their intensity in an effort to make them more effective. That response, in turn, only increases the profitability of trading with the sanctioned state, leading to more sanctions-busting. By consistently undermining the effectiveness of the United States' sanctions—in effect preventing them from succeeding—American allies have not only contributed to profitable persistence of the failed sanctions policies but also led the U.S. to make the its sanctions more profitable over time by incrementally increasing their intensity. Clear examples of this pattern exist in the American sanctions regimes against Cuba and Iran, which will both be explored in depth in the qualitative analyses. Hufbauer et al. (2007: 168) catch on this effect when they suggest that policymakers are better off "slamming the hammer than turning the screws" when it comes to employing sanctions.

The United States' sanctions also then have the unintended effect of causing its allies to forge stronger commercial relationships with the adversaries it sanctions. This externality can have salient security implications. The greater the degree of commercial dependence that the

United States' allies have upon the target state, the more difficult it may be to convince them to take part in military action against that target state. For example, how much of France and Turkey's opposition to the United States' invasion of Iraq in 2003 is attributable to the significant profits their firms were making by sanctions-busting on Iraq's behalf?[78] While that is very difficult to say, there is a good reason to think that those commercial linkages created domestic constituencies in France and Turkey that would have been opposed to a military intervention by the United States. Thus, the United States' sanctions policies may not only be self-defeating, but also damage its ability to pursue other policy options.

Improving the United States' Use of Sanctions

The results of this study suggest that by considering the potential third party effects of its sanctions before employing them, U.S. policymakers can make better decisions about whether the use of sanctions is likely to be effective. Using my findings, policymakers can develop a general profile of the third party states that would be the most attractive venues for conducting sanctions-busting trade with particular target states. Such states would have large, open economies and strong commercial ties to the target states. They would also either be U.S. allies or allies of the target and geographically proximate to target. If policymakers find that the set of states matching this profile is large and the estimated costs of coercing their participation is prohibitively high, then sanctions should not be employed. I would also suggest that American policymakers weigh the additional foreign policy costs associated with their sanctions in terms of how the sanctions might affect their allies' relationships with the states it sanctions.

[78] For details on the involvement of French and Turkish companies in trading with Iraq, see the Iraq Survey Group Report (2005: 104-106 and 111-112).

If the decision is made that imposing sanctions against the target state is warranted, my findings suggest the following three prescriptions to improve the use of sanctions. First, the U.S. should focus its diplomatic efforts on obtaining support for its sanctions from an international organization rather than attempting to cherry-pick individual state's participation. The broad support of an international organization can enhance the United States' ability to convince third parties to participate, monitor their participation, and deter states from reneging on their commitments (see also: Drezner, 2000). Second, the U.S. should employ financial sanctions as opposed to import or export sanctions, as they are more effective at disrupting their targets' trade with third parties. The third piece of advice that flows from my findings is that the American policymakers need to be more willing to concede that their sanctions policies have failed. If extensive sanctions-busting is acknowledged to be taking place, then my theory suggests that making the sanctions harsher will only exacerbate the problem of third party sanction-busting. The solution to the problems endemic to sanctions is not to simply impose more sanctions, which seems to be the common wisdom in Washington, D.C. While backing down from the sanctions it has imposed may be politically costly for U.S. policymakers to do (Drury, 2005: 170-173), it is apt to be much less costly in the long run than escalating the sanctions.

Conclusion

In this chapter, I have presented a broad analysis of the international response to American sanctions over a fifty-year time span. During this period, the United States was both the world's most powerful economic power and its most prolific employer of economic sanctions. The results my quantitative analysis of 102 U.S. sanctions episodes provided strong support for my triadic theory of third party response's predictions. In particular, the findings support my theory's most controversial hypothesis—that U.S. allies trade more with the states it sanctions than countries that are not allied to it. This finding demonstrates that even given its preponderance of power, substantial constraints still exist upon the United States' ability to effectively use it. To demonstrate that the statistical results are not spurious, the specific causal processes underlying these outcomes must be evaluated. As such, I will conduct a process-tracing case study of one of the "on-the-line" triadic observations used in this analysis to assess whether the outcomes yielded in the case occurred for the reasons suggested by my theory. The sanctions episode and third party that I have selected should both validate my theory's explanation and shed further light on my discussion involving the pathologies inherent in American sanctions policies with regard to its allies. The next chapter's case study should be viewed as an extension of the current analysis, building upon the insights and discussions started in this chapter.

CHAPTER 4

THE ANATOMY OF A SANCTIONS-BUSTING EPISODE: THE UAE'S RESPONSE TO AMERICAN SANCTIONS AGAINST IRAN

This chapter conducts an in-depth analysis of the triadic relationship between the United States, Iran, and the UAE during the American sanctions imposed against Iran from 1979-2005. Out of all the triadic relationship included in the last chapter's dataset, this particular case warrants individual observation for several reasons. In isolation, this case constitutes an intriguing puzzle. While the UAE sanctions-busted on Iran's behalf througout the 1980s and early 90s, the country's sanctions-busting trade with Iran skyrocketed after it signed a defense accord with the United States in 1994. Even though the UAE's sanctions-busting was acknowledged, the U.S. made little effort to put a stop to its behavior throughout this period. At face value, it is puzzling that a weak country like the UAE would so opportunistically sabotage the foreign policy prerogatives of its more powerful ally and that the U.S. would so passively tolerate it. Yet, this is exactly the type of case for which my theory can provide a compelling explanation. Conducting an in-depth analysis of this case provides an excellent opportunity to evaluate the internal validity of my theory's most counter-intuitive hypothesis. The case also constitutes a difficult test for my theory because of the overt security threat posed by Iran to the UAE. For the Emirati Government, there were obvious diplomatic and security costs entailed in becoming Iran's premier sanctions-busting venue, but also clear commercial gains to be made. Given the salience of the sanctions against Iran to U.S. foreign policy interests, the case could also yield import policy-relevant insights into why the American sanctions have consistently failed to yield their desired results. All these factors make this case a strong choice for further analysis.

Building on my insight from the previous chapter, I conduct a process-tracing case study of the U.S.-Iran-UAE triad to evaluate whether the explanations proposed by my theory are borne out by the causal processes that appear to be driving firms' and governments' responses to the sanctions. As my theory is probabilistic instead of determinative (Gerring 2004: 349), not every one of the theory's propositions will necessarily be supported by this single case. On the balance, however, I expect that most of my theory's predictions should occur for the reasons dictated by my theory. While my quantitative inquiry relied upon leveraging insight from "dataset observations," this chapter focuses on analyzing within-case "causal processes observations" (CPOs).[79] Brady, Collier, and Seawright (2006: 353) define CPOs "as insights or pieces of data that provide information about context, process, or mechanism and that contribute distinctive leverage in causal inference." I employ the process-tracing methodology to identify and establish the links between my explanatory variables and the resultant trade that occurred between the UAE and Iran during the American sanctions. This analysis seeks to leverage individual-, firm-, and state-level data to evaluate aspects of these hypotheses that could not be assessed quantitatively to fill in the gaps in the causal chains linking my variables to firms' trading behavior.

The next section begins by presenting my theory's expectations regarding *how* the firms and governments of the states in the triad should respond to the sanctions. Following Lieberman's (2005: 442) nested analytic approach, the focus is on evaluating the statistically-significant variables from the quantitative model—though several other aspects of my theory are

[79] For an extended discussion of the distinction between dataset observations and causal process observations, see *Rethinking Social Inquiry: Diverse Tools, Shared Standards* by Brady and Collier (2004). Also see, Brady, Collier, and Seawright (2006).

also explored. I pose specific hypotheses concerning the type of causal processes that my theory contends should be at work. The subsequent section provides a broad overview of the U.S. sanctions imposed against Iran and their general effects upon Iran and its trade with third party states. Next, I conduct a detailed analysis of how the American sanctions influenced the UAE's trade relationship with Iran. This analysis is divided into two discrete time periods: the period from 1979-1994, during which the U.S. and UAE were not allied, and the period from 1995-2005, in which they were allies. This provides the research design with a "before-and-after" configuration (George and Bennett, 2005: 166-167) that can be used to better assess the impact that the UAE's defense accord with the U.S. had its trade with Iran. Throughout this analysis, I attempt to discuss and, when possible, dispel potential equifinal explanations for the events. The chapter concludes by evaluating the evidence provided and seeking insights from the study that could improve the theory's performance in future analyses.

The Triadic Theory's Expected Causal Processes

This section describes my theory's expectations regarding the responses of the firms and governments within the U.S.-Iran-UAE triad to the sanctions and each other. My theory argues that the changes wrought by sanctions on their targets' trade with third parties reflect the distribution of the political and economic transaction costs created by the sanctions. The imbalanced terms-of-trade created by the sanctions in target states can create lucrative commercial opportunities for third party individuals and firms willing to engage in sanctions-busting trade. In attempting to adjust to the sanctions, target-state firms and governments will seek out foreign trading partners that can offer them the best terms-of-trade, reflecting the new commercial settings created by the sanctions. This implies that firms from both third party and the target states will gravitate to third party states that offer the most profitable, stable venues for conducting their commercial transactions. Profitability, rather than politics, drives most third party trade with sanctioned states. Inasmuch that political considerations do affect trade, they do so by affecting its profitability for firms. Thus, the extent to which the UAE's trade with Iran increased or decreased in response to the sanctions should be a product of the degree to which the American sanctions made trade with Iran comparatively more or less profitable.

In the last chapter, a broad number of my theory's hypotheses concerning the factors that affect third party states' attractiveness as sanctions-busting venues received support from the statistical analysis. These factors include third party states' economic size and openness, their proximity to the target, their commercial ties to the target, and the presence of alliances with either the target or sender. Within this case study, I detail how these factors relate to why firms would be attracted to doing business with Iran from the UAE. I seek to show how these general variables practically translate into creating a commercial environment conducive to trade with sanctioned states. The case analysis also allows for more nuanced operationalizations of my explanatory variables to be explored than the general indicators used in my quantitative analysis.

In particular, this chapter focuses on evaluating my theory's account of the relationships that exists between firms and their governments. The narrative examines how commercial interests within the UAE shaped the decisions made by their government on which policies to adopt in response to the American sanctions and how the government's policies and political relationships, in turn, affected their firms' trade with Iran. To the extent possible, how the Emirati Government weighed its competing interests vis-à-vis its relationships with the United States and Iran in determining its response is also explored. Special attention is also given to effect that the defense accord signed between the United States and the UAE in 1994 had on the UAE's trade with Iran. The analysis will examine why the United States did not pressure the UAE to stop encouraging the sanctions-busting trade and the signals this sent to American firms seeking ways to skirt their government's sanctions.

Though the causal processes explored in this analysis will not be limited to these topics, I pose several specific hypotheses that would strongly validate to my theoretical account. Going beyond the individual variables tested in the previous analysis, these hypotheses focus on the specific motivations driving firms' trade behavior and the behaviors of the American and Emirati Governments.

> H1: Emirati trade with Iran was driven by profit-seeking firms explicitly seeking to capitalize on the commercial opportunities created by the sanctions.
>
> H2: American commercial interests sought either to have the sanctions against Iran lifted and/or ways of circumventing them, instead of pressuring the U.S. Government to ensure other third party states also participated in them.
>
> H3: The United States neglected the extensive sanctions-busting problem occurring in the UAE after it signed a defense pact with the country in 1994, even though it had plenty of evidence that such trade was occurring.
>
> H4: American firms sought to conduct more sanctions-busting trade with the UAE after the U.S. formed an alliance with it than they had previously.

The presence of these hypothesized CPOs should instill confidence in my broader theory's internal validity, demonstrating that the effects captured in my statistical analysis are due to the causal processes identified by theory and not spurious correlations. In particular, the causal processes connected to the American-Emirati defense accord are particularly important in demonstrating my theory's validity. The next section begins the case analysis by discussing American sanctions-regimes imposed against Iran from 1979-2005.

An Overview of the American Sanctions Imposed against Iran, 1979-2005

Since 1979, the United States' sanctions against Iran have served to define the two countries' commercial relationship. The first round of American sanctions against Iran occurred from 1979 to 1981, serving as retaliation for the hostage-taking of U.S. embassy personnel during the Islamic Revolution. The sanctions included a ban on the importation of Iranian oil, a ban on weapons exports, and the freezing of all assets controlled or owned by the Iranian Government in the United States (Malloy 2001: 93-98). All told, the United States froze roughly $12 billion of Iranian assets.[80] These initial sanctions were reinforced by a complete ban on imports and exports from Iran in April of 1980. President Jimmy Carter had some success in gaining international support for the American sanctions. France, Great Britain, West Germany, Italy, Japan, and Switzerland all agreed to impose limited financial sanctions against Iran and ban military exports to the country (Carswell, 1981-82: 253). The American financial and trade sanctions lasted until the U.S. and Iran arrived at a negotiated settlement for the release of the American hostages in January of 1981, which also entailed the un-freezing of most of Iran's assets.[81] The U.S. kept its arms embargo against the Iranian regime in place, however. This first round of sanctions forced Iran to diversify its commercial portfolio and to begin the process of seeking out new, more reliable trade partners (Estelami, 1999).

The second distinct period of American sanctions lasted from 1984 to early 1995, and involved the imposition of sanctions for nonproliferation and anti-terrorism purposes. Due to its support of Hezbollah in connection to the 1983 bombing of the American marine barracks in Beruit, Iran was placed on the U.S. State Department's list of state sponsors of terrorism in

[80] This figure was cited in Eizenstat (2004: 1).
[81] For more details, see: Askari et. al, 2003b: 188-189; Malloy, 2001: 93-98; Eizenstat, 2004: 1-2 .

January of 1984. This designation entailed a complete ban on the export of military goods to Iran and stringent restrictions on the sale of dual-use goods to the country. These export control restrictions were further strengthened under the auspices of the *Export Administration Act.* President Ronald Reagan made the American sanctions even more strident in 1987 (via *Executive Order 12,613*) by placing an embargo on the direct import of all Iranian goods and restricting 14 other categories of exports (Askari et. al, 2003b: 188-189). This measure did not extend, however, to transactions conducted by American firms taking place outside of the United States. As such, the sanctions did not forbid American firms from buying Iranian crude oil for sale to third party markets. They also allowed for the import of "Iranian-origin raw materials or components" as long as they had been substantially modified by third-party countries (Malloy, 2001: 100; Askari et al., 2003b: 188).

The third and most extensive phase of sanctions began in May of 1995 after President Bill Clinton issued *Executive Order 12,959*. This executive order imposed a complete ban on all imports and exports between the United States and Iran. The order also prohibited U.S. firms from investing in Iran and from buying Iranian crude oil. Preceding this full trade ban, President Clinton had issued also an executive order in March of 1995 (*E.O.* 12,957) that prohibited U.S. investment in Iran's energy sector. In 1996, Congress passed the *Iran-Libya Sanctions Act* (*ILSA*) that imposed sanctions on foreign firms that invested more than $20 million in Iran's energy sector in a year's time span (Katzman, 2007). According to Arthur Downey (1998), who testified against the *ILSA* in Congressional Hearings:

> [The] ILSA was born out of frustration that our [American] allies and friends were unwilling to restrict investment into Iran's petroleum sector—as the United States did in 1995. In the U.S. view, Iran's economy was fragile, but development of its gas and oil capacity would provide strength to Iran and give it the ability to acquire weapons of mass destruction and the will to continue to engage in terrorist

> acts. The Act forced non-U.S. companies to choose between the United States and Iran.

The *ILSA* had the effect of invoking the ire of not only foreign firms, but also their governments.[82] Yet, as I will discuss, the U.S. Government had little stomach to follow through with the stringent implementation of the measure, preferring instead to offer waivers to foreign firms in return for agreements with their governments to impose tougher strategic export controls against the Iran (Eizenstat 2004: 3-5 and 8-9).

In August of 1997, President Clinton was forced to pass another executive order specifically addressing the problem of sanctions-busting (Clawson, 1998: 89). *Executive Order 13,059* explicitly forbade U.S. citizens from engaging in both direct and *indirect* trade with Iran. The order created criminal culpability for individuals that exported American products to third party states with the "knowledge or reason to know that… such goods, technology, or services are intended specifically for supply, transshipment, or re-exportation, directly or indirectly, to Iran or the Government of Iran."[83] On the basis of Congressional legislation in 2000 (the *Sanctions Reform and Export Enhancement Act of 2000*), the United States eased its export sanctions on the sale of food and medicine to states charged with supporting terrorism (e.g., Iran, Libya, and Cuba).[84] Also in 2000, the Clinton Administration initiated a partial lift in the American embargo against Iranian imports. The new regulations made it legal once again to import carpets, dried fruits, grains, pistachios, and caviar from Iran, which constituted some of the country's largest exports ("US Lifts Sanctions…," 2000).

At the same time the U.S. sanctions were relaxed in some areas, increasing concerns regarding Iran's interest in acquiring nuclear weapons led Congress to pass the *Iran*

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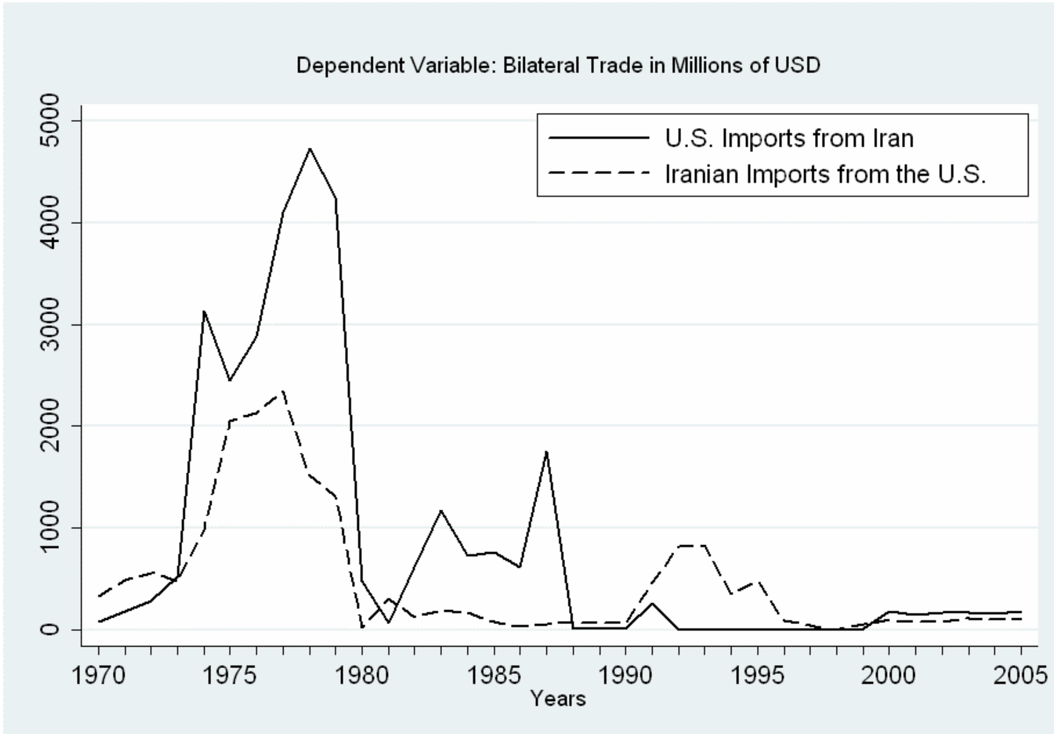
[82] See Downey (1998), Haass (1998), and Eizenstat (2004) for more on the foreign policy considerations at stake in imposing extraterritorial sanctions.
[83] See the full text of *Executive Order 13,059* (1997) for the full range of restrictions it imposed.
[84] This legislation was passed with the support of significant lobbying by American agricultural interests.

Nonproliferation Act of 2000. The law provided the executive branch with the authority "to take punitive action against individuals or organizations known to be providing material aid to weapons of mass destruction programs in Iran" (Hufbauer et al., 2007: 152). These sanctions constituted only one part of a much broader diplomatic effort on the part of the U.S. Government to prevent foreign countries from supplying Iran with nuclear materials and technologies during this period. After information emerged about Iran's clandestine nuclear program in October of 2003, the U.S. launched an active campaign to persuade the UN Security Council to impose broad multilateral sanctions against Iran to compel it to come clean about its nuclear program and cease its construction of a full nuclear fuel cycle.

The Costs and Effectiveness of the American Sanctions against Iran

Proportionally, bilateral trade with the U.S. comprised almost 20% of Iran's total trade in the years leading up to the Islamic Revolution (Estelami, 1999). As *Figure 4.1* shows, American imports from Iran peaked at just over $4.7 billion dollars in 1978, with its exports going to Iran figuring about $1.5 billion. By 1981, American imports from Iran had fallen to 1.4% of their 1978 total, while American exports to the country declined to 20% of their past value. Both Malloy (2001: 97) and Eizenstat (2004: 1) credit the American sanctions—including the freezes on Iranian assets—for giving the U.S. a strong bargaining chip in negotiating the release the American hostages held in Iran. Given that Iran's military and oil sector were largely provisioned with American equipment and relied upon American spare parts, Carswell (1981-82: 254) also concludes that "Iran was… uniquely vulnerable to American sanctions." Thus, the initial round of American sanctions was successful in achieving its goals.



Source: Barbieri et al. (2008)

Figure 4.1: Bilateral Trade between the United States and Iran, 1970-2005

The effectiveness of the subsequent round of sanctions designed to punish the Iranian regime for its support of terrorism and check its military power is not as easy to evaluate. As *Figure 4.1* shows, American trade with Iran recovered somewhat over the period of 1982-1987 before plummeting after President Reagan issued *Executive Order 12,613.* Askari et al. (2003b: 196-197) argue that the American sanctions did not hurt importation of Iranian crude oil until the 1987 ban on its direct importation, though the United States' non-oil imports from Iran remained negligible during this period. Though denying Iran arms and replacement parts for its American military hardware during its war with Iraq during the 1980s certainly impaired the country's military strength, the sanctions ultimately did not convince the Iranian government to give up its support of terrorism. The goals of the American sanctions against Iran became more expansive during the early 1990s. The U.S. Government sought both to use its sanctions to prevent the

Iranian regime from developing a nuclear program capable of producing nuclear weapons and to support regime change within the country. Despite the harsh restrictions on Iranian imports during the 1990s, demand for American products in Iran did lead to a brief resurgent period of American exports to the country.

The American goals of hamstringing the Iranian regime's military and domestic political power led to the strengthening of U.S. sanctions against Iran in 1995 and 1996. *Executive Order 12,959* severed nearly all the *direct* bilateral trade between the two countries over the next several years. Askari et al. (2004b: 213) estimate that the total sanctions-related costs incurred by Iran from 1996-2001 ranged from roughly \$950 million-\$1.5 billion per year. Trade between the U.S. and Iran began recovering to a limited extent after 1999, despite Iran's being named part of President George W. Bush's "Axis of Evil" in 2002. In the aggregate, several analyses have concluded that the costs imposed upon by the American sanctions against Iran have inflicted only minor harm upon the state's trade and economy, with most of losses occurring through higher financial costs, mark-ups on trade with third parties, and spoiled opportunities to develop its oil sector.[85] The prognosis for the success of this hard-line approach is grim. From 1995-2005, conservative elements within the Iranian regime ultimately retrenched their power, the Iranian Government continued to strongly support the terrorist activities of organizations like Hezbollah, and Iran made substantial headway in the development of its nuclear program. While U.S. efforts certainly retarded the progress of the Iranian nuclear program, they were not sufficient to have stopped the program's progress nor to have made the costs of pursuing the program sufficiently high so as to have outweighed the program's perceived benefits.

[85] For more detailed analysis, see: Amuzegar, 1997; Askari et al., 2003b: 211.

What Happened to the Trade Lost between the U.S. and Iran?

While the focus of this case study is on the triadic relationship between the U.S., Iran, and the UAE, it is important to note that the UAE was not the only country to have its commerce with Iran affected by the American sanctions. For example, Australia experienced a three-fold increase in its exports to Iran following the imposition of American trade sanctions in 1980, supplanting the U.S. as the country's largest agricultural exporter.[86] *Figure 4.2* depicts the imports that Iran received from six of its leading trading partners during the American sanctions.[87] Consistent with my theory, this list includes, France, Italy, Japan, and South Korea, which all had large, open economies and alliance relationships with the United States. Interestingly, the graph shows that Italy, Japan, and the UAE all experienced substantial growth in their exports to Iran from 1988-1992. Askari et al. (2003b: 176) attribute this sharp peak in Iranian imports to the "pent-up demand" for foreign products following the conclusion of the Iran-Iraq war. This spike in the demand for imports in Iran followed just after the imposition of more stringent American sanctions in 1987, forcing Iranians to seek alternative third party trading partners. Yet, strong demand for American products still existed in Iran during this period—even if it could not be met by direct means.[88] Financed on foreign credit, Iran's import-boom was not sustainable. After going $23 billion into debt and falling behind on its loan re-payments in 1993, Iran was forced to sharply curb its imports 1993-1995 (O'Sullivan, 2003: 62). Importantly, this sharp decline occurred before the *ILSA* was imposed, eliminating the U.S.'s use of extraterritorial sanctions as proximate cause for the decline.

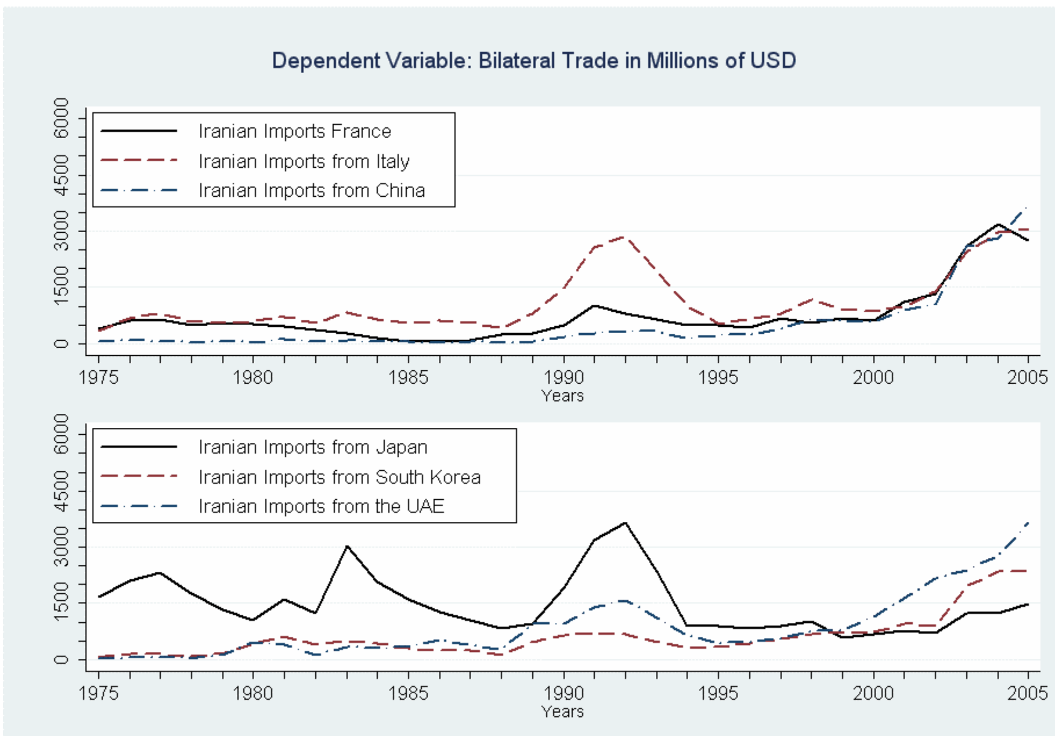
[86] Figures site in: Levin, 1981.
[87] Imports to Iran are only shown because oil constitutes an overwhelming proportion of Iran's exports. Japan, China, and France are all leading destinations for Iranian oil.
[88] The strong resurgence of American trade with Iran in the years after the complete trade ban was lifted in 1981 demonstrates this point. Also, see: Hosenball, 1987.

That China only began exporting to Iran in high levels during the latter half of the 1990s, reflects the careful political balance China attempted to maintain during the Iran-Iraq War and that the two countries had yet to develop the extensive ties they eventually would.[89] The transfer of Hong Kong to Chinese control in 1997, the rapid growth of the Chinese economy, and China's increasing engagement in global commerce all likely contributed to making the country a far more attractive trading venue by the late 1990s.[90] China's increasing need for foreign energy supplies also led it to reach out to Iran during the 1990s, signing a number of contracts for the purchase of oil. In defiance of the *ILSA,* the Chinese oil companies also agreed to help Iran develop its oil-fields (Dorraj and Currier, 2008: 72-73). Given China's dependence upon Iran's energy resources, it had strong incentives to resist American pressure not to invest or trade with Iran. From the late-1990s onward, China avidly undermined the American sanctions against Iran—growing into one of Iran's largest trading partners. In terms of the political and commercial incentives driving these states' behaviors, China's emergence as a leading sanctions-buster on Iran's behalf is consistent with my theory.

Given the small size of its economy and that fossil fuels constitute its leading domestically-produced export, the UAE's presence on the list of Iran's leading exporters could at first seem puzzling. Unlike the rest of the country's on the list, the UAE's economy was not equipped to domestically produce the types of goods that were substitutable for those embargoed by the American sanctions. Yet, the UAE, and particularly the emirate of Dubai, were well situated it to capture a significant proportion of gains to be made through trading with Iran following the imposition of the sanctions against it by the United States. Aside from being

[89] Dorraj and Currier (2008) provide a good overview of historic Sino-Iranian relations and the role that oil played in forging a stronger relationship between the two states.
[90] China's increasing need for energy also makes Iran, with its large oil and natural gas reserves, an import trading partner to be on good terms with.

geographically proximate to Iran, the growth of Dubai as the Gulf region's leading transshipment hub and the emirate's historically strong commercial linkages to merchants in Iran both made it an ideal venue for sanctions-busting trade. Dubai also emerged as a leading destination for American firms seeking skirt the U.S. sanctions against Iran in the mid-1990s. In the following two sections, I will break down and discuss in detail how the UAE's commercial profile and its relationships with both Iran and the United States affected how the American sanctions changed its commercial relationship with Iran.

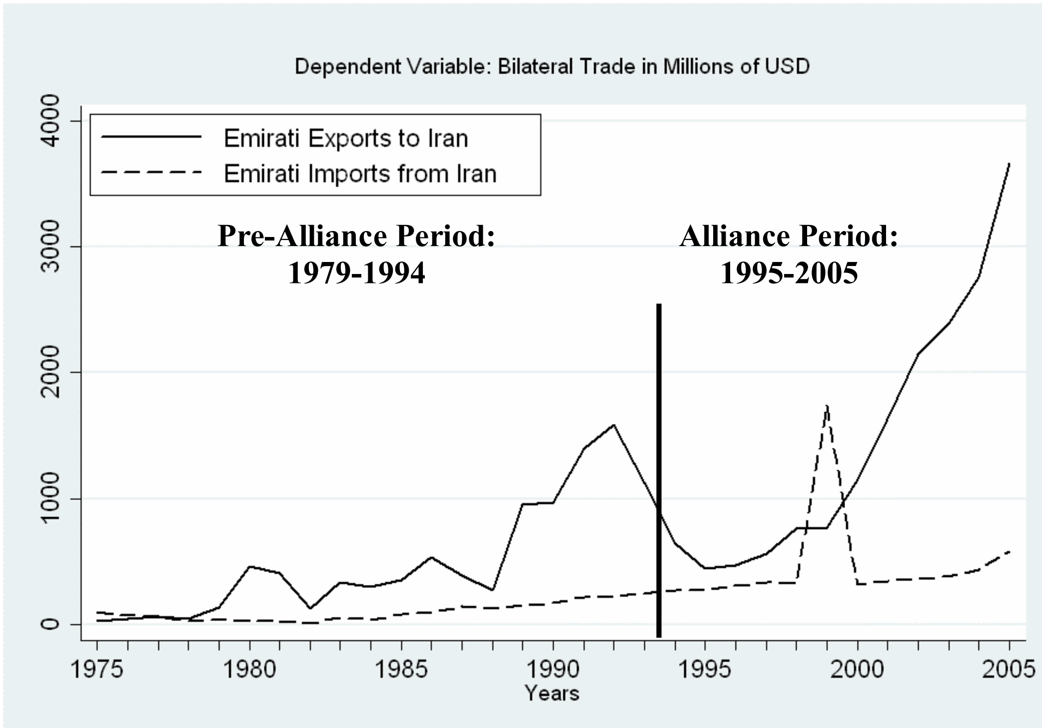


Source: Barbieri et al. (2008)

Figure 4.2: Iran's Leading Import Partners, 1975-2005

At First Glance: The Effect of U.S. Sanctions on Emirati Trade with Iran

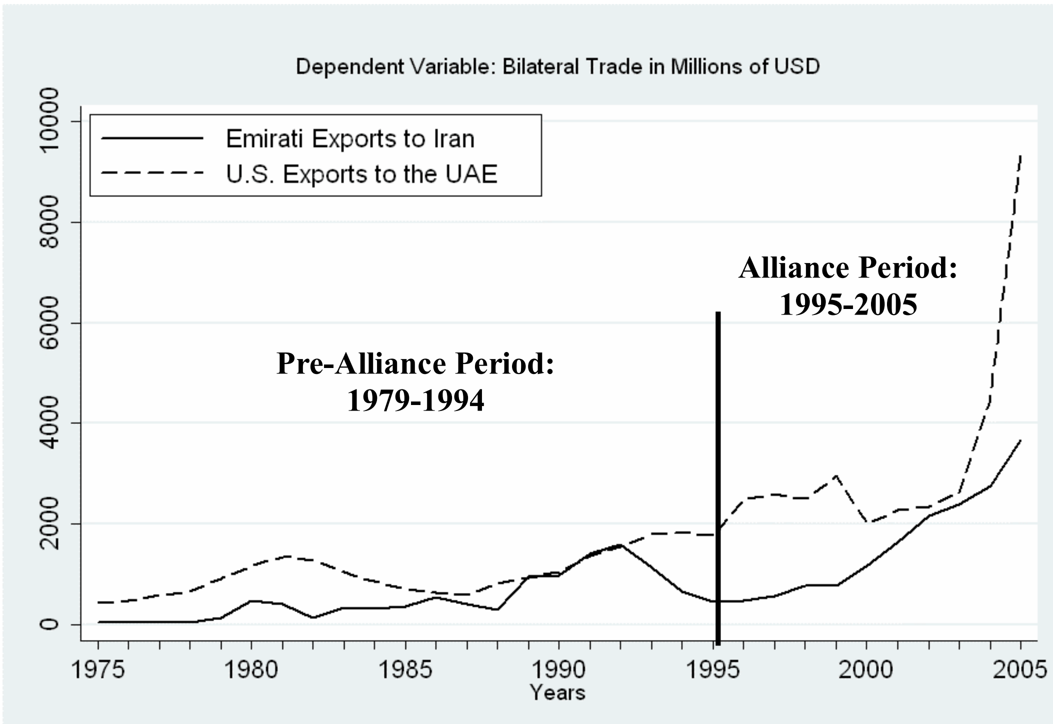
The United Arab Emirates has consistently been one of Iran's leading trading partners throughout the period in which Iran was sanctioned. Excepting the peak in Iranian imports following the end of Iran-Iraq War, the UAE's on-the-books trade flows with Iran grew fairly steadily from 1979-1999. As *Figure 4.3* shows, however, Emirati exports to Iran began growing exponentially after 1999. Yet, a large portion of the trade that occurred between the two countries is not captured by official trade statistics. For hundreds of years, countless numbers of Arab and Persian merchants have plied the Persian Gulf in fleets of small wooden vessels called dhows. Much of their trade occurred, and continues to occur, off-the-books, involving bartering or smuggling. At the turn of the 19th Century, Dubai became the principle trading hub for cross-Gulf trade with Iran. By the turn of the 20th Century, the Emirate had become the entire region's central commercial hub. While Dubai's merchant class prospered when the Persian Gulf was at peace, these small, nimble traders were perfectly positioned to take advantage of the region's political turmoil. In response to the Iran-Iraq Conflict, the "Tanker War" of the 1980s, the American sanctions against Iran, and the first and second Persian Gulf Wars, Dubai's traders took every advantage of the opportunities afforded to them. The region's conflicts and the American sanctions allowed Dubai's merchants to exploit the trading networks they had built up with Iran over generations and the advantages of their small, nimble ships. As the free port in Dubai increasingly become a locus of global commerce in the 1990s, both the Emirate's under- and over-the-table trade with Iran began to rise dramatically.



Source: Barbieri et al. (2008)

Figure 4.3: The UAE's Trade with Iran from 1975-2005

As the narrative reveals, the American sanctions against Iran had the effect of increasingly strengthening the commercial ties between the UAE and Iran and contributing to Dubai's growth as the entrepôt into Iran. By incrementally strengthening its sanctions, the U.S. helped to slowly make Iran increasingly more dependent upon its sanctions-busting trade with UAE. This contributed to the evolutionary development of a sophisticated sanctions-busting trading sector within Dubai, catering specifically to servicing Iran's needs in acquiring and selling products sanctioned by the United States. The re-export of American goods to Iran became big-business for Dubai, evidenced by the massive inflows of American imports into the country that far outstripped the country's capacity for domestic consumption. *Figure 4.4* shows that the UAE's importation of American goods far exceeded even its explosive growth in exports to Iran. This was likely in part due to the wars in Iraq and Afghanistan starting in 2002 and the major role the UAE played as a port of supply for American forces in the region. Even given this additional traffic, evidence indicates that a significant of quantity of the American goods that were sent to the UAE were transshipped and/or re-exported to Iran through both on- and off-the-books transactions.



Source: Barbieri et al. (2008)

Figure 4.4: Evidence of Emirati Re-Exports of American Goods to Iran

While this aggregate trade flow data provides circumstantial evidence for my argument, it does not describe the actual nature of the trading occurring. In the following sections, I detail Dubai's growth as a sanctions-busting entrepôt and explain how the UAE's political linkages to the U.S. and Iran influenced its trade behavior. In particular, I focus on explaining how the commercial interests of the emirate of Dubai triumphed over the broader security interests of the federal UAE Government. In dividing my case study into two periods, I also seek to demonstrate how, as Dubai's reputation for sanctions-busting grew and its political relationship with the U.S. strengthened, American firms became increasing attracted to doing business with or in Dubai to bypass the U.S. Government's sanctions. I show that American firms often became willing co-conspirators in the efforts of Iranian and Emirati merchants in busting the U.S. sanctions. The next section examines the commercial relationship between the UAE and Iran from the end of 1979 to 1994 and the following one looks at the period from 1995-2005.

Case Period 1: Explaining the Sanctions' Effects on Emirati Trade with Iran from 1979-1994

The Historical Commercial Ties between the UAE and Iran, Pre-1979

The historically strong commercial and social ties linking the Emirate of Dubai to Iran have often served to insulate the country's broader commercial relationship with the UAE from the political disputes that have marred the countries' relations. Though the confederation that tied the UAE's seven separate emirates under a single federal authority in 1971 progressively strengthened over the years, individual emirates maintained considerable individual autonomy in establishing individual commercial and, in some cases, foreign policies. Particularly in the first two decades of the UAE's existence, intra-governmental politics within the country were marked by competition between the emirates of Abu Dhabi and Dubai. In response to the primacy established by Abu Dhabi in directing the UAE Federal Government, Dubai often chose to pursue maverick policies in pursuit of its individual interests. Not until 1996 did Dubai even officially recognize the permanence of the Emirati constitution (Davidson, 2008: 229). The strong commercial linkages between Dubai and Iran frequently led to the emirate to pursue policies toward Iran that broke with the interests of its fellow emirates and the UAE's Federal Government.

The historical linkages between Dubai and Iran stem all the way back to the beginning of the 20th Century when Dubai's ruler lured a large number of Persian merchants to re-locate to his emirate. During this period, the pearl trade constituted the Persian Gulf region's leading export. Following the Persian Government's imposition of an unpopular tariff on the sale of pearls, Dubai's Sheikh Maktoum bin Hashar convinced much of the pearl merchant community in the Persian city of Lingah to move to Dubai with the promise of duty free trade.[91] These expatriate merchants prospered in their new home. Al-Sayegh (1998: 88) observes that the "Persians who had moved to Dubai from the other side of the Gulf and made Dubai their new home, [also] monopolized retail trade and foodstuffs," ensconcing their position within the emirate's influential merchant class. This event helped Dubai establish itself as one of the region's leading free-ports, created a sizeable ethnic minority of Persians in Dubai that endures to this day, and forged enduring linkages between the emirate and Iran. Indeed, reports as of 2005 estimated that citizens of Persian descent constitute roughly a quarter of Dubai's population.[92] As I argue, the sizeable presence of the Persian merchant community in Dubai and its generations-old connections to its counterpart in Iran strongly contributed to the emirate being one of the first places Iranian merchants turned to following the imposition of American trade sanctions.

[91] For a detailed discussion of the re-location of the pearl merchants from Lingah to Dubai, see: Heard-Bey, 1982: 244-245; Al-Gurg, 1998: 4-10; Al-Sayegh, 1998: 88-90.
[92] This figure was cited in: "Luring Minds and Money," 2005.

The UAE's Political Relationship with Iran and the United States, 1979-1994

While cultural and economic ties have served to tie Iran and the UAE closer together, the military threat posed by Iran has torn the country between balancing against it and seeking closer political relations with it. Before the Islamic Revolution, the only significant foreign policy dispute between Iran and the UAE involved the ownership of several islands in the Persian Gulf. These islands, Abu Musa and the Greater and Lesser Tunbs, occupy strategically important positions in the middle of the Persian Gulf between Iran and the UAE and guard the approach to the Straits of Hormuz. Iran laid claim to and occupied these islands as a condition of recognizing the UAE's independence (al-Alkim, 1989: 140-144).[93] While the emirate of Sharjah and Iran reached a negotiated settlement over the occupation of Abu Musa, the emirate of Ra's al-Khaimah refused to accept Iran's claim to the Tunbs (Davidson, 2005; al Roken, 2001). Though Iran officially recognized the UAE in 1971, the islands remained an issue of contention with the UAE. Despite the Emirati Federal Government's chilled policy towards Iran throughout the 1970s, Dubai pursued an independent foreign policy towards Iran—establishing much closer political and economic ties with Iran than any of the other emirates (al-Hakim, 1989). The Islamic Revolution was initially greeted positively by the UAE, as the Revolutionary Government in Iran initially renounced the Shah's hegemonic stance within the Gulf. The new regime still refused to relinquish the islands that had been occupied by the Shah.

The Iran-Iraq War, initiated by Iraq in September of 1980 and lasting until 1988, had significant implications for the UAE's relationship with Iran. Looking to garner support amongst Iraq's Arab neighbors, Saddam Hussein partially justified the war as a bid to recapture

[93] The three islands occupy strategically important positions in the middle of the Persian Gulf between Iran and the UAE and guard the approach to the Straits of Hormuz.

Abu Musa and the Tunbs on the UAE's behalf. The war placed the UAE in a difficult position, as it wanted the return of the disputed islands but was both territorially and commercially vulnerable to Iran. Indeed, Iran's position at the lip of the Straits of Hormuz placed it in the position to seal off the sole commercial shipping lanes out of the Persian Gulf.[94] While it pursed an officially neutral position at the beginning of the war, it offered Iraq under-the-table assistance for the first few years of the war. After it was clear that Iraq was unlikely to win a decisive victory that would return the islands, the UAE altered its position in 1982—with Dubai leading the way towards a warming of relations with Iran (al-Hakim, 1989). However, the UAE was not able to come to a consensus position on the war. Ra's al-Khaimah supported Iraq because it wanted its islands back, as did the emirates of Abu Dhabi, Fujairah, and `Ajman. With their closer cultural and economic ties to Iran, Dubai, Sharjah, and Umm al-Qawain favored Iran in the conflict (Davidson, 2005: 206). Consensus enough did exist, however, for the UAE's Federal Government to prohibit the export of armaments to either of the combatants from any of the emirates.

In the end, the country traded and provided assistance to both combatants—a pragmatic strategy that the UAE would continue to employ in the future. Though it was pressured by the Arab League and Iraq to take a more decisive stance, the UAE bided its time until the conflict's conclusion in 1988 with its neutrality mostly respected on both sides. As one observer surmised at the time, "In the end, UAE policy is to have no policy. It would be as hard to see it taking a decision to confront Iranian fighter planes as to see it sticking its neck out, diplomatically, on Iran's behalf."[95] By putting profits first and selling to both sides, the UAE kept itself from becoming embroiled in the conflict and had its unstated neutrality largely respected by both

[94] Caitlin Talmadge (2008) offers a detailed, contemporary assessment of military and geo-strategic issues involved in an attempt by Iran to close off the Straits of Hormuz.
[95] This anonymous quote was taken from an article in *The Guardian* written by David Hirst (1984).

combatants. This is but one instance of the UAE placing its commercial interests at the forefront of its foreign policies.

During the 1970s and early 1980s, political relations between the United States and UAE remained rather muted, with the largest point of contention coming over the United States' policies towards Israel and Palestine (al-Hakim, 1989: 80-81). Not until the first Persian Gulf War were there any substantial shifts in the two states' policies towards one another. Following Saddam Hussein's invasion of Kuwait, the UAE's President Sheikh Zayed decided to pursue a closer strategic relationship with the United States (Rugh, 2000: 259). The UAE was a strong supporter of the US-led effort to liberate Kuwait, agreeing to allow US Naval vessels to dock in Dubai, contributing troops to the coalition, and footing $3.5 billion worth of the bill (Peterson, 2003: 140). After the war, the UAE sought to maintain the close military ties it had built with the U.S.

The regional power vacuum left after Iraq's defeat changed the balance of power in the Persian Gulf, leaving Iran unchallenged as the most powerful Gulf state. It tested its newfound prominence in 1992 by declaring its full sovereignty over the Tunbs and Abu Musa, abrogating the past agreement it had brokered with Sharjah.[96] The UAE adamantly protested the Iran's annexation of the islands, making "the assertion of its sovereignty over Abu Musa and the Tunbs a focus of its foreign policy" and taking its case to numerous international organizations for resolution (Gause III, 2000: 228). This aggressive action helped to underscore the security threat posed by a resurgent Iranian state to the UAE's security.

The UAE countered the emergent threat it viewed from Iran by negotiating a defense pact with the United States in April of 1994. The defense pact with the United States marked a

[96] For an extensive discussion of the territorial dispute between the UAE and Iran over the islands, see: Al Roken, 2001.

turning point in Emirati foreign policy, as it committed the UAE to its first long-term security relationship with the United States. Coinciding with this defense pact, the UAE also agreed to allow the U.S. to pre-position troops within Emirati territory, use the port of Jebel Ali as a U.S. Navy port of call, and use Emirati airbases to enforce the "No-Fly Zone" in Iraq (Katzman, 2005: 4). This arrangement established the UAE as one of the U.S. military's most important staging areas in the Persian Gulf and established the country's importance to U.S. interests in the region. Abu Dhabi's purchases of over $360 million worth American military hardware from 1992-1994 also served to signal closer security cooperation between the two countries (Foley, 1999). Having just cooperated with the U.S. in the coalition effort to liberate Kuwait, this arrangement also seemed to signal the recognition on the part of the UAE's leadership that the United States was the country's ultimate guarantor of its regional security.

An Overview of the UAE's Domestic Economy

The UAE's economy was substantially smaller than Iran's other major trading partners during this period. As *Figure 4.5* shows, the UAE's economy remained rather stagnant during the Iran-Iraq. After the war's conclusion in 1988, however, it began a phase a rapid growth that continued unabated until 1993. Though substantial efforts were undertaken to diversify the UAE's economy during this period, oil and natural gas production still predominated the country economy throughout the 1980s—especially in Abu Dhabi (Al Sadik, 2001: 2002-204). From 1975-1995, the proportion of the UAE's GDP for which crude oil was responsible fell from 68% to 41% (Shihab, 2001: 253). Recent estimates have placed the UAE's total proven crude oil reserves at 97.8 billion barrels of crude oil (constituting 10% of the world's total reserves), with

94% of those reserves being held in Abu Dhabi. While Dubai's oil reserves (4 billion barrels) are much smaller than those of Abu Dhabi's, it has extracted its reserves at a faster rate than Abu Dhabi.[97] Importantly, *Article 23* of the UAE's Constitution gives individual Emirates the right to manage their own oil and natural gas resources (Davidson 2005: 201). Invoking this privilege, Dubai frequently refused to abide by OPEC quotas that had been set for the UAE—arguing that it had been Abu Dhabi's decision to join the organization.

Domestically, the UAE's economy did not have the capacity, in terms of its size or production capabilities, to make up for the U.S. markets denied to Iran by the U.S. sanctions. From 1980-1994, the UAE's manufacturing sector only constituted about 7-9% of the country's GDP (Shihab, 2001: 253). Dubai opened a high-tech aluminum smelting company called DUBAL in 1979, which has enjoyed extraordinary growth and success. In some years, the company accounted for over half of Dubai's domestically-produced exports (Davidson, 2008: 102). In general, however, the UAE's efforts to diversify beyond oil were hampered by its lack of a domestic labor pool. The UAE's service-, construction-, and manufacturing-sectors relied extensively on foreign labor, with native Emiratis comprising only a small proportion of the country's actual workforce.[98]

The UAE's financial sector is one area of the country's economy, in particular, that has contributed to its sanctions-busting aptitude. Back to the 1960s, Dubai emerged as the primary transshipment hub for the gold-smuggling trade between Europe and the Indian sub-continent (Davidson, 2008: 70). This, combined with the UAE's sizeable merchant population and substantial oil wealth, helped to establish it as one of the Middle East's leading financial centers.

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[97] Information on the UAE's oil and natural gas reserves was obtained from: UAE Ministry of Information, 2005; U.S. Energy Information Administration, 2005; Shihab, 2001: 250.

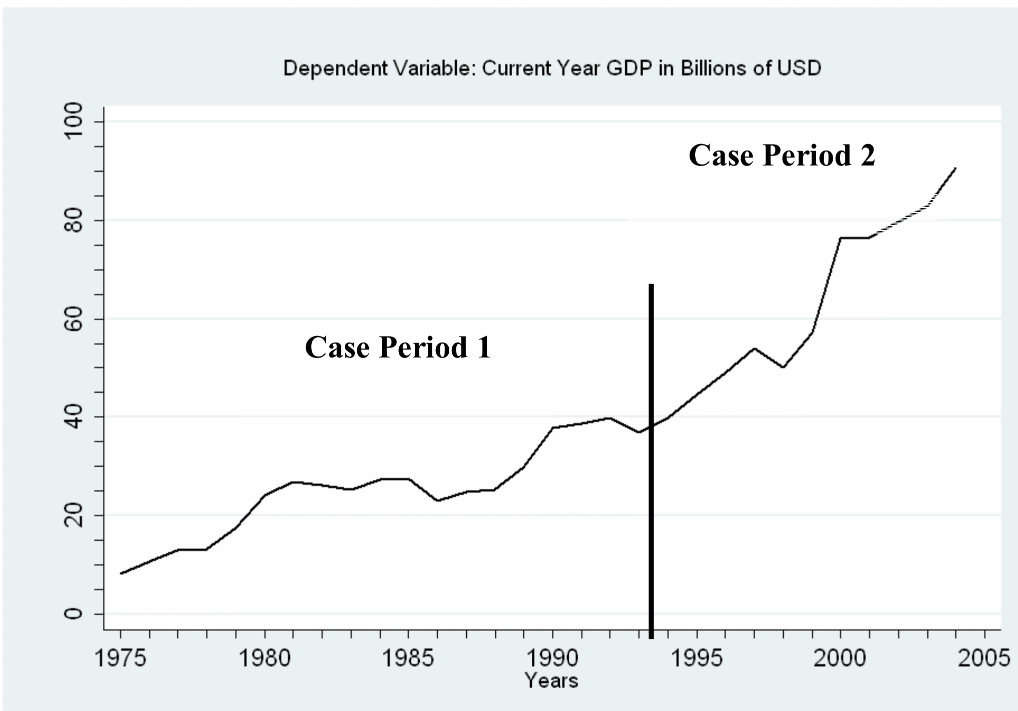
[98] Shihab (2001: 249) argues that a two-tiered labor market exists within the UAE: "At the top is the indigenous labour force, which constitutes about 10 percent of the total workforce," while below "… is an unlimited supply of foreign labour."

The lax regulatory system governing the financial sector in the UAE and its banking sectors' nebulous links to the country's ruling elite created an atmosphere conducive to corruption, fraud, money laundering, and exploitation by criminal and terrorist networks. The collapse of Abu Dhabi-backed Bank of Credit and Commerce International (BCCI) in 1991 is a high-profile example of how deeply crime and corruption were able to penetrate into the UAE's financial system.[99] Investigations into what had been one of the UAE's "flagship banks" found that the bank had been used a vehicle or cover for a host of criminal behaviors, including: "money laundering, gun running, the management of prostitution, the facilitation of income tax evasion, and the financing of terrorist organizations" (Davidson, 2005: 217-218). The opaqueness of the UAE's banking system was capable of providing substantial cover for the financing of sanctions-busting transactions with Iran. Amongst the various banks numerous nefarious activities in which the BCCI was involved, investigators also found that significant number of the financial transactions used to fund the Iran-Contra arms transfers went through branches of the BCCI (Passas, 1996).

Dubai's role as a transshipment hub, linking markets from the east and west, also helped facilitate its growth into one of the leading network hubs for a traditional system of Islamic money-lending known as *hawala*. Using informal networks instead of mortar-and-brick financial institutions, the *hawala* system often provides a faster, cheaper, more reliable, and largely untraceable means of "transferring money without actually moving it" (Jost and Sandhu, 2000). Relying upon a system based on trust, IOUs, and networks of family, friends, business partners, and religious affiliates, the *hawala* system allow customers to pay a *hawala* agent in one locality for the desired amount of money to be transferred (plus a commission) and have

[99] See Davidson (2005: 217-222) for a concise overview of the BCCI scandal and its connections to Abu Dhabi. Also, see Naylor (2001: 69-72) and Passas (1996) for a discussion of the BCCI's involvement in illicit activities.

another *hawala* broker pay the remittance to the recipient party in the foreign country.[100] No tangible monetary exchanges actually place, but the *hawala* broker paying the remittance gains an equivalent credit with the *hawala* agent that initiated the transaction. *Hawala* exchanges are often conducted by money changers and import/export businesses, who conduct the transactions on the side, in addition to dedicated *hawala* brokers (Jost and Sandhu, 2000). Given the sometimes nebulous legality of their transactions and the system's reliance on trust, little documentation is used to conduct such transactions and *hawala* dealers' book-keeping is kept informal, discrete, and/or buried in amongst other types of business transactions (Maimbo, 2003: 12-14).



Source: Gleditsch (2008)

Figure 4.5: The United Arab Emirates' Gross Domestic Product

[100]For a more complex discussion, see: Fifield, 2008; Jost and Sandhu, 2000; Maimbo, 2003.

Dubai's growth as a major transshipment hub, it large merchant community, it lax financial regulations, its large number of expatriate works, and the presence of regional conflicts that disrupted above-the-board international financial transactions during this period, helped make Dubai a leading node for *hawala* transactions (Jost and Sandhu, 2000). This confluence of factors helped to create a commercial environment in the UAE that was very conducive to financing and covering up sanctions-busting activities. As this section has alluded, the financial sector's growth in Dubai is intrinsically linked to its emergence as the Persian Gulf's leading commercial center. Those linkages are explored next section.

The UAE and Dubai's Economic Openness

The growth in the amount of international trade conducted by the UAE is intrinsically linked to the development and expansion Dubai's sea- and airports. Dubai's significant investments in its logistical infrastructure, including the construction of world's largest manmade port at Jebel Ali, have helped made it one of the busiest and well-equipped commercial hubs in the world. The port at Jebel Ali, with its extensive dry dock facilities, was finished in 1979. While Dubai had traditionally played a central role in Persian Gulf trade, the new facilities and Iran-Iraq War helped make Dubai a locus of Persian Gulf trade during the 1980s (Peterson, 2003: 138). During the "Tanker War," commercial trading vessels—and especially oil tankers—became military targets for both sides and drew the United States into the conflict.[101] Dubai's dry-dock, once viewed as a white elephant, received significant business from ships damaged by

[101] The war made trade with not just Iranian and Iraqi ports more dangerous, but also trade with ports that were closer to where the conflict occurred. While geographically proximate to Iran, Dubai managed to maintain good relations with both Iraq and Iran throughout the conflict.

the combatants during the so-called "Tanker War" phase of the Iran-Iraq conflict.[102] Tellingly, Dubai repaired both Iranian vessels damaged by Iraq and the ships of Iraq and its allies that had been damaged by Iran.[103]

As it was close to the Straits of Hormuz and, more importantly, because it managed to maintain good relations with both Iraq and Iran, Dubai ended up attracting more commercial shipping than it had prior to the war's start. Companies would ship their goods to Dubai in bulk and then use small, safer means of conveyance to forward them onto their final destination (Slavin, 1987; Hiro, 1988). Evidencing this shift, the *Washington Post* reported that even though the number of ships visiting Dubai's ports declined from 3,229 in 1983 to 2,888 in 1986, "the number of dhows and small coastal boats jumped from 6,366 in 1984 to 10,088 in 1986."[104] The UAE's *de facto* neutrality placed the country in a unique position to act as a transshipment hub for products coming into and going out of the Gulf. Once this role was established, it maintained it even after the hostilities' conclusion.

Dubai's institutional innovations also played a major role in Dubai's emergence as Persian Gulf's preeminent transshipment hub. In 1985, Dubai opened its first free trade zone as an attendant to the port at Jebel Ali. The free zone model allowed Dubai's Sheikh Rashid to skirt recently-imposed federal restrictions on foreign investment and customs laws by creating an administrative territory that would "technically fall outside of UAE jurisdiction" (Davidson, 2008: 115). In their archetypical form, free trade zones (FTZs) are special economic zones with business friendly laws that are independently administered and considered outside the customs territory of their host countries. Host states use FTZs to encourage international trade and attract

[102] For a more extensive discussion of the "Tanker War," and especially the United States' involvement in it, see: Entessar, 1988: 1439-1447.
[103] For news reports of vessels from both sides of the conflict being repaired in Dubai, see: Fisk, 1987; Cowell, 1988; Davidson, 2008: 227.
[104] See: Weintraub, 1987.

foreign investment.[105] By using the Jebel Ali Free Zone (JAFZA), traders could unload and store their goods in Dubai without paying customs duties for an extended period of time before re-exporting or transshipping them elsewhere. JAFZA also allowed firms to repackage, reprocess, or modify the goods being stored in the zone. While the free zone at Jebel Ali did not become an overnight success, it substantially contributed to making Dubai an attractive transshipment venue. By 1990, JAFZA played host to 298 firms (Davidson, 2005: 139). As I will detail, it also helped create the perfect administrative shelter for firms and individual traders engaged in sanctions-busting. It was not until the mid-1990s, however, that the use of the free zone really exploded. Following JAFZA's successes, further free trade zones were created both in Dubai and in other emirates, such as Sharjah and `Ajman.

While Dubai became increasingly engaged in international commerce during the period from 1979 to 1994, the involvement of the rest of country in international trade—other than the export of oil—was not nearly as extensive. In this first period of analysis, the UAE established its international profile as the safest, most stable place to do business in the Persian Gulf. Dubai's investments in infrastructure and institutions also began to pay off during this period, but had yet to experience the explosive commercial growth that hit the emirate in the mid-1990s. While the UAE became increasingly well-equipped to facilitate sanctions-busting trade during this period, it had yet to achieve the volumes of trade and investment that would place it among the world's elite transshipment hubs.

[105] For a more expansive discussion of Free Trade Zones, see: Emadi-Coffin (2002).

The UAE's Geographic Relationship with Iran

The UAE's geographic relationship to Iran makes it an ideal venue for sanctions-busting trade. According to my theory, sanctioned states' legitimate (i.e., observed) trade flows should tend to increase the most with its neighboring states with which it does not share a border. Prior to the Soviet Union's dissolution, Iran shared borders with Pakistan, Afghanistan, Iraq, Turkey, and the Soviet Union. Subsequent the Soviet breakup, the independent states of Turkmenistan, Azerbaijan, and Armenia took its place. Located across the Persian Gulf from Iran, the UAE is only 95 km away from Iran at the narrowest point separating the two states. As well, only 400 km separates Dubai from Bandar Abbas, which grew to become Iran's largest and most important international seaport. Prior to outbreak of its conflict with Iraq, roughly two-thirds of Iran's imports come through the ports of Khorramshahr and Bandar Khomeini, which are located near the Iraqi border at the northern edge of the Persian Gulf. Within the first two months of fighting, Iraq had taken possession of Khorramshahr and essentially put the port of Bandar Khomeini out of commission (Ibrahim, 1980). This dramatically increased the traffic though and strategic importance of the more defensible port of Bandar Abbas. Trade between the UAE and Bandar Abbas was also assisted by number of strategically-placed islands sprinkled across Gulf between the two states [e.g., Abu Musa, the Tunbs, and Hormuz], which could be used to defend the trade routes or by smugglers to evade detection.

The UAE's geographic relationship with Iran presents both firms and individual traders with numerous competitive advantages in conducting sanctions-busting trade with Iran relative to other third party states. First, the sea-routes along the normally placid Persian Gulf waters provide for the rapid transport of goods in both small quantities and in bulk between the two countries. Indeed, maritime trade can often be cheaper and faster than overland trade routes. Second, Dubai's proximity to Bandar Abbas made it the most efficient trade hub for Iranian traders to use in connecting to global trade networks. Reportedly, it takes dhows on average of one to two-and-a-half days to travel between Dubai and Bandar Abbas ("Dhows in Gulf…," 1984). From 1979-2005, Dubai grew to become one of the world's leading transshipment hubs. As such, Dubai offered Iranian traders access—right at their doorstep—to goods from around the world that foreign sanctions blocked them from directly importing. This has led to analogies comparing Dubai's relationship with Iran to the role Hong Kong played for China (Peterson, 1997). Third, the short span of largely territorially-held waters separating the two countries is ideal for smuggling. Even with its large naval presence in the Gulf, such trade routes make it prohibitively difficult for the U.S. to interfere with, let alone interdict, the sanctions-busting shipments occurring between the two states. While the UAE does not share a border with Iran, the geography separating the states facilitates, rather than impedes, the flow of trade between the two states. Given the opportunities the states' geographic relationship creates for both above-the-table and illicit sanctions-busting, my theory predicts that American sanctions should have encouraged both types of trade to be prevalent between the UAE and Iran.

Commercial Ties between Iran and the UAE

The extent of the commercial ties between the UAE and Iran during the American sanctions had historic roots, as previously discussed, but further developed in response to the contemporary political environment created by Iran's war with Iraq during the 1980s. The UAE was the only Arab state in the Persian Gulf that Iran did not have a belligerent or, at the very least, hostile relationship with during the conflict. Escalating the conflict in 1984, Iraq initiated the "Tanker War" by targeting oil tankers bound for Iran in the Persian Gulf. In retaliation, Iran actively began targeting the vessels of Iraq and its allies—especially those of Kuwait (Entessar, 1988: 1442-1443). By the mid-1980s, the UAE was one of the few Arab states in the Persian Gulf still capable of openly trading with Iran safely.

While war-profiteering may be commonplace during conflicts (Barbieri and Levy, 1999; Naylor, 2001), the extensive ties between the merchant communities of Iran and Dubai provided for higher levels of trust and reciprocity in the transactions they conducted. The steps that Dubai had taken improve is commercial profile also contributed to the perception that trading with the emirate was the best option available to the Iranians during the period. Indeed, Christopher Davidson (2005: 158) contends that "the advanced development of Dubai's Port Rashid and its Port Jebel Ali megaproject had led many Iranian merchants to assume that Dubai would soon become the one convenient stopping point for long-distance shipping and therefore the most sensible location for any long-term commercial base in the Gulf." Given the extent of their cultural and commercial ties to Dubai, the limitations on the alternative options available to them, and the perception of Dubai's seemingly inevitable growth, Iranian merchants chose to focus most of their intra-Gulf trade on UAE. Thus, commercial ties between Iran and the UAE were strengthened during this time period for reasons exogenous of the American sanctions. Indeed, it is because the commercial ties linking the two countries was so great and existed distinct from the eventual role Dubai would play in sanctions-busting that contributed to making it such a desirable venue for the activity.

Finally, the strong ties between the Persian merchants in Dubai to their Iranian counterparts would have also facilitated in *hawala* transfers used to finance sanctions-busting activities. As Fifield (2008) recently detailed, Iranians rely extensively upon *hawala* brokers in Dubai to finance purchases from abroad, launder money to off-shore accounts, and conduct financial transactions to and from the United States that circumvent American financial sanctions. Given the uncertainty and disruptions created by the Iran-Iraq War and American sanctions, the *hawala* networks based out of Dubai and Iranian merchants' close ties to that community made the emirate the most attractive venue for Iranians to use in conducting their sanctions-busting purchases abroad. These are the types of commercial connections that my theory asserts should play a major role in making the UAE an attractive sanctions-busting venue.

Emirati Sanctions-Busting on Iran's Behalf, 1979-1981

The series of harsh sanctions imposed against Iran from November of 1979 through April of 1980 completely cut the country off from the commerce of its largest trading partner, leaving a gaping void in the country's demand for American consumer goods, machinery and spare parts, armaments, and foodstuffs. In the aftermath of the sanctions' imposition, Dubai emerged as one of Iranian merchants' leading venues for acquiring sanctioned American goods and/or their foreign equivalents. Even before the U.S. imposed its complete ban on trade with Iran in April of 1980, the UAE's American imports jumped from $100 million in January to $400 million of that year with much of the difference being re-exported to Iran (Shehadi, 1981: 16; Ibrahim, 1980). This immediate spike in trade flows being redirected through Dubai is significant because it shows that such diversions began before the Iran-Iraq War started that September. Importantly, this suggests that the UAE's trade with Iran was not being conducted as a politically-motivated relief effort to aid the beleaguered Iranian state. Indeed, quite the contrary was the case. During the first two years of Iran-Iraq War, the UAE's Federal Government actually provided Iraq with $1.5 billion worth of war-time aid (Richey, 1982). So, clearly, the UAE's interest in increasing its trade with Iran was commercially-driven. This strongly supports my first hypothesis.

The port of Dubai, already a transshipment hub of some notoriety and hosting a large merchant community with ties to Iran, was both well-situated and -motivated to sanctions-bust on Iran's behalf in 1980. Of especial importance in those efforts, were the fleets of dhows at the disposal of small traders in Iran and Dubai. Figures on exactly how much trade was re-directed from Dubai to Iran during this period are not available, nor is precise data on the types of products being trade. Often times, the trade occurred in nebulas realm somewhere between legitimacy and illegality. A significant proportion of trade coming out of Dubai and destined for Iran involved smuggling on one end or the other: this was not because such trade was illegal in Dubai, but because sanctions-busting traders sought to avoid paying customs duties on the products they were bringing into Iran or the products they were exporting had been prohibited by Iran's Revolutionary Government. Recognizing that lost tax revenues from smuggling posed a large problem for its weak regime, the Revolutionary Government's response was to forbid private importers from bringing goods into the country in 1980. Instead, it mandated the use of state-run import offices. The regime was much too weak to enforce this policy, however, and such restrictions were often easily evaded by smugglers (Vicker, 1980). So even while trading with Iran was perfectly legal in Dubai, conditions in Iran created strong incentives for sanctions-busting traders to keep their transactions off the books.

The Iranian regime reversed its position on smuggling once the war with Iraq began. After the war's outbreak and the effective closure of Iran's northern ports, foreign traders began dropping off their goods destined for Iran in Dubai because they feared to make direct deliveries to the country. Within two months of the conflict's outbreak, Iranian agents developed an informally-organized system of coordinating the re-export of undelivered cargo, relying on Dubai's fleet of small dhow traders (Ibrahim, 1980). Even though Dubai's traders were accused of "profiteering," many were noted as having altruistic movies.[106] Even for those traders in Dubai motivated by their cultural and social linkages to Iran, the profits entailed in smuggling products to Iran were still significant. By October of 1980, the *Wall Street Journal* reported that smugglers operating out of Dubai were transporting roughly 15,000 tons a day of "essential commodities" to Iran with Ayatollah Kohmeini's tacit approval ("Dubai Smugglers Still Voyaging to Iran," 1980). Thus, the outbreak of war intensified the amount of smuggling that was going on between Dubai and Iran, some of which entailed busting American sanctions and some of which did not. Importantly, Dubai's avid role in sanctions-busting preceded its subsequently larger role in wartime smuggling. As well, American goods constituted a large part of what Iran needed to sustain its wartime activities.

Emirati traders reportedly smuggled a wide-variety of American goods into Iran, ranging from "Shakey's" frozen pizzas to essential spare parts. Open source reports revealed that traders in Dubai were involved in the re-export of the following American products to Iran: machinery, cigarettes, videos, video equipment, televisions, radios, textiles, luxury goods, spare parts for automobiles, tires, steel, and brand name American foodstuffs.[107] While this list is certainly not exhaustive, it provides a sense of the wide variety of American goods being diverted through Dubai to Iran. As Vicker (1980) observed in May of 1980, sanctions-busting traders from Dubai could "undersell the competition by 25% and still make a big profit with many types of

[106] For several discussions on the motives of Dubai's traders, see: "Dubai Smugglers Still Voyaging to Iran," 1980; Ibrahim, 1980).

[107] This list of products was obtained from the following newspaper articles: Cockburn, 1982; "Despite Fighting, Dubai Smugglers…," 1980; "Dubai's Traders Thrive…," 1980; Ibrahim, 1980; Auerbach, 1980.

merchandise." As time went on, many of the transactions involved bartering due to a lack of hard-currency in Iran. While the Emirati Government had officially barred arms sales to both combatants, Dubai's free trade policies were conducive to such transactions. As one port official put it, "The success of Dubai was built on its reputation as a place that helps merchants… We only inspect cargo here if we are suspicious. In fact, most of these containers going out on barges and virtually all of the cargo on the dhows is hardly ever seen" (Ibrahim, 1980). Given such policies, almost anything could have been transited through Dubai to Iran. This suggests that despite the substantial pressure the U.S. Government sought to place on the Iranian Government and the public support for the sanctioning effort, American firms were unwilling to adopt similarly stringent (and costly) policies to support the U.S. Government's efforts—offering support to my second hypothesis.

There is another telling indicator of the effect that American sanctions had on the UAE's trade with Iran and that is what happened after the U.S. ended its sanctions against Iran in January of 1981. The end of the American sanctions marked the resumption of direct trade between U.S. companies with Iran and an end to the boom times in Dubai. Due to the Iranians' desire to cut-out the "middle man" in their transactions, shortages in the Iranian Government's currency reserves, and the over-abundance of foreign traders that had descended on Dubai in the wake of the sanctions, the sanctions-busting bubble in Dubai burst (Gray, 1983). In the last six-months of 1981, Dubai's re-exports to Iran declined by 46% relative to their 1980 levels (Cockburn, 1982a). In the wake of this economic bust, the Abu Dhabi-led Federal Government issued a new round of protectionist measures from 1982-1984 meant to restrict the ability of foreigners to own businesses in the UAE and foreign firms to do business in the country. Designed to protect indigenous firms from foreign competition, these laws were antithetical to

Dubai's free port model and threatened to undermine exactly that which had made the emirate an attractive venue for foreign firms and investors (Cockburn, 1982b). Indeed, it was in response to these measures that Dubai's Sheikh Rashid was driven to create Dubai's system of free zone to preserve his emirate's free port status (Davidson, 2008: 114-115).

These events are important because they signal that wartime profiteering alone was not sufficient to maintain the extensive re-exportation sector that had developed after the U.S. first sanctioned Iran. If Dubai's business prospects had remained as strong as they had been during the sanctions, then it is unlikely there would have been such an extreme protectionist backlash on the part of the UAE's Federal Government. As well, the dramatic influx of foreign firms into Dubai (which led to the subsequent post-sanctions bust) supports my theory's prediction that third party firms will flock to those venues offering best prospects for profitable sanctions-busting. When the sanctions disappeared, so did the businesses created to exploit them. The economic bust that occurred following the repeal of the American sanctions demonstrates just how much Dubai's commerce had been affected by them. This supports theory's contention that sanctions can have a profound affect on third party firms' commercial interests in trading with target states and the fickle effects they can have on their targets' trade relationships.

Emirati Sanctions-Busting on Iran's Behalf, 1984-1988

From January of 1981 to January of 1984, the U.S. did not have any sanctions in place against Iran beyond the arms embargo it had imposed in 1979. The legitimate and illicit commercial networks built-up between Dubai and Iran during this first round of sanctions continued to persist during this period because of the war with Iraq ("Dhows in Gulf Slip by

Iraqis," 1984), but saw less use. The sanctions and export controls imposed by the U.S. Government against Iran in 1984 focused on denying the Iranian regime a broader set of strategic and military goods that extended beyond those items included in the 1979 arms embargo. Though these new restrictions substantively strengthened the American sanctions against Iran, their narrow focus limited their general effects on third party trade.

As R.T. Naylor (2001: Chapters 16 and 17) details, the Iranian regime actively pursued weapons and spare parts for its American-made military hardware on the black market throughout this period. What comes across from Naylor's (2001) account is that sanctions-busters dealing in low-volume / high-value goods, like small arms, can profitably employ more circuitous routes in carrying out their transactions. The nature of such transactions emphasizes the discretion afforded by the use of particular third party venues above the logistical advantages they offer. Though Dubai still offered an attractive venue for conducting such transactions, a wider array of third party venues, such as Singapore and South Africa, constituted attractive sources for acquiring illicit armaments.

Unlike other venues, the UAE also had officially prohibited the sale of arms to Iran, though it did not have any restrictions in place on the sale of dual-use goods or spare parts. Given the sensitivity of these types of transfers, such transactions would have almost always been kept under-the-table and, hence, would not be included in official trade statistics. As *Figure 4.3* indicates, American exports to the UAE fell steadily from 1981-1986. This suggests that Dubai was not being used as a large-scale diversion point for significant amounts of sanctioned American goods during this period. Thus, the rise in legitimate Emirati trade flows with Iran from 1984-1986 does not appear predicated on the effects of the U.S. sanctions.

While the trade flows might not have been as high, numerous accounts suggest that Dubai was still used to transship and/or smuggle sanctioned goods into Iran. In one case uncovered by the U.S. Government in 1985, an American export company run by expatriate Iranians shipped over $1.7 million worth of spare parts for military vehicles to Iran via Dubai. Using a common scheme, the sanctions violators claimed that the parts were being sent to a falsified end-user in Dubai, when really their ultimate destination was Iran. Supposedly, procurement agents from the Iranian Government even published a "wish list" of the types of American spare parts of which they were in need (Valentine, 1989). As another example of Dubai being used as an illicit transshipment point, *The Times* ran a story that quoted an arms-broker's account of how Egyptian small arms were being transshipped to Iran via Dubai and Saudi Arabia (Fisk, 1987a). While these stories provide only anecdotal evidence, they suggest that Dubai was still being used as a sanctions-busting venue during this period. Though the volume of diverted trade flows may have substantially declined, the salience of the individual sanctions-busting transactions was significantly higher—involving strategic goods instead of "Shakey's" pizzas.

From 1986-1988, the United States became increasingly involved in attempting to safeguard shipping in the Persian Gulf as the "Tanker War" between Iraq and Iran intensified. This led to heightened hostilities between the United States and Iran and numerous militarized disputes. In 1987, growing concern in the Reagan Administration over the amount of American trade occurring with Iran led to the imposition a full ban on all direct Iranian imports and new sanctions on 14 categories of exports. Though the strengthening of American sanctions provided greater incentives for sanctions-busting, the intensification of the fighting in the Gulf made trading with Iran significantly more dangerous.

Due to the expense of insuring large cargo ships, an increasing amount of the trade conducted during this period relied upon the use of dhows. Even so, such trade was still dangerous. In traversing the gulf, dhows risked being blown up by Iranian mines that sowed the waterways and of being shot at by Iranian, Iraqi, and American warships (Walker, 1987; Suro, 1987). The intensification of the fighting in the Gulf had two observable effects: it led to the decline of legitimate trade between the UAE (See: *Figure 4.3*) and Iran and increased the amount of smuggling that occurred between the two states. Reportedly, an average of 15-20 dhows departed from Dubai for Iran in 1987—hauling an estimated 3-4 million tons worth of cargo a year (Suro, 1987). In one sign of the conflict's effects, Dubai's re-exports rose 18% in 1987 to over $1.4 billion, with Iran serving as those goods' leading destination (Fisher, 1988). With conflict raging around it and stringent American sanctions once again, Dubai was once again attracting a lot of business as the entrepôt into Iran.

In August of 1988, the Iran-Iraq War finally came to an end. The war's conclusion led wild over-speculation within Dubai about the prospects for "a profitable peace" (Fisher, 1988). Coming off of eight years of war, the Iranian regime had little money to spend on anything other than essential products ("Dubai's Merchants Find Market…," 1989). This left speculative merchants in Dubai with vast surpluses of goods they had thought to re-export to Iran and nowhere to send them. By October of 1988, the dhow traffic with Iran in Dubai had come to "a virtual standstill" (Cowell, 1988). At least initially, peace in the Persian Gulf came at a steep price for Dubai's merchants. Fortunately for them, such peace was short-lived and new sanctions would present a host of fresh opportunities.

Emirati Sanctions-Busting on Iran's Behalf, 1989-1994

In the period from 1989-1992, the UAE's trade with Iran was heavily influenced by Iranians' foreign-financed import spending spree. This spike in Iran's demand for foreign imports occurred shortly after the U.S. had increased the stringency of its sanctions. In the aftermath of those sanctions, direct American exports to Iran did not begin to respond to the Iranian demand for foreign products until 1991 (see: *Figure 4.1*). As *Figure 4.4* shows, American exports to the UAE and Emirati exports to Iran rose in almost perfect lockstep with one another from 1989-1992. Officially, Dubai re-exported roughly $2.1 billion worth of goods in 1990, sending $520 million worth of them to Iran (Harper, 1991). Almost certainly, a substantial amount of above- and below-the-board sanctions-busting commerce was taking place in Dubai during this period to meet the demand for American products in Iran. It is also important to note the degree to which Dubai had grown as global transshipment hub. In 1990, it was reported that nearly 7% of the world's total international trade passed through Dubai by either land, air, or sea (Harper, 1991). This placed the world at Iran's import-craving doorstep.

On August 3 of 1990, Iraq invaded Kuwait. Soon thereafter, the UN Security Council imposed comprehensive sanctions against Iraq, which included a naval blockade of the country. For the UAE, this event sparked a similar contradiction in responses that has been noted in the Iranian case. While the Emirati Government sought to foster a closer security relationship with the U.S. and repel the Iraqi invasion, something altogether different was going on in Dubai. The comprehensive sanctions imposed by the UN against Iraq presented Emirati merchants once again with lucrative sanctions-busting opportunities. Not only could they tap into the same global networks in acquiring contraband materials and employ the same dhow-based smuggling methods as they did in sanctions-busting on Iran's behalf, but they could also—remarkably—tap into Iranian support in doing it. Traders from Dubai would cross the Gulf to Iranian waters and follow its coastline west until they reached the Shatt-al-Arab waterway, which narrowly separates Iran from Iraq. Once there, a few bribes to Iranian customs and border agents easily allowed such traders to cross the border ("Smugglers Run Blockade…", 1990). Carrying official papers giving them the right of free transit in Iranian waters, dhows from Dubai could travel across the Gulf unhindered by the naval blockade against Iraq before making their sanctions-busting runs from safely-controlled Iranian waters (Coll, 1990). As a spokesperson for the U.S. navy concluded, there simply was "no practical way to stop the dhows" ("Smugglers Run Blockade…", 1990).

It is interesting to note that this sanctions-busting started in the lead up to an impending conflict with Iraq in which global opinion was united against its regime's actions. After the war's conclusion and international interest in enforcing the sanctions against Iraq waned, Emirati traders' role in sanctions-busting on Iraq's behalf only continued to grow.[108] Following the war, cash-starved Iraqis reversed the flow of the sanctions-busting networks that had built up during the conflict to smuggling oil out their country via Iran to Dubai and the emirate of Fujairah. By 1994, it was estimated that upwards of 10,000 barrels of oil a day were being smuggled out of Iran using these routes, prompting a formal protest by the U.S. Government to the United Nations (Sieff, 1994). This case provides additional evidence of the presence of the sophisticated sanctions-busting network that had developed within Dubai. It also demonstrates the emirate's willingness to place its myopic commercial interests ahead of the Federal Government's political interests. As Emirati soldiers risked their lives in fighting to liberate

[108] For an example case, see: (Fares, 1994)

Kuwait from Iraqi forces, traders from Dubai did likewise in blockade-running to re-supply the Iraqi regime.[109]

More broadly, this episode suggests that the same sanctions-busting networks employed by third parties on behalf of one target state can be re-calibrated for use in sanction-busting on behalf of other one. In the absence of any overt political motives, Iran's tacit complicity in facilitating the sanctions-busting on Iraq's behalf indicates that the shared, pragmatic interests of commercial constituencies in sanctioned-states may foster mutual cooperation toward defeating the sanctions imposed against them. Consistent with my theory, Iran's response to the imposition of sanctions against Iraq is just another instance of a third party's political considerations falling prey to the commercial interests of states' constituencies.[110] In assessing Iran's response to the sanctions, Sciolino (1990) concluded that "the issue is not whether there will be trade between the two countries but rather how much," going on to surmise that Iran's "Trade [with Iraq] is controlled not by the politicians in Teheran but by merchants along the border." Having learned how to sanctions-bust as the targets of sanctions, Iranian merchants had also learned the ropes for playing the role of third party profiteers.

Focusing back on the UAE, Emirati exports to Iran began to decline sharply in 1992. As Iran's foreign credit dried up, it lost its means of paying for the high levels of imports it had enjoyed during the preceding four years. Similar to what occurred with Iran's other major trading partners (see: *Figure 4.2*), Iran's domestic economic troubles led the decline to continue until 1995. Over that same period, however, Iranian exports to the UAE continued to rise steadily (see: *Figure 4.3*).

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[109] This behavior is consistent with cases noted in Barbieri and Levy's (1999) "Sleeping with the Enemy" study.
[110] For an excellent discussion of the political costs entailed for Iran in helping to sanctions-bust on Iraq's behalf, see: Sciolino, 1990.

While Iran's effective annexation of Abu Musa and the Tunbs in 1992 had a clear impact on the UAE's foreign policy prerogatives, the incident did not seem to have much of an effect on the two states' trade relations. In spite of the Abu Dhabi and Sharjah's outrage over the annexation, Iran's aggression did little to disrupt Dubai's commercial relationship with Iran. Emphasizing the continued interdependence between Dubai and Iran in 1994, a Dubaian trade official noted that: "Iran is an important commercial partner of our country as it takes nearly one-third of our re-exports. Its exports to us are also increasing and most of them are being re-exported to other countries. Iran relies mainly on Dubai to reach other markets" ("Trade with the UAE," 1994). In 1994, the same year that its Federal Government signed defense pact with the United States, Dubai was estimated to have re-exported anywhere from $200-300 million worth of American-made goods to Iran—constituting roughly 17-26% of its total imports from the United States (Lancaster, 1995). Once again, Dubai's commercial interests trumped its concerns over the broader political prerogatives affecting the rest of the UAE. Even if American firms did not know *for sure* if their products were being re-diverted to Iran, many of them were still profiting from the established sanctions-busting networks that had built up in Dubai. If anything, plausible deniability was better for them than direct complicity. This strongly supports my second hypothesis.

The Domestic Politics of Emirati Sanctions-Busting

As the narrative has suggests, the inter-emirate rivalry between Abu Dhabi and Dubai and the substantial autonomy afforded to individual emirates go a long way in explaining the domestic politics of *how* the UAE responded. Frequently, Dubai's prerogatives clashed with those of the Abu Dhabi-led Federal Government—leading Dubai to pursue independent commercial policies. While the UAE's confederal political system is fairly uncommon, the motives driving Dubai's behavior are consistent with my theory. Within this case, the domestic constituencies interested in capitalizing on the commercial opportunities created by the sanctions against Iran were heavily concentrated in Dubai. While Dubai had a stake in setting the Federal Government's policies, it also had the option of going it alone in setting some of its individual commercial policies. Thus, the commercial constituencies in Dubai that were supportive of sanctions-busting on Iran's behalf had the option of either attempting lobbying the entire country to adopt policies favorable to their interests *or* focusing their efforts on the leadership of Dubai's Government. Given that emirates like Abu Dhabi and Ra's al-Khaimah had strong political differences with Iran, it was much easier and less costly for internationalist-oriented interest groups to take advantage of the UAE's political system by focusing their lobbying efforts on Dubai.

Since many of business enterprises in Dubai involve public-private partnerships between the ruling al-Maktoum family and the private sector (Davidson, 2008: 108), Dubai's leadership also had a large financial stake in exploiting commercial opportunities presented by the American sanctions. Yet if Dubai's ruling elites were solely concerned about their individual wealth alone, they could have chosen to focus on exploiting the emirate's revenues from its oil and natural gas reserves instead of investing so heavily in the country's commercial infrastructure and in creating a commercial environment conducive to international trade. In part, this was because the al-Maktoum dynasty had historically been so closely tied to the emirate's merchant class that their interests have played a large role in setting the emirate's policies (Al-Sayegh, 1998).

Dubai's interests in sanctions-busting clearly diverged from the broader foreign policy interests of the UAE's Federal Government at several junctures, though the former emerged as the UAE's *de facto* policy. First off, had Iran not released its American hostages in January of 1981, Dubai's avid role in sanctions-busting on Iran's behalf could have become a significant political liability for the UAE. The highly visible role played by Dubai in serving as Iran's wartime entrepôt also damaged the UAE's reputation among fellow Arab states. More directly, the assistance Dubai provided to Iran hurt the UAE's chances of regaining full sovereignty over Abu Musa and Tunbs if Iraq won the war with Iran. The $1.5 billion the UAE gave to Iraq at the onset of the conflict certainly indicates that the UAE, at least initially, was supportive of this effort. Ultimately, the UAE's neutrality-by-default imposed upon it by Dubai served the country well during the war—though this outcome was not necessarily obvious from the conflict's outset. Dubai's sanctions-busting policies with respect to Iraq and Iran from 1990-1994 provide much clearer evidence that the emirate's commercial prerogatives were at odds with state's foreign policy interests. Even as the UAE's Federal Government sought closer relations with the United States, Dubai's policies and constituents deliberately undermined and exploited the United States' sanctions against its two greatest regional adversaries. Importantly, this behavior was not politically motivated. Dubai readily allowed the U.S. navy to use it as a port-of-call during the first Persian Gulf War and avidly sought to build up its trade connections with American companies. Dubai's sanctions-busting was largely driven by its constituents' commercial interests, irrespective of the political and diplomatic costs such behavior entails for the rest of the country. Dubai's profits-first motives seemingly reject any potential realist-based accounts of the UAE's sanctions-busting behavior during this period.

The American Response to Emirati Sanctions-Busting

The U.S. Government's response to the UAE's sanctions-busting was almost non-existent. Though open source information from the period clearly publicized the role that Dubai was playing in diverting American products to Iran, there is little evidence that the U.S. Government seriously engaged the UAE over the issue. Even as the United States moved towards forging closer security ties with UAE during and after the First Gulf War, Dubai continued to facilitate in the Iraqi and Iranian regimes' efforts to circumvent the American sanctions imposed against them. Yet, none of the security agreements brokered between the United States and the UAE were made conditional upon the UAE making steadfast commitments to curb its sanctions-busting trade with either country.

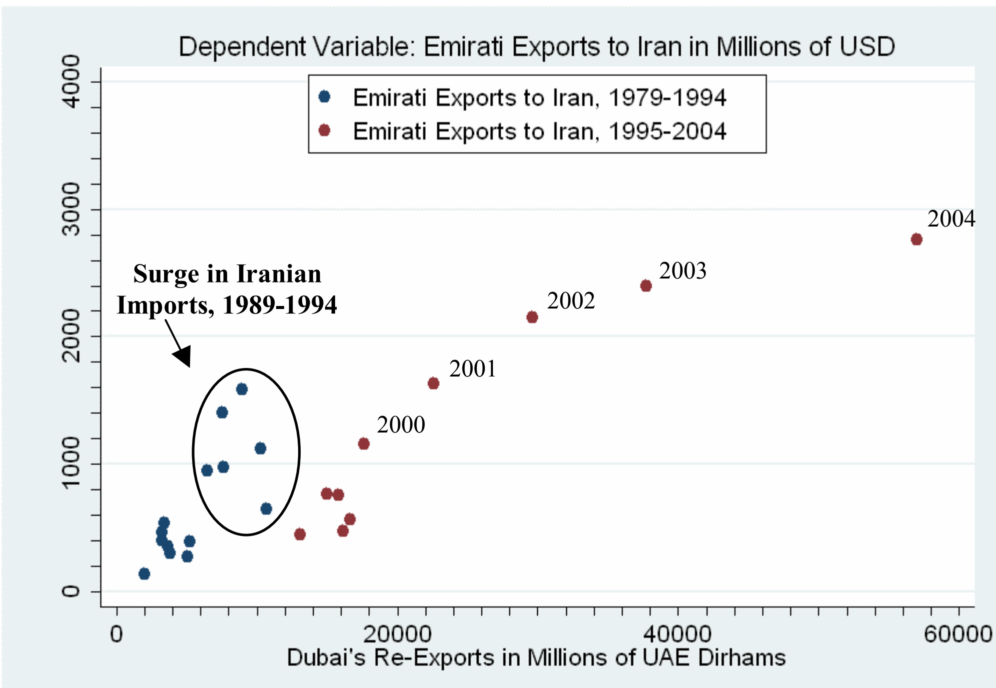
It is also important to note the response of American firms to the U.S. Government's sanctions. In the absence of any direct avenue towards having the sanctions lifted, American firms sought to circumvent the U.S. Government's sanctions—employing both legal and illicit means. The American business community was in large part supportive of the sanctions imposed against Iran in response to the hostage crisis. Even then, American goods still leaked through to Iranian markets. Most of the sanctions imposed against Iran after the hostage crisis focused on strategic exports and imports that could be found elsewhere in global markets. Even the 1987 ban on direct oil imports from Iran still permitted American firms to purchase it for sale to third party markets. American oil companies took full advantage of this loophole. In 1993 and 1994, American firms collectively constituted Iran's largest oil-purchasing client—buying an estimated $4 billion worth of Iranian oil (Oliphant, 1995). Most of sanctions-busting trade documented during this case period entailed the diversion of goods sent to the UAE from the

United States. To the extent that such shipments were sent to the UAE in good faith by American firms likely varied significantly. In most cases, though, these diversions involved Emirati or Persian middle-men based out of Dubai orchestrating the sanctions-busting transactions and then carrying out their delivery to Iran. What was less common during this period was the actual movement of American business interests to Dubai to conduct the sanctions-busting transactions themselves. Given the willingness of Emirati traders to act as middle-men, the least risky method of getting around the U.S. Government's sanctions was simply to find Emirati trade partners and ask as few questions as possible.

General Performance of the Triadic Theory's Explanatory Variables

The narrative of this case period indicates that the UAE's commercial openness, its geographic proximity to Iran, and its commercial ties with the country all contributed to making it an attractive sanctions-busting venue. While the UAE's market size did not play a substantial role in affecting its trade with Iran, Dubai's ability to act as an entrepôt for goods coming into the Gulf from the rest of the world more than up for what it lacked in terms of domestic production. *Figure 4.6* lends further support to this notion. As the graph shows, Dubai's aggregate re-export trade has a strong, positive correlation with the UAE's total exports to Iran. In particular, the years coinciding with Iran's import surge (1989-1994) indicate that Dubai's re-export trade grew in response to increases in Iran's demand for foreign products. This suggests that Dubai's openness to and engagement in global commerce had a strong effect upon its trade with Iran. Also keep in mind that this graph only depicts officially recorded trade flows and do not account for smuggling.

The UAE's geographic proximity and close commercial ties to Iran also appeared to have played a substantial role in shaping its response to the American sanctions. In Dubai, the emirate with the strongest commercial connections to Iran, the presence of these ties helped establish Dubai as Iran's primary entrepôt immediately following the imposition of American sanctions in 1979. When hostilities broke out between Iran and Iraq and following Iran's annexation of Abu Musa and Tunbs, these ties also helped to insulate Dubai's commerce with the Iran from the political turmoil that otherwise could have disrupted it. The UAE's close proximity to Iran both facilitated in the smuggling that occurred between the two countries and helped to make it an attractive drop-off point for goods destined for re-exportation to Iran.



Note: The data on Dubai's Re-Exports is from Dubai Chamber of Commerce and Industry (2005), while the data on Emirati exports is from Barbieri et al. (2008).

Figure 4.6: Dubai's Re-Export Trade and Emirati Exports to Iran

Politically, the UAE largely maintained neutral foreign policies towards both Iran and the United States during this period. Towards the end of this era, the security threats posed by Iran to the UAE led it to pursue a closer security relationship with the United States. The consequences of the alliance brokered between the UAE and United States had yet to have manifested. As the next section demonstrates, though, the alliance would come to play a important role in shielding the UAE from Dubai's increasingly brazen sanctions-busting activities.

Case Period 2: Explaining the Sanctions' Effects on Emirati Trade with Iran from 1995-2005

The UAE's Intertwined Political Relationships with Iran and the United States

The UAE's political relationship with Iran remained tense throughout the latter half of the 1990s. While it sought to avoid direct conflict with Iran, the UAE's leadership recognized that Iran represented its chief regional military threat (Sultan bin Zayed, 2000). The dispute over Iran's occupation of Abu Musa and the Tunbs served to define the UAE's diplomatic agenda and regional security policies during this period. Acknowledging that retaking the islands through force was an unrealistic option, the UAE actively pursued a peaceful, diplomatic resolution to the dispute. The UAE brought its grievances over issue to the Gulf Cooperation Council (GCC), United Nations, and the Arab League. It also had numerous bilateral discussions with Iran over the islands during this period, but they failed to make any substantive headway in resolving the dispute (Rugh, 2006: 169; Hellyer, 2001: 170-172).

The UAE viewed Iran's the occupation of the islands as part of a broader effort on the part of the Iranian regime to extend its strategic military presence into the Persian Gulf shipping lanes (al Roken, 2001). The UAE responded not only by allying itself to the United States, but also seeking to build up a more robust military capability in the latter part of the 1990s. Following the integration of its hitherto independent defense forces in 1997,[111] the UAE embarked on a 10-year, $15 billion program to upgrade its armed forces (Pike, 2008). Evidencing its increasingly close security relationship with the United States, the UAE shifted away from its previous reliance on the British and French arms suppliers to become one of the United States' largest arms customers. From 1997-2000, the UAE bought $8 billion worth of military hardware from the United States, which included advanced missiles technologies and 80 F-16s. Significantly, the UAE was the first Middle Eastern recipient—other than Israel—to receive some of the United States' most advanced weapons technologies in these areas (Peterson, 2003: 140; Katzman, 2005).

The UAE's political and security relationship with the United States continued to strengthen during this period, even though the countries disagreed on several high-profile diplomatic issues. First, the UAE ardently disagreed with U.S. efforts to politically and economically isolate Saddam Hussein's regime in Iraq. By the mid-1990s, UAE President Sheikh Zayed bin Sultan al-Nahyan had become increasingly vocal in support of ending the international sanctions against Iraq and in pushing the GCC's member states towards normalizing their relations with the country. Ultimately, divisions within the GCC (of which Kuwait is a member) and pressure from the U.S. stymied the UAE's diplomatic efforts on Iraq's behalf (Allen, 1996). The UAE's opposition to the sanctions against Iraq became a point of contention in its relations with the U.S., with the UAE's foreign minister going so far as to state publicly in 1996 that the UAE does "not necessarily approve of all the international policies of the U.S." ("UAE to Launch Arab Initiative…," 1996). The UAE made further strides in

111 Until that point, the emirates had the option of maintaining independent military forces. Most significantly, Dubai had maintained the largest military force independent of the military forces led by Abu Dhabi.

strengthening its relationship with Iraq by re-establishing ferry service to the country in 1998 and, in 2000, re-opening its embassy in Baghdad. Notably, the UAE did not voice similar concerns regarding the American sanctions against Iran.

President Zayed's pursuit of a closer relationship with Iraq and his efforts to reintegrate Iraq back into the Arab community were likely part of strategic hedge against Iran's emerging power in the Gulf Region. As Hellyer (2001: 176) aptly observed, "While at the end of the 1990s, [the UAE's] relations with the United States were probably closer than with any other country outside the Gulf region, *the foreign policy establishment of the UAE remained aware that the perception by the United States of its own interests was a central component of this relationship, and that the perception itself might change* [emphasis added]." As this passage suggests, the UAE's leadership was cognizant that even given the asymmetries that existed in its alliance relationship with the United States, it still had room to maneuver in pursuit of its own national interests. It also demonstrates that in a comparable and interrelated case, the UAE was willing to risk jeopardizing its alliance relationship with U.S. over its sanctions-busting policies.

The second policy issue that threatened to the UAE' relationship with the United States were its ties to Taliban regime in Afghanistan and its citizens involvement in the 9/11 attacks. Before the 9/11 attacks, the UAE was one of only three countries in the world to have recognized the Taliban. Following 9/11, revelations emerged that two of the 9/11 hijackers had been Emirati citizens and that al Qaeda had extensively used Emirati financial networks to fund its plots (Katzman, 2005: 4). Indeed, the 9/11 Commission found that most of money used to finance the 9/11 attacks had been transferred through Dubai, exploiting the emirate's lax financial regulations.[112] This left the UAE with a with a stark diplomatic choice: provide the United States with overwhelming cooperation to make up for its checkered history of policies or suffer an irrevocable break in its relations with the United States. The UAE chose the former, extending substantial assistance to the United States in its "War on Terrorism," and, despite its opposition to the invasion, allowed the United States to use its airbases for missions as a part of Operation Iraqi Freedom (EIU, 2002; Katzman, 2005: 5). Importantly, the U.S. military became heavily dependent upon the UAE in the staging and support of its operations in the Persian Gulf.

Though the territorial dispute over the Persian Gulf islands remained a point of contention between the two countries, diplomatic relations between Iran and UAE began warming in 2001 ("Iran Assures UAE of Detente...," 2001; EIU, 2002; "UAE Minister Reiterates Stand…", 2005). After the initial success of the United States' invasion of Iraq, Iran both had reason to fear the U.S. presence and to celebrate the emergence of a friendly Shi'i-led regime in Iraq. Yet, strategically, the UAE's cooperation with the U.S. in the Iraq invasion planted the seed in Iran that the UAE could be used as staging ground for an invasion of Iran.[113] While the UAE went along with the U.S. invasion of Iraq, it balked at taking up the United States' hard-line stance against the Iranian regime and its nuclear program. While a nuclear-armed Iran certainly was not in the UAE's interest, the Emirati Government, and particularly Dubai, consistently refused to support the United States' efforts to curb Iranian proliferation. Even after it was revealed that the A.Q. Khan-proliferation network had used the UAE to transship sensitive nuclear technologies to Iran (Early, 2006), the UAE made little *immediate* effort to curb such

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[112] The 9/11 Commission's investigation concluded that al Qaeda operatives relied "on the anonymity provided by bustling financial center of Dubai and the vast international monetary system" to finance their operations (Roth et al., 2004: 135).

[113] The UAE's President Sheikh Khalifa bin Zayed issued this statement in March 2007 following American military exercises in the Gulf: "We have informed the Iranian brothers in a message carried recently by the foreign minister that we are not party to its conflict with the United States and will not allow our territories to be used for any military, security or intelligence activities against it" ("U.S. Gulf Exercise," 2007). This statement suggests Iranian fears regarding this threat are real enough that the UAE had to publicly address them.

transactions—despite U.S. pressure. The rapprochement between the UAE and Iran gained particular headway in 2005 through a series of high-level diplomatic exchanges. Even after the election of Mahmoud Ahmadinejad to Iran's Presidency and the vociferous attitude he struck towards the United States, the UAE's relations with Iran continued to improve.

The UAE's Economic Growth and Commercial Openness

In this section, I will discuss the UAE's economy and commercial openness in tangent because the growth of the former was inexorably linked to the latter. The UAE's economy grew explosively from 1995-2005, almost doubling in size (see: *Figure 4.5*). In several years during this period, the UAE's GDP increased by upwards of 11-12%. This period was marked by booms in the UAE's real-estate, construction, and service sectors, fueled by high oil prices and significant inflows of FDI. The number of free zones within the UAE and amount of business they attracted also dramatically increased. During this period, Dubai made a bid to become a leading global financial center—opening up a free zone dedicated to the financial sector. If anything, the UAE's economy performed even better in the midst of the post 9/11 regional strife. This section will focus on the rapid proliferation of free trade zones with the UAE and discuss how the types of investment they were able to attract changed the country's economy. It will also discuss the continued growth of the UAE's financial sector.

Building upon the success enjoyed by Dubai's free zone at Jebel Ali, a number of the other emirates in the UAE created their own FTZs. As well, Dubai also began creating sector specific FTZs that individually catered to attracting particular types of foreign direct investment. As *Table 1* illustrates, the number of firms doing business in the UAE's free zones expanded significantly during this period. In JAFZA alone, the number of firms doing business in it grew over 730% from 1990-2005. By the late-1990s, the administrators of Dubai's ports and the Jebel Ali Free Zone gained an international reputation for efficiency and effectiveness in logistics management. In addition to JAFZA, the Sharjah Airport International Free Zone and the Dubai Airport Free Zone both grew rapidly over this period—providing an air-link complement to JAFZA's seaport trafficking. In total, exports (including re-exports) from Dubai's free trade zones grew from $2.44 in 1995 to $5.1 billion in 2000 and to $14.32 billion in 2004. In just ten years, the emirate's free zones experienced an almost six-fold increase in their export traffic ("Dubai External Trade Statistics," 2005). By the end of 2003, Dubai stood only behind Singapore and Hong Kong as the world's third largest re-exporter ("Dubai on S'pore's Heels," 2004).

Table 4.1: Growth of the UAE's Free Trade Zones

Location of Free Zones	*Date Established*	*Firms in 1999*	*Firms in 2005*
Jebel Ali Free Zone	1985	1, 343	2,200
Dubai Airport Free Zone	1996	35	831
Fujairah Free Zone	1987	80	117
Ajman Free Zone	1988	375	1,591
Umm al-Qaiwan Free Zone	1988	35	N/A
Sharjah Airport International Free Zone	1995	1,000	Over 2,000
Ras al-Khaimah Free Zone	1996	0	1,400

Sources: Ghanem 2001: 271; Individual FTZ Websites, 2005.

In addition to the free zones listed in *Table 4.1*, Dubai initiated an effort to create a plethora of free zones designed to attract foreign investment in the technology, financial, and information sectors. The two prototypes for the expansion of these sector-specific free zones have been the Dubai Internet City and the Dubai Media City zones, launched respectively in

2000 and 2001 ("Dubai Technology …," 2005; "Dubai Media City," 2005). These ventures are both incorporated under the aegis of the Dubai Technology, Electronic Commerce, and Media Free Trade Zone and draw off the same substantial investments in technology infrastructure made by Dubai's government. As of 2004, 550 media companies have set up base in the DMC, including numerous global news providers, which has established Dubai as one of, it not the, leading news center for the Middle East. Dubai Internet City (DIC) has enjoyed an even larger degree of success in attracting foreign direct investment in the lucrative high tech market, luring a number of high-profile MNCs, like Microsoft, Oracle, Hewlett Packard, Cisco Systems, IBM, Compaq, Sun Microsystems, Visa International, Commerce One, Intel, and MasterCard, to establish operations in the free zone.[114] Following up on these successes, Dubai launched a number of technology-oriented free zones, including: the Dubai Biotechnology and Research Park (DuBiotech), the Silicon Oasis, Dubai Healthcare City, and Dubai Industrial Park.[115] The freedom from foreign investment restrictions, taxes on profits, customs duties, and from politically-motivated trade restrictions (e.g., sanctions and export controls) led a larger number of businesses to become incorporated within these free zones as free zone enterprises. The difference between many of the second-generation FTZs from their predecessors is that they sought *to attract firms to do business in Dubai instead of just through it*. While the UAE still lacked a large industrial production base, foreign investment in these free zones provided the country with rapidly expanding market in the technology and information sectors.

The UAE's efforts to attract FDI with its free zones were complemented by its efforts to attract foreign capital through similarly designed financially-oriented FTZs. Both Abu Dhabi

[114] For the source of these company listings, see: EUI, 2005: 22; Keivani, Parsa, and Younis, 2003: 29; Rosenthal, 2005).
[115] Planners intended the DuBiotech Free Zone to become a hub for not only the production, distribution, and re-exportation of pharmaceuticals, but also for cutting-edge biological and medical research. ("New Biotech Park…" 2005; "Healthy Returns…," 2005).

and Dubai competed to establish financial markets that would become the Middle Eastern-equivalent of Wall Street, London, and Hong Kong. Discussing his emirate's prospects for the future in 1997, Ali Ibrahim, Dubai's director of economic planning state that: "We are aiming to be the regional economic center. Already we're a trade hub, but we are looking to be a financial center" (Peterson, 1997). Towards that end, Dubai established the Dubai International Financial Centre (DIFC), while Abu Dhabi launched the rival Saadiyat Free Zone in pursuit of those ambitions. While these financial marketplaces were only officially coming on-line in 2005, the prospects for the DIFC looked the brightest ("United Arab Emirates…," 2006). As one analyst surmised, "Financial centres succeed if they have a good airport, modern telecommunications and the free movement of people - Dubai has all three" (Gavin and Marks, 2003)

Despite the country's ambitions, the Emirati financial sector's spotty reputation proved to be a continued impediment to its growth. Even after the BCCI scandal, several other high-profile incidents of bank fraud were uncovered (Allen, 2001). Following 9/11, the UAE faced increasing pressure to crack down on money laundering and the susceptibility of its financial system to exploitation by terrorist networks. Though it acceded to international pressure to adopt stricter regulations against money laundering, the country's financial system remained freer from substantial regulation than comparative western markets. To some extent, the prevalence of smuggling and sanctions-busting commerce within Dubai encouraged growth of illicit elements in its financial sector aimed at catering to these activities. As Ambrose Carey concluded, Dubai "…is not in the first league for scale of money-laundering. However, it is the most vulnerable in the region; and by its own desire, it is the region's most conspicuous entrepôt" (Allen, 2001). Even with the more stringent regulatory oversight placed over the UAE's financial marketplaces from 2001-2005, the vast *hawala* marketplace centered in Dubai remained largely overlooked (Fifield, 2008). If anything, the use of *hawala* dealers in place of banks grew more popular for certain types of financial transactions the more regulated and restricted the country's official financial markets became—especially in doing business with Iran (Wright, 2008).

The rapid expansion of UAE's economy from 1995-2005—and particularly the growth of its free zone commerce and financial sector—substantially increased the size and diversity of the country's domestic marketplace from what it had been in the previous period. The proliferation of free zones across also significantly increased the UAE's trade openness, both in terms of the logistical infrastructure in place to support foreign trade and the number of firms engaging in it. These factors indicate that the UAE's commercial profile for sanctions-busting steadily and appreciably improved over this ten-year time span.

The UAE's Commercial Linkages with Iran

The commercial ties between Iran and the UAE only continued to grow stronger from 1995-2005, especially between Dubai and Iran. Iranian firms increased their commercial presence in Dubai substantially and the emirate became a leading source for Iranian financial and foreign direct investment. Even though the UAE's leadership remained uneasy about the security threat posed by Iran during the latter half of the 1990s, this did not stop the country from increasing its commercial linkages to the Iran. Indeed, the UAE's commercial policies, and particularly those Dubai, toward Iran throughout this period seemed deliberately divorced from their government's security considerations. Evidencing this view, Abdallah Mograby surmised that "Iran is a big neighbor, a big market, and the UAE is trying not to mix the issues of economics and politics" (Peterson, 1997). The perspective appeared to have either ignored or assumed away the potential political and security externalities incumbent with having close commercial ties with Iran and providing the Iranian regime with access to sanctioned-goods.

From 1995-2005, the UAE's exports to Iran experienced an almost an exponential rate of growth, while its imports grew from the country grew steadily—excepting a brief spike in 1999 (see: *Figure 4.3*). In some years, Emirati exports to Iran increased by double-digit margins as high as 50%. Over this period, Iran's commercial dependence upon the UAE grew to increasingly high margins. From 1998 to 2002, the UAE's re-export trade with Iran grew from $1 billion to $2.36 billion (Rahman, 2004). In 2003 alone, Iran's bilateral trade with the UAE totaled over $4.4 billion, constituting roughly 13.5% of the total trade Iran conducted that year (Rahman, 2004). The sheer volume of re-exports from Dubai led some within Iran to call for a ban on Emirati re-exports, seeing the cheap imports as undercutting domestic development ("Official Against Ban…," 2006). Yet even as the UAE's aggregate trade with Iran substantially increased over this period, these increases were matched by the UAE's broader engagement in international trade and emergence one of the world's leading transshipment hubs.

Not only did Iran become increasingly dependent upon Emirati exports, but it also forged stronger cross-Gulf economic linkages with the country went beyond just trade. Ali Parsa and Ramin Keivani (2002) contend that the Emirati and Iranian economies became inexorably linked during this period, with Dubai having served as the developmental focal point for an integrated regional economic zone that formed along the "Hormuz Corridor." The authors assert that technological and infrastructural developments on both sides of the Gulf helped to integrate the economies of the northern emirates of the UAE with the economy of southern Iran, turning it into a cohesive economic entity. A 2005 Iranian report concluded that there were over 4,650 Iranian firms operating out of Dubai ("Luring Minds and Money," 2005). As well, almost 19% of the firms operating out of the Jebel Ali Free Zone in 2005 were of Iranian origin (409 companies).[116] News reports from 2005 further estimated that Iranian nationals contributed to roughly 45% of the fixed investments in Dubai, citing the involvement of over 400,000 Iranian investors with over $200 billion tied into Dubai's financial and housing sectors ("Official Against Ban…," 2006; "UAE Stock Exchange Tumbles…," 2006). This raises the issue of whether Dubai could really have ever afforded to have placed significant restrictions upon its trade with Iran, even if it wanted to: at a certain point, its own commercial dependence upon Iran was also too great to sever.

Despite the UAE's much smaller population and economy, Iran actually developed an asymmetrical level of commercial dependence upon the UAE during this period and, in particular, upon the emirate of Dubai. Abdulkhaleq Abdulla, a political science professor at Emirates University, concludes that: "Dubai is essential to Iran… Iran needs Dubai more than the other way round... It can deal with the outside world from here and it will need it more and more if there are (trade) sanctions imposed (over Tehran's nuclear program)" (Irish, 2007).[117] Emphasizing this point, an Iranian businessman glibly surmised that, "The best place to do business in Iran is in Dubai" (Wright, 2008). The level of commercial interdependence between UAE and Iran grew to exceptionally high levels during this period—growing, at first, even in spite of the political hostilities that existed between the two countries. According to my theory, the increasing interdependence between the two states would have only enhanced firms' incentives to use the UAE in their sanctions-busting trade with Iran.

Emirati Sanctions-Busting on Iran's Behalf, 1995-2000

[116] These figures were collected by the author from the JAFZA corporate directory in the fall of 2005 (Jebel Ali Free Zone Authority, 2005).
[117] The parenthetical statements were included in the original newspaper quotation.

In May of 1995, *Executive Order 12,959* officially banned all U.S. trade with Iran. This full embargo did not have nearly the same effect on Iran's commerce as did the one in 1995, as Iran was significantly less dependent upon U.S. trade. Yet before the ban, a wide range of American exports continued to make their way legally to Iran. As well, foreign branches of American oil firms had continued to engage in brisk trade with Iran that the new ban halted ("Iran Hits Back…," 1995). By the time this new round of harsher sanctions hit, the sanctions-busting network Iran had in place "was a well-greased mechanism" (Swibel, 2004). A European diplomat stationed in Tehran at the time gathered that, "Iran probably has more ways than most to get around the US ban," adding that "Dubai will be a key" to its efforts (Wright, 1995). Indeed, a large number of American firms already relied upon middle-men in Dubai to sell their products to Iran in 1995—even for goods that had not been sanctioned. Askari et al. (2003b: 198) assert that Iranians had deliberately sought to become more reliant upon Emirati re-exports in the lead-up to the sanctions, recognizing that their deteriorating relations with the U.S. would likely lead to more stringent trade restrictions on direct trade.

The Washington Post ran a telling exposé on the response to the U.S. sanctions in Dubai among companies that sold American products to Iran (Lancaster, 1995). In particular, the story looked into how the sanctions affected General Electric's wholesale distributors in Dubai. A senior executive at Juma Majid Co., one of Dubai's largest appliance wholesalers, disclosed that before the new sanctions his company had smuggled / re-exported roughly 60-70% of its stock of G.E. appliances to Iran.[118] The executive's response to the new round of American sanctions provides insights into the mentality prevalent amongst the traders in Dubai. Arguing that the

[118] The products were smuggled to avoid Iranian authorities preceding the American sanctions, not American or Emirati ones.

U.S. president had no authority to prevent such trade, the executive stated that: "If it [the trade ban] is from our president, we will implement it. But there are good relations between [the United Arab Emirates] and Iran…" He then justified his refusal abide by the American and corporate directives he was receiving from G.E. by stating if his company did so, "we are going to lose the business and the American government is not going to compensate us," going on to ask rhetorically of G.E., "Do they [really] agree that we should reduce 70 percent of our sales volume?" (Lancaster, 1995). As this Dubai executive noted, respecting the sender state's sanctions offers only costs and no benefits unless the sender has the support of their home government or the sender can credibly threaten direct retaliation against the firm for violating its sanctions. The perception within Dubai was that the U.S. could or would do neither, and, with profit margins as high as 40% on the sanctions-busting transactions being conducted (Swibel, 2004), the risk was well worth taking.

This story is also interesting because it touches upon the incentives that American firms had to ensure that their regional distributors would comply with the U.S. Government's sanctions. In 1995, there were about 200 American companies operating out of Dubai (Wright, 1995). As Lancaster (1995) notes, a great deal of uncertainty seemed to exist amongst American firms about the extent of their culpability for preventing third parties from re-exporting or transshipping their products onto Iran. He cites the argument made by Kodak's Dubai branch that while it could no longer ship directly to Iran there was nothing to prevent its network of independent distributors from doing so. In their initial response to the sanctions, American companies had strong incentives to turn a blind eye to these types of transactions—perceiving that a "don't ask, don't tell" policy was the most profitable arrangement.[119] Indeed, the

[119] Stewart (2008) asserts that this perspective still existed within the American business community in the UAE as of 2008.

prevalence of these sorts of transactions and the legal ambiguity that surrounded them prompted President Clinton to issue *E.O. 13,059.* The executive order explicitly made American firms responsible for ensuring that their products would not be transshipped or re-exported to Iran. While this measure ended naiveté as a defensible excuse for allowing their products to be diverted to Iran, it did not stop American companies from trading with Dubai or Dubai's traders from finding increasingly clever ways to mask such transactions. This once again supports my second hypothesis.

As in the 1980 case, the full U.S. trade ban prompted an increase in the amount of smuggling and unrecorded trade taking place between the UAE and Iran. While American authorities could more feasibly monitor large-scale transactions taking place through Dubai's major ports, Wright (1995) noted that Dubai's "dhows and the middlemen who stock them will be almost impossible to regulate. So smuggling [to Iran] is likely to increase as legal trade is curtailed." As the official trade statistics indicate, the UAE's exports to Iran ended their three-year decline and began to rise steadily once again after 1995. At the same time, American exports to the UAE jumped noticeably after 1995 (see *Figure 4.3*). This suggests that the end-destination of American imports being brought into the UAE was being masked.

Sanctions-busters within the UAE were involved in re-exporting much more than American-made kitchen appliances and Pepsi products to Iran over this period, they also sought to supply Iran with the lucrative high tech, dual-use, and oil industry-related goods denied to it by American sanctions. As an ally of the United States, the UAE had greater access to American dual-use goods than it otherwise would have. Various news reports concluded that even after the imposition of the stricter sanctions in 1995, the markets in Tehran were still "flooded with American computers, drilling equipment and parts for everything from trucks to tanks"

(Taubman, 1997). As one example, in 1996 there were reportedly 200-300 companies operating in Dubai involved in re-exporting of $100 million worth of American-made computers and accessories to Iran.[120] Describing the market, a Dubai trader explained that: "You can get just about any kind of American computers in Iran now. A PC would be immediately available. For a server you would have to wait a couple of months… U.S. sanctions slowed things down and forced importers to use middlemen, so prices jumped some 30 percent, but they really did not stop much" (Sedarat, 1997).

Though the U.S. Department of Commerce's (DOC) prosecutions of export control violations represents only a fraction of the total number of illicit transactions thought to have been taking place been the U.S. and Iran, its prosecutions offer some insight into the types of sanctioned-American goods being shipped to Iran. An overview of DOC's published enforcement actions during this period reveals that it had prosecuted violators for making illicit transfers to Iran via the UAE in cases involving the following goods: chlorine gas monitors (1998), fire alarm system equipment (1995), impregnated alumina (1995-96), gas turbine parts (1995-96), ferrology laboratory equipment (1998), bone densitometers (1998-1999), ethylene vinyl acetate (2002), computer parts (1998-2000), mini photo labs, (2001) and a Shimadzu Transformer Oil Gas Analysis System (2000).[121] As this tip-of-the-iceberg list demonstrates, Iranians seeking to acquire high-end American goods frequently used the fronts or middle men from the UAE for their sanctions-busting transactions. Acknowledging the diversion risk posed by Dubai, one U.S. official provided the following assessment in 1996: "The Iranians have a strong official and commercial presence in Dubai—it is their playground, the most accessible

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[120] This figure was estimated by a trader involved in the computer transshipment business in Dubai and was reported in a story by the *Reuters News* service (Sedarat, 1997)).

[121] These cases were retrieved from press releases published by the U.S. Department of Commerce's Bureau for Industry and Security about the investigations enforcement actions the agency had undertaken in response to export control violations. See: BIS, 2008. Also, see: Swibel, 2004b.

window to the rest of the world, particularly to high technology" ("Dubai: A Booming Entrepot...", 1996).

In addition to its direct engagement in sanctions-busting on Iran's behalf during this period, the UAE continued to facilitate Iraqi oil-smuggling operations until it finally cracked down on the trade in 1998. Following the trade routes established during the first Gulf War, traders would use barges and dhows to transport Iraqi oil and diesel along the Iranian coastline, which the multinational task-force charged with enforcing the blockade against Iraq war barred from entering, until they crossed the Gulf to the UAE (Worsnip, 1998). Using falsified documentation provided by the Iranian officials, the smugglers would then sell this oil as being of Iranian origin in the UAE ("Iraq's Shipping," 2002). The UAE's decision to partially crackdown on the smuggling was based more on environmental and safety concerns than on genuine support for sanctions' imposition. Many of the dhows and barges used in these smuggling operations were old, in disrepair, and not designed to carry petroleum products. In 1998, several oil-spills along the Emirati coast caused by sinking and leaking barges created large environmental messes and called international attention to the illicit trafficking ("Emirates Vows To Crack Down…," 1998; "Dhows use Iran…," 1998). This led the UAE to outlaw the transport of oil by barges and suppress some of the oil-smuggling activities taking place within its waters—though it continued in diminished levels up until the U.S. invasion of Iraq.

The spike in the UAE's imports from Iran from 1998-1999 also presents a conspicuous puzzle (see: *Figure 4.3*). As Askari et al. (2003b: 197-198) note, "it is inconceivable" that Dubai could itself absorb $516 million of Iran's non-oil exports (constituting 16.2% Iran's total non-oil exports). There simply were not enough people in Dubai to purchase and/or consume that many carpets, pistachios, and dried figs. Rather, it is much more plausible to assume that a sizable portion of these Iranian imports had begun being re-exported to the United States from Dubai (Askari et al., 2003b: 198). The trade data supports this assertion in that after the U.S. lifted its embargo against these products in 2000, the UAE's imports from Iran fell back to what had been their previous levels.

Emirati Sanctions-Busting on Iran's Behalf, 2001-2005

Despite the broad post-9/11 cooperation it offered to the United States, the UAE did very little to curb its sanctions-busting activities. As *Figure 4.6* indicates, the substantial increase in Dubai's total re-export trade from 2001-2005 was marked by similarly large increases in the the UAE's total trade with Iran. Between 2001 and 2004, Iran accounted for between 18-25% of Dubai's total re-exports and, in 2005, the country accounted for just over 30% of Dubai's total export and re-export trade (Rettab and Morada, 2005; Rettab et al., 2005). Similarly over this time period, the UAE's imports from the United States grew at a staggering rate (see: *Figure 4.4*). While smuggling continued to play a role in the trade between the UAE and Iran, a larger proportion of the trade began flowing through legitimate channels. Given the increasingly hard-line the United States took against the Iranian regime following 9/11 and the commitments made by the Emirati Government to cooperate with the U.S. in its "War on Terrorism," it is surprising that the country's sanctions-busters would become more brazen about their trade with Iran during this period. As I will explain, the commercial environments provided by the UAE's free zones often made smuggling via traditional routes unnecessary in carrying out sanctions-busting transactions.

So, how did the UAE's traders manage to become more effective at sanctions-busting even after the United States realized that significant diversions were taking place within the UAE? The rapid expansion of the UAE's free trade zones provided the perfect cover for sanctions-busting activities. The FTZs, like those at Jebel Ali and Sharjah International Airport, were established to exist outside the customs jurisdiction of the UAE's federal government. They were designed to attract foreign commerce and investment and to minimize the bureaucratic red-tape involved in doing business as much as possible. The administrative structures governing the zones were opaque and designed to allow the firms that operated out of them to conduct their business free from public oversight. As well, FTZ administrators (who were competing against each other for business) had few incentives to actively police their zones; rather, clear incentives exist for the authorities governing the FTZs to be lax in controls they imposed. Since the goal of the FTZs was to provide laissez faire atmospheres that attracted commerce, enacting stringent trade controls, monitoring for illicit transactions, and enforcing harsh penalties could deter firms from doing business in their zones. This was especially true in Dubai, in which sanctions-busting trade with Iran constituted such a large part of the emirate's business. By the narrow scope of their chartered purpose and the constituents to which they sought to cater, laissez faire policies predominated within these zones.

Firms in free zones like JAFZA could import, store, and then re-export products without paying duties on them. They were also allowed to conduct light manufacturing on, re-package, and re-process the goods they brought into the zones. For traders seeking to mask their products' origins or the ultimate destination of products from their original source country, being able to conduct these activities legally, discretely, and cheaply provided excellent cover for sanctions-busting activities. In commercial hubs like JAFZA, there were so many commercial transactions taking place and so many goods passing through the zone that hiding in plain sight was easy. As Scott Jones notes (2003: 22), illicit traffickers use "transit points [like Dubai] in unsuspecting destinations to conceal the real nature of the transaction. They falsify cargo descriptions, do not enter end-user/user destinations, hide the final destination, use front companies, and try other ruses" to mask the true nature of their transactions. For the most part, most of the sanctions-busting transactions conducted using the UAE's free zones were perfectly legal within the country.

Thus, it was not a coincidence that the rapid expansion of the UAE's free zones coincided with dramatic increases in the UAE's re-export trade with Iran. As the free zones within the UAE grew, they placed an increasingly broader swathe of global commerce at Iran's doorstep. The FTZs also provided sanctions-busters with the means "legitimately" obscure the nature of their transactions. A company within an FTZ could import an American product, repackage it as a Chinese-manufactured ripoff or equivalent, and then send it on to Iran through legitimate trade channels—thereby avoiding the ire of both the American and Iranian Governments. Once the product arrived in Iran, it could then be returned to its original packaging. This form of "reverse-counterfeiting" became a popular method of circumventing the sanctions and, given the sheer volume of the trade flows passing through Dubai, these transactions were very difficult to detect by American authorities and companies.[122] The tactic was also commonly used Dubai's smaller dhow traders as well (Stewart, 2008). According to Gary Milhollin and Kelly Motz (2004), this helped to make Dubai "the easiest place in the world to mask the real destination of cargo."

In many cases, companies did not even need go to great lengths to obscure their transactions. Even to obtain sensitive strategic good from the United States that required export

[122] These insights were garnered from fieldwork conducted in the UAE in the fall of 2005. My fieldwork included visits to both JAFZA and the Sharjah Airport International Free Zone. Also, see:

control licenses, all Emirati firms often had to do was claim to be the "end-user" [not parties in Iran] and the transactions would be approved. As Swibel (2004a) found, the U.S. Department of Commerce "turned down just 2% of applications to export to the U.A.E." from 1999 to early 2004. Moreover, the agency only conducted 63 end-user verification checks[123] on sales made to the UAE from 1996-1999 and 114 checks from 2000-2003 (Swibel, 2004a). Given that the U.S. Government so weakly monitored and enforced the controls on its most strategically valuable goods, little subterfuge was often needed to obtain sensitive American products and even less effort was required to purchase non-sensitive ones. Once American goods arrived in Dubai, they fell into a black-hole as far as most companies and U.S. authorities were concerned. This made Dubai a perfect sanctions-busting haven, as it provided "companies and governments with a vital asset: *automatic deniability*" (Milhollin and Motz, 2004).[124] This provides strong evidence for my hypothesis concerning the U.S. Government's deliberate neglect of the UAE's sanctions-busting activities.

The rapid growth of the UAE's free trade zones provided Iran with access to not only the goods produced by companies around the world, but the companies themselves. The UAE's free zones came to play host to a diverse array of firms from around the world, placing them side-by-side in commercially neutral havens free from governmental restriction. As *Table 2* shows, Iranian, Indian, and Chinese companies had the largest corporate presence within the Jebel Ali Free Zone in 2005. As the text-box beside it suggests, a significant number of multinational corporations also had commercial operations in the free zone. To acquire the goods they sought, would-be sanctions-busters could work through companies' corporate branches already operating out of the UAE instead their home offices. Within the FTZs, Iranian firms commonly operate

[123] End-user verification checks were conducted to ensure that diversions had not taken place and that the parties receiving the controlled exports really were who they claimed to be.
[124] Emphasis added by author.

right next door to American ones—making coordinating and carrying out diversions remarkably easy.[125] Another common approach used by Iranians and agents of the Iranian Government was to establish front companies within the FTZs, chartered as “nation-less” free zone enterprises. These companies were then used to acquire sanctioned goods and technologies for re-export to Iran (“Dubai: A Booming Entrepot…,” 1996). Frequently, though, ruses were unnecessary. Chinese companies would willingly sell substitutes for sanctioned American goods to Iran, as their country's strengthening ties with the Iran and booming industrial base provided them every incentive they needed to sanctions-bust (see: *Figure 4.2*). Using Dubai as a middle-man in those transactions was a matter of convenience and cost-effectiveness, not of necessity.

Table 4.2: Select Origins and Identities of the Firms Operating in JAFZA in 2005[126]

Country	Firms	Percent
Iran	409	19%
Japan	84	4%
India	571	26%
Pakistan	112	5%
China	884	40%
U.S.	150	7.00%

Notable MNCs Present in JAFZA
Acer, Black & Decker, Compaq, Daewoo, GAP, Honda, Johnson & Johnson, Nestle, Nissan, Nivea, Philips, Samsung, Sony, Bridgestone, Bayer, Hewlett-Packard, Xerox, Nokia, Daimler-Chrysler, and Toshiba…

Dubai's role as a regional financial hub and the special relationship its traders had with their counterparts in Iran played a significant and often complementary role in facilitating the sanctions-busting that took place. To finance their transactions, Iranian traders would often work through banks located in Dubai. If an Iranian firm wanted to buy $20,000 machinery equipment from a company in the United States, the transaction might go like this. The firm would transfer the money to a bank account in Dubai (potentially using a *hawala* dealer), then have that money

[125] In one case in which the perpetrators were caught, an American company in an FTZ sold sanctioned medical supplies to an Iranian firm whose office was literally a couple doors down from the Iranian firm's (Stewart, 2008).
[126] Data for this table was obtained from: (“Jebel Ali Free Zone: Free Zone Companies,” 2005; U.S. & Foreign Commercial Service, 2005).

wired to a bank in Switzerland.[127] The firm would then arrange for the delivery to be made to a middle-man in Dubai and have payment for the product made from the Swiss bank account. Especially if the transfer to the Dubai bank account was made using a *hawala* broker, there would be no *clear* evidence that the purchase was being by an Iranian firm.[128] As the United States increasingly stepped the pressure of its financial sanctions against the Iranian regime, Iranian traders increasingly turned to the use of off-book *hawala* transactions (Wright, 2008; Fifield, 2008). By circumventing the established U.S.-dominated international financial sector, Iranian firms continue to finance their sanctions-busting activities free from American interference and to provide their American trading partners with plausible deniability. The opaqueness of Dubai's financial sector provided excellent cover for sanctions-busting transactions and, in turn, it could also be used as a safe haven for laundering the profits made from such activities.

Though the event failed to catalyze *immediate* policy changes, the revelation in 2004 that Dubai had served as a key node in the A.Q. Khan proliferation network raised awareness about the illicit trade flowing through the emirate. Using his global network of connections and the resources of his nuclear fiefdom inside the Pakistani Government, Khan peddled his nuclear know-how and coordinating services to help other countries develop nuclear energy and weapons programs (Montgomery, 2005). Dubai served as the Khan network's operational headquarters. Though his official post was in Pakistan, A.Q. Khan made 44 visits to Dubai from 1999 until his network unraveled in early 2004—crossing the Gulf 20 times to visit Iran from Dubai (Corera, 2006: 118). Two of the companies used by the Khan network were based out of Dubai. SMB

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[127] Other popular choices for conducting these types of financial transactions were Canada, Germany, the United Kingdom, and Austria. (Taubman, 1997).

[128] This hypothetical scenario mirrors transactions described in a number of sources: Wright, 2008; Fifield, 2008; Taubman, 1997.

Computers, incorporated in JAFZA and having strong commercial ties to Malaysia, was used extensively to transship nuclear technologies and materials to Libya and Iran (Salama, 2004). The Dubai-based Gulf Technical Industries was used as a front company to provide a cover for the network's illicit purchases coming through the emirate (Corera, 2006: 144). Given its lax commercial restrictions and almost complete absence of export controls, the UAE was an ideal venue from which to direct the proliferation network's transactions. As Albright and Hinderstein (2005: 120) surmised, the Khan proliferation network:

> depended on complicated transportation arrangements, mainly to confuse suppliers about the true end use of the item and to evade prying intelligence agencies or deceive them about the final destination for its products. The international free zone [JAFZA] in Dubai, through which shipments are still subject to few meaningful controls, was particularly critical to the network.

Khan's network played an instrumental role in helping Iran build up its nuclear program's capabilities and almost single-handedly was responsible for the Libyan nuclear program. The network's activities are widely viewed as one nonproliferation community's largest failures in history and Dubai played a central role in facilitating its operations.

Though the Emirati Government had refused American entreaties to block proliferation-relevant transactions in the past,[129] there was no evidence to suggest that either the UAE's Federal Government or Dubai were directly complicit or aware of the Khan network's transactions. Clearly, a nuclear-armed Iranian regime was not in the UAE's interests (nor in Dubai's) even if parties within the UAE were seeking improved relations with Iran. It was just the nature of the system in place within Dubai that made it so hard to track the types of commerce taking place. Yet, both the Americans and the Emiratis new that the Iranian

[129] In 2003, officials in Dubai refused to interdict a shipment of 66 spark gap triggers being transshipped to Pakistan from South Africa via Dubai. Spark gap triggers are dual use goods that can be used in medical equipment to breakup kidney stones or as high-speed detonators for nuclear weapons (Milhoun, 2004; Swibel, 2004a).

Government was using Dubai to shop for sanctioned dual-use and strategic goods. Even if this exact transaction was not condoned, the UAE intentionally had created environment that would be conducive to these types of transactions. Indeed, most of the Khan network's transactions did not violate any Emirati laws. That the UAE and its firms clearly prioritized the exploitation of its highly profitable trade relationship with Iran above the country's broader foreign policy interests is wholly consistent with my theory.

Despite the negative publicity that Dubai drew for the part it played in the Khan network, business continued to boom in the emirate and its commercial relationship with Iran and the sanctions-busting it was conducting on its behalf only continued to grow in 2005. The Khan episode touches upon several big questions that relate to the heart of my theory. First, why did the U.S. do so little to police the trade that American firms were conducting with the UAE, especially it involved sensitive goods and technologies? Second, why didn't the U.S. place more pressure on the Emirati Government to crackdown on these types of sanctions-busting transactions before something like the Khan network occurred? And third, why were Dubai's sanctions-busting prerogatives allowed to dominate the UAE's foreign policy agenda toward Iran? These questions will be addressed in the following sections.

The Domestic Politics of Emirati Sanctions-Busting

From a realist perspective, the sanctions-busting conducted by Dubai on Iran's behalf from 1995-2000 makes little sense. While the Abu Dhabi-led Federal Government was pursuing a closer relationship with Iraq to balance against Iran's emergence as a regional hegemon, Dubai actively undermined the sanctions designed to check the Iranian regime's power and threatening foreign policies. When aggregated to the national-level (which is what realism does), Dubai's sanctions-busting essentially defined the UAE's national foreign trade policy towards Iran. Since the UAE's President Sheikh Zayed made recovering the disputed islands from Iran one of his country's chief foreign policy objectives, it is surprising from this perspective that the UAE did not use Iran's commercial dependence upon it as leverage to help secure their return. Especially given the security guarantees provided by its defense pact with the United States, the UAE readily could have wielded its commercial clout for geo-political ends with little fear of military retaliation (Hirschman, 1980). Yet, the UAE did not. Instead, the country clearly pursued commercially-oriented objectives in place of and at the cost of the its foreign policy and national security agenda.

From 2001-2005, it becomes less clear whether maintaining a stand-offish political relationship with Iran was still in the UAE's interests. Though the UAE maintained its claims over the disputed islands, it also sought to broaden and deepen the scope of its relations with Iran ("UAE Foreign Minister Calls...," 2004; "UAE Minister Reiterates Stand..," 2005). Under these conditions, the increasingly close commercial linkages that Dubai formed with Iran from this period could be interpreted as pursing the country's national interests. Reversing the causality from trade following the flag (Pollins, 1989a; Keshk et al., 2004) to the flag following the trade, one could also assert that the increasingly strong commercially interdependent relationship that Dubai forged with Iran dragged the national government along into warming up politically to the country. Given Dubai's recalcitrance to pursue national objectives in the prior period, the latter account appears much more plausible. Irrespective of this debate is one clear fact: Iran's possession of a nuclear program capable (latent or realized) of producing nuclear weapons was not in the UAE's interests. Dubai's role in facilitating the transfers of nuclear goods and technologies hurt the UAE's international standing and its national security. It was also direct product of commercial policies employed by the emirate that facilitated sanctions-busting trade with Iran. Considering that the UAE had a defense pact with the U.S. during this period and Iran was one of its staunchest political adversaries, this behavior is simply inconsistent with the realist account.

By taking into account the autonomy granted to individual emirates under the UAE's constitution, my theory can help explain the country's seemingly erratic foreign trade and security policies during this period. As articulated within my theory, I would expect the commercial interests of a country well-suited to engage in sanctions-busting to lobby hard for their government to adopt amenable policies towards that end. Using free zones to circumvent federal efforts to consolidate control over the country's commercial sector, Dubai established an institutional model that effectively divorced the zone's commercial policies from the broader country's political and security considerations. This model suited Dubai's interests well, because its commercial constituencies—and particularly the significant segment of its population with strong ties to Iran—had succeeded in defining the emirate's foreign trade interests towards Iran in almost purely commercial terms. Iran was a large commercial market and the American sanctions in place against it made trade with the country even more lucrative.

By forcing Iran to use third party suppliers and middle-men to acquire sanctioned goods, the American sanctions created an inflated need for a transshipment hub within the Persian Gulf that could be used as an entrepôt for trade with Iran (this also applies to Iraq). By fulfilling that market niche, Dubai could use the connections it built up through sanctions-busting to build up its reputation as the Gulf region's premier transshipment hub, and, eventually, into its leading commercial and financial hub. While Dubai's commercial connections to Iran, geography, and openness to international trade played key roles in its sanctions-busting during the first case period, the rapid growth in the emirate's economy and commercial openness—fueled in significant part by its sanctions-busting activities—made it an even more attractive sanctions-busting venue during the second case period. Thus, Dubai's initial success as a sanctions-buster had a feedback component to it. As its reputation as an entrepôt for trading with Iran grew, so did the subsequent amount of commerce it attracted from Iranian, American, and other third party sanctions-busters. This, in turn, further increased Iran's dependence upon the emirate, enhanced its sanctions-busting reputation, and built up Dubai's commercial profile.

The strength of Dubai's commercial interests provided it with enough incentives to break with its fellow emirates in pursuing its individual trade interests toward Iran. The policies that it employed to maximize its commercial gains from sanctions-busting on Iran's behalf had a downside in that they did not allow Emirati officials to be discriminate in what was allowed to pass through the country's borders. While these policies had negative externalities for the rest of the UAE, their profitability for Dubai outweighed these costs. As other emirates saw Dubai's success and also sought to adopt its free zone model, more of the country got involved in trading with Iran. At a certain point (roughly 1999-2001), there came a realization within the UAE's Federal Government that its national economic welfare was too deeply tied to Iran to continue to its stand-offish political relationship the country ("Re-examining the Roots," 2004). The United States' benign neglect of Dubai's role active role in sanctions-busting on Iran's behalf for two decades prior facilitated in the Federal Government's détente with Iran and embrace the sanctions-busting it was conducting on its behalf.

Once the UAE's leadership ascertained that it could exploit the U.S. Government's sanctions against Iran without jeopardizing its alliance relationship with it, it realized that it could, figuratively, have its cake and eat it too. The United States would continue to protect it from Iran no matter how strong the UAE helped make it, and the UAE could once again try to make Iran so dependent upon it (like it had done during the Iran-Iraq War), that further aggression towards it would be counterproductive. All the while, it could profit handsomely in the process. By 2003, Iran had become Abu Dhabi's largest non-oil export partner. An astute Iranian observer of Emirati politics commented at this time that:

> the hypothesis can no longer be repeated as decisively as previously that Abu Dhabi thinks politically and Dubai in terms of trade. It seems that Sheikh Zayed and his sons in Abu Dhabi have also come to the conclusion that the issue of Abu Musa should not become an obstacle to the expansion of economic relations between the two countries [Iran and the UAE] ("Re-examining the Roots...", 2004).

Thus, the UAE built a shrewd foreign policy strategy around the commercially-driven prerogatives that had at first defined their policy toward Iran. This helped set the stage for the explosion in trade that occurred between the two countries from 2001-2005. It also increased the odds that Iran would seek to use the country to obtain the types of sensitive, strategic goods that it would have significantly more difficultly acquiring from anywhere else.

The American Response to Emirati Sanctions-Busting

So, why was the United States so passé about the amount of sanctions-busting taking place via the UAE? As my narrative revealed, it was public knowledge that a prolific amount of sanctions-busting was taking place within the UAE. From the Department of Commerce's own investigations, the American Government had to have been aware of the substantial flows of strategically-valuable American goods passing through the UAE to Iran (also, see: Stewart, 2008). If the United States truly wanted to make its sanctions effective, and its continued efforts to strengthen them suggested that it did, an explanation is needed for why it would have tolerated the active role the UAE played in undermining its sanctions during this period. Clearly, the United States had the ability to employ measures that could have compelled the UAE to clamp down on its sanctions-busting on behalf of Iran. Instead of punishing the UAE for leaking sanctioned-technologies and goods to Iran in the late 90s, the U.S. Government sold the UAE $8 billion worth of highly-advanced, strategically-sensitive weaponry. My theory offers a compelling explanation for the United States' benign neglect, arguing that both the U.S. Government's fears of jeopardizing its alliance relationship with the UAE and domestic pressure from American business interests can explain why it did not pressure the UAE to crackdown on its sanctions-busting.

Despite the political interests that existed within the United States in imposing sanctions against Iran during the mid-1990s, American commercial interests were largely opposed to such sanctions. The U.S. sanctions against Iran and Iraq served as one of the centerpieces of Clinton's "dual-containment" policy towards the countries in the Middle East (Katzman et al., 2001: 72). The American sanctions against Iran also had the support of the powerful American-Israeli Political Action Committee (AIPAC), which could counterbalance the lobbying efforts of commercial interest groups in favor of lifting the sanctions against Iran. Before President Clinton used his executive authority to ban American trade with Iran in 1995, AIPAC had strongly backed legislation pursuant of those same ends by New York's Senator Alfonse D'Amato (Lippman, 2005). Various accounts observe that AIPAC played an instrumental role in both drafting the version of the *ILSA* subsequently introduced by D'Amato in 1996 and pushing for its adoption in Congress (Clawson, 1999: 87-88; Parsi, 2007: 187-189; Shambaugh, 1999: 185). The *ILSA* passed *unanimously* through both houses of Congress—despite opposition from U.S.

and European business interests (Shambaugh, 1999: 186). The hard-line—but politically popular—positions taken by President Clinton and Congress left American commercial interests with little hope of getting the sanctions lifted. Though oil companies like Halliburton and Conco, which had a billion-dollar oil development project in Iran nixed by Clinton's executive order in 1995, continued to voice their opposition to the U.S. sanctions (Rossant, 1997; Sciolino, 2000), many American companies opposed to the sanctions focused on finding ways around them instead of directly challenging them. The active use of third party distributors and middle-men by American firms immediately following the 1995 sanctions demonstrates point. This forced President Clinton to issue the more expansive executive order that explicitly addressed re-exports, transshipments, and transits in 1997. These firm-level behaviors are both consistent with my second hypothesis.

Though President Clinton's 1997 executive order may have more clearly defined what sorts of sanctions-busting transactions were illegal, it did not stop American firms from making them. For example, Hewlett-Packard (HP) formed a regional distribution arrangement with an Indian firm based out of Dubai called Redington Gulf in 1997. As Farah Stockman (2008) found in researching the company, Redington Gulf's primary market strategy since its founding had been to "sell HP supplies to the Iran market" [this was stated on the company's website]. The distribution firm rapidly expanded its business network into Iran, with HP products as its flagship line. As of 2007, HP had a 41% share of the Iranian printer market (Stockman, 2008). In a careless moment, one of HP's [former] general managers had even stated publicly in 1999 that Iran was a large market for HP printers and its sales to the country were growing at a rate of 50% a year.[130] Such comments certainly undermine HP's defense that it had no knowledge of the

[130] Albrecht Ferling was the HP General Manager who made these statements and he made them to the UAE-based *Gulf News* newspaper (Stockman, 2008).

diversions taken place through its relationship with Redington Gulf—and the size of its market-share in Iran certainly gave it plenty of reason to have such knowledge. Yet these sorts of look-the-other-way deals were commonplace within Dubai—even amongst large MNCs like HP. As HP's sales strategies suggest, the company had no incentive to pressure the American Government to push for the Emirati Government to join its sanctions; indeed, it had strong incentives to do just the opposite.

Despite the overwhelming support for the *ILSA* and the hard-line position initially taken by President Clinton, the U.S. Government's resolve to enforce its sanctions stringently soon lagged. In 1997, Iran announced that it was extending a $2 billion contract to develop its South Pars natural gas field to a group of companies from France, Russia, and Malaysia. The venture was led by the giant French oil and gas conglomerate Total SA. Though this venture was deemed a "sanctionable" investment, the U.S. ultimately backed down from using extraterritorial sanctions against the firms from these countries, facing significant pressure from their governments (Preeg, 1999: 56-57). The domestic opposition to the U.S. sanctions began to get more organized as well, as the National Association of Manufacturers launched a campaign against the U.S. Government's use of sanctions against Iran in 1997 (Lobe, 1997). Another powerful interest group called USA*Engage, which represented over 670 American companies and agricultural concerns, also began lobbying for the sanctions against Iran to be lifted (Shenon, 1999). As a founding member of USA*Engage, Dick Cheney was outspoken in his opposition to the sanctions (Lake, 2005). Due in part to this group's lobbying, the Clinton Administration lifted its sanctions against food and medical supplies against Iran in 1999. Out of the countries on the list of "State Sponsors of Terrorism," Iran constituted the only large agricultural market—importing roughly $3 billion worth of food in 1998. After the sanctions were lifted, the chairman of USA*Engage asserted that: "This is good news for American agriculture, it's good news for U.S. producers of farm equipment and it's an outstanding development for American foreign policy” (Shenon, 1999). This loosening of the sanctions was soon followed by the lifting of the import-ban against Iran's leading foodstuff and luxury exports in 2000.

The election of the Bush / Cheney presidential ticket in 2001 also likely weakened the perception that the U.S. Government was committed to enforcing its sanctions. Cheney's devotion to free-trade principals were at odds with the United States' zealous use of economic sanctions. Speaking to the World Petroleum Congress about the U.S. sanctions against Iran [a month before he joined the Bush ticket], Cheney (2000) told the audience: "We're kept out of there primarily by our own government which has made a decision that U.S. firms should not be allowed to invest significantly in Iran, and I think that's a mistake.” Though Cheney agreed to support the sanctions against Iran favored by Bush when he joined the ticket, he stated that opening up the issue to public debate during the election would be beneficial (Weisskopf and Zagorin, 2000) and that “If I sign on as his No. 2, so to speak... I would expect to make my views known, to express my thoughts [about the sanctions against Iran] to him privately" (Sciolino, 2000). As vice-president, Cheney had no direct authority to lift sanctions. Yet, his influence as a presidential advisor and the connections he maintained with the business community (particularly oil companies) after assuming office likely eroded the perception that the administration was strongly committed to enforcing sanctions against American firms. Halliburton's pursuit of oil contract work with Iran through its foreign subsidiary in Dubai and the Bush Administration's refusal to investigate the other, allegedly illegal, business dealings the firm also had with the Iranian Government (via Dubai), likely signaled to American businesses that the U.S. was not serious about enforcing its sanctions (Lake, 2005; Office of Senator Lautenberg, 2005).

The opposition within the American business community to the sanctions against Iran is consistent with my theoretical account. U.S. business interests were not interested in pressuring foreign countries to support their government's sanctions, they were instead concerned with seeking their removal or finding ways around them (Alden and Dinmore, 2000). For all the rhetoric about *ILSA* "leveling the playing field" for American oil companies, U.S. businesses expended almost no effort to secure its passage. Instead, the measure was drafted and backed by anti-Iranian groups, like AIPAC. Though the presence of powerful interest groups in favor of the sanctions against Iran prevented U.S. commercial interests from obtaining their removal, they managed to get them weakened. When the *ILSA* came up for renewal in 2001, U.S. businesses (and especially energy firms) were busy lobbying the Bush administration to open up U.S. commercial relations with Iran—not advocating its re-authorization (Dinmore and Hoyos, 2001). Backed once again by AIPAC, the measure was renewed by Congress in 2001, and 9/11 forestalled further political and commercial détente with Iran on the issue.

While a significant number of American firms had found ways away around the sanctions by trading through third parties, these firms had increasingly large incentives to invest outside the U.S. to skirt the sanctions against Iran. Given an interest in trading with Iran, the question for American firms became from which venue to do it. In addition to its commercial profile, my theory asserts that the UAE's alliance with the United States made it an even safer, more attractive place to engage in sanctions-busting—especially given its extensive commercial ties to Iran.

Though the United States was militarily the senior partner in the alliance it formed with the UAE, the UAE's strategic location in the Persian Gulf and its advanced port facilities made the country extremely valuable to American interests in the region. Especially following 9/11, the UAE became an extremely important staging and logistical center for the U.S. military's operations in the region.[131] Sen. John Warner, Chairman of the U.S. Senate Armed Services Committee, said the following of the UAE: "Whether it's in Afghanistan or Iraq, and the utilization of the facilities in UAE... is essential. Absolutely essential. If the UAE felt that they're being mistreated and were to pull back that support, where would it shift? We know not" (Warner, 2006). As Sen. Warner's comments suggest, the U.S. relied heavily upon the UAE to support its military presence and operations in the Persian Gulf region and had few alternatives in the region if its relationship with the UAE soured.

In his comments above, Sen. Warner was attempting to defend the proposed acquisition of Dubai Ports World (the parent company of JAFZA and the Jebel Ali Port) of the rights to operate six ports in the United States in early 2006 against Congressional and public opposition. Tellingly, President Bush, the State Department, the U.S. intelligence community, and the U.S. military all strongly supported the acquisition—citing the UAE's cooperation in the "War on Terrorism" and its importance to U.S. military and diplomatic interests in the Gulf region. The general line taken by the administration was that the issue over the ports' acquisition was not

[131] Though the exact terms of the defense pact between the U.S. and UAE are classified, the defense pact included a status of forces agreement, provisions pertaining to troop pre-positioning, U.S. naval warship visits, and the use of al-Dhafra air base (Katzman, 2008: 4). In 1995, the U.S. navy made 300 port call visits in Dubai, while in 1997 U.S. naval vessels made an estimated 240 visits (Jehl, 1997). The UAE also became one of the American armed services' most popular liberty destination in the Persian Gulf—with over 110,000 troops visiting the country in 1996 (Scarborough, 1997). In the years following the first Persian Gulf War (1991-2003), the UAE allowed the U.S. to use the al-Dhafra air base to conduct support missions for enforcing the "no-fly" zone in Southern Iraq (Katzman, 2005: 4). In 1997, there were about 300 American armed service personnel permanently stationed in the UAE (Jehl, 1997). That number grew to 800 personnel prior to the invasion of Afghanistan and continued to grow to more than 1,800 servicemen after the invasion of Iraq. Most of these personnel conducted support operations for the U.S. missions in Iraq and Afghanistan (Katzman, 2008). During this entire period, the UAE was one of the U.S. Navy's most frequently visited port of call outside the United States. In 2005 alone, Dubai played host to over 500 ship visits from the U.S. Navy (Goodwin, 2006).

salient enough to risk jeopardizing the United States' alliance relationship with the UAE. In many cases, the language used by defenders of the deal is similar to the types of objections my theory asserts those same parties would make against attempting to compel the UAE into joining the American sanctions. The Bush Administration's staunch defense of the deal indicates that the American foreign policy and national security establishments considered the strategic benefits provided by U.S.-alliance with the UAE great enough to undertake significant efforts to prevent that relationship from being disrupted—even if doing so was domestically unpopular.[132]

The UAE's alliance with the U.S. provided cover for American firms conducting sanctions-busting trade with Iran from harsh retaliation by the U.S. Government and gave the country greater access to American military and dual use goods than it otherwise would have had. By virtue of the massive arms deals being conducted between the U.S. and UAE under the aegis of their alliance, the UAE was cleared to receive some of the most advanced military technologies that the American Government allowed to be sold abroad (Katzman, 2008: 5). In parallel, U.S. exporters were also given a great deal of leeway in the licensed dual-use goods they were allowed to sell to the country. Yet, it was common knowledge that Dubai was being used as a diversion point for American goods. That the U.S. Department of Commerce approved such a large number of the licensed transactions to the UAE and did so little to monitor and enforce the transactions it approved, either demonstrates gross incompetence or a set of political prerogatives that placed a low priority on avidly monitoring and prosecuting sanctions-busting cases in the UAE. This lax enforcement of the sanctions in transactions involving the UAE signaled to American firms that the risks entailed in violating the U.S. sanctions from that country were far diminished comparable to other third parties. The UAE's lack of export

[132] Dubai Ports World eventually scuttled the deal itself after political furor and anti-Emirati backlash it created in the U.S. Ironically, Dubai's lax export controls, financial regulations, and involvement in the Khan case were all used by detractors to argue against the company's trustworthiness.

controls also meant that companies (American or otherwise) could form foreign subsidiaries in the UAE or its free zones and use those corporate entities to sell Iranians sanctioned strategic goods with less fear of repercussions from Washington. After the AQ Khan scandal, the U.S. Government did increase its level of engagement with the Emirati Government over these issues—sending high-level envoys to the UAE. Yet as an official from the U.S. Embassy in Abu Dhabi surmised, trying to compel the UAE to adopt the controls sought by the U.S. "would be incredibly stupid... This is the one friend we have in the Gulf, except Kuwait" (Swibel, 2004a). This suggests that the American foreign policy establishment was willing to tolerate a lot in return for the types of military cooperation it was receiving through its alliance with the UAE.

An examination of the amount of commerce occurring between the U.S. and UAE demonstrates that the two countries traded significantly more with one another during the second case period than the first (See: *Figure 4.3*). Though the changes to the UAE's commercial profile can account for some of that substantial growth, part of that amount can likely be positively attributed to the effects the U.S.-UAE alliance had on the countries' trade. As the political relationship between the U.S. and UAE got stronger, American firms felt more comfortable trading with and investing in the UAE. By the end of 2005, 500 American firms had established business operations in Dubai—with 150 of them alone in JAFZA. Computer companies like Acer and Supra set up shop in JAFZA, while others like Microsoft, Hewlett Packard, and Oracle open branches in the media and technology free zone (U.S. & Foreign Commercial Services, 2005). These corporations' presences in the UAE's free zones was likely both a product of the market opportunities available in the UAE, the perceived stability of the U.S.-UAE relationship that made investments in the otherwise unstable region safe, and an opportunistic perspective that Iran's appetite for anything high-tech would find some way of boosting their regional sales.

When, in 2000, Halliburton decided that it wanted to open a corporate office in Iran to re-establish its business relationship with the country, it chose to work through its Dubai-based subsidiary (Alden, 2003). This was based both open the extensive commercial connections that existed between Dubai and Iran and the assumption that the U.S. Government would not punish the firm or the UAE Government for working through that venue. It is also striking that Halliburton chose to re-locate its previously American-based corporate headquarters to Dubai in 2006 after the firm took considerable Congressional heat (once the Democrats took back control of Congress) for the contract work its subsidiary had conducted on Iran's behalf. The firm estimated that the cover and freedom offered by Dubai outweighed the benefits of staying in the United States. All this supports my fourth hypothesis.

While the realist account asserts that the U.S. alliance with the UAE should have put a damper on its sanctions-busting activities, my narrative shows that exactly the opposite occurred. The UAE had the reputation of being a major sanctions-buster on Iran's behalf before the United States formed its alliance with it, and the alliance it brokered with the UAE did not change the regime's orientation. When the U.S. imposed the full trade ban against Iran in 1995, the common wisdom would have been that it could have leveraged its new alliance with the Emirati Government to obtain greater cooperation in applying its sanctions. Instead, the alliance provided the UAE with a more brazen attitude regarding what it could do to exploit the more severe American sanctions without raising the ire of the U.S. Government. As astute firms could see, both the United States' strategic dependence upon the UAE and the UAE's commercial dependence upon Iran were too great for either country to disrupt the sanctions-busting relationship the UAE had formed with Iran. Embracing the closer strategic relationship between the two countries, American firms increasingly took advantage of the indulgence that the United States granted to the UAE by trading though it and investing in it. The political cover extended to the UAE also only served to further attract firms from other third party states to conduct their sanctions-busting trade through the country. Both in how the United States' alliance constrained its ability to coerce the UAE into supporting its sanctions and in how American and third party firms exploited those constraints to circumvent the sanctions perfectly illustrate my theoretical explanation in practice.

General Performance of the Triadic Theory's Explanatory Variables

Within this case period, my theory's explanatory variables all performed well in explaining why the UAE's sanctions-busting trade with Iran experienced such dramatic growth after it formed an alliance with the United States. With the rapid growth of the UAE domestic economy and its openness to international trade, it increasingly represented a lucrative gateway through which Iran could gain access to sanctioned-goods and through which it could launder its embargoed exports. As the commercial linkages between the UAE and Iran grew stronger, the profitability of the arrangements and the political fallout it would have created became too strong for the sanctions-busting relationship that had formed to be disrupted. This only increased the perception that Dubai was the premier venue through which to trade with Iran—illicitly or otherwise. The political cover granted by its alliance with the United States and the increased access this opened to it in obtaining sensitive and high-tech goods only further enhanced its sanctions-busting profile and its sanctions-busting trade in these sectors. The evidence within this case period strongly supports my triadic theory's arguments about why these variables' affected the UAE's trade with Iran the way they did.

Weighing the Balance of Evidence

As the evidence has shown, my theory provides a compelling account of the UAE's response to the American sanctions against Iran. The key explanatory variables from the triadic theory of third party response all behaved as predicted. Furthermore, their effects upon the firm and state behaviors appeared to occur for reasons consistent with my theoretical account. The UAE's commercial profile and its geographic and commercial relationships with Iran all positively affected its attractiveness to firms as a sanctions-busting venue. In the second case period, the evidence demonstrated that the alliance formed between the UAE and the United States positively affected the UAE's sanctions-busting trade with Iran. The alliance's affect on the Emirati and American governments' behavior was more consistent with the triadic theory than it was with the realist perspective's expectations. This analysis relied upon a far richer set of operational measures to assess the effects of my theory's explanatory variables. For example, the study was able to evaluate the UAE's trade openness in terms of its development of FTZs instead of just the generic indicator used in the quantitative analysis. That these alternative specifications of my independent variables supported my theory's predictions only adds to my findings' robustness. Beyond the core explanatory variables, the narrative also uncovered several “smoking-gun” CPOs that supported my hypotheses. The rest of this section will evaluate the extent to which the case evidence sheds light on these process-oriented aspects of my theory.

The first hypothesis within this analysis pertained to how sanctions change third parties' trade with states targeted by sanctions. My theory asserts that profit-seeking firms are the primary actors responsible for determining the effects that sanctions have on target states' trade with third parties. The UAE's sanctions-busting trade on Iran's behalf was not directly controlled or funded by the Emirati Government. While policies enacted particularly by Dubai's Government facilitated in sanctions-busting, the trade itself was conducted by individual, profit-seeking traders and firms. Indeed, the UAE's sanctions-busting trade often occurred at the expense of the state's foreign policy interests. This further indicates that private commercial interests motivated the trade instead of political ones, eliminating the alternative explanation and providing strong support for the hypothesis.

My theory's root assumptions about nature of firms and their response to sanctions were especially validated by how American firms responded to the sanctions imposed by their government. The narrative clearly shows that American firms actively sought access to the profitable Iranian market—either by lobbying for the sanctions lifted or by findings ways around them. In contrast to Martin's (1992) theory, the case evidence revealed that U.S. commercial interests lobbied for U.S. sanctions against Iran to be lifted instead of for measures (like the *ILSA*) that sought to compel other states into joining the American sanctions. Unable to change the U.S. Government's policies, American firms increasingly turned to trading through or investing in third party venues like the UAE to circumvent the sanctions. As such, these firms had incentives to lobby the U.S. Government not to actively attempt to enforce its sanctions abroad. This demonstrates that my theory's root assumptions about the incentives and strategies driving firms' behavior provide a *consistent* and d*escriptively accurate* account of how they behaved within the target, sender, and third party countries. No black box is needed to needed to assume away the behaviors of any of the parties involved in the triadic unit of analysis. This strongly supported the second hypothesis.

Within the narrative, I also sought to demonstrate that the alliance formed between the U.S. and the UAE positively contributed to the explosive growth of the UAE's trade with Iran in the second case period. To provide the most validation for my theoretical account, I needed to demonstrate that the U.S. Government's tolerance of the UAE's rampant sanctions-busting was not the product of a lack of information but rather the result of a calculated political trade-off. As my narrative revealed, both agencies within the U.S. Government and a wide variety of open source accounts clearly had identified that the UAE was a hub for sanctions-busting activity as far back as the early 1980s. The U.S. Department of Commerce's own history of enforcement actions suggests that it should have been aware that American firms were actively using Dubai to circumvent U.S. sanctions. If nothing else, Vice President Cheney would have known that Halliburton was using its subsidiary in Dubai to circumvent the U.S. Government's sanctions against Iran. The overwhelmingly supportive response of the Bush Administration towards the UAE during the Dubai Ports World fiasco also demonstrates that maintaining positive relations between the U.S. and UAE was a significant foreign policy objective. If the alliance relationship had not been important to U.S. security interests, the Bush Administration would not so strongly have defended the Emirati Government and the proposed deal in the face such strong public opposition.

Finally, the narrative revealed a crucial aspect about the American response that could not be captured in my statistical analysis. As my analysis revealed, part of why the UAE's trade with Iran increased from 1995-2005 was that more American firms used it as a diversion or an investment point. Beyond just the circumstantial trade data shown in *Figure 4.4*, the narrative offered a slew of case data showing that American firms had increased their corporate presences in or connections with the UAE after the U.S. alliance was formed and had done so—at least in part—to gain better access to the Iranian market. Indeed, it is significant that as the U.S. sought to impose very stringent sanctions against Iran and to coerce the participation of other states to join its efforts from 1995-1997 that American firms increasingly turned to the UAE to circumvent them. Instead of the alliance serving as vehicle for fostering greater cooperation between the U.S. and one of the greatest threats to its sanctions' success, the alliance served as cover for American firms seeking to sanctions-bust. This is wholly consistent with my theory, but not with the realist perspective.

Conclusion

This evidence from this case provided strong validation for my theoretical account, showing support the findings from the quantitative analysis and the more nuanced aspects of the causal processes entailed in my theory. The UAE's emergence as such a significant sanctions-buster on Iran's behalf is atypical of most third party responses. Most third parties do not have their trade with target states as dramatically affected by sanctions as the UAE did. Yet, the variation that existed in the amount of trade conducted between the UAE and Iran over the 25 years the sanctions were in place—and whether or not it went through illicit or legitimate channels—provided ample opportunity track how changes in the explanatory variables influenced the UAE's sanctions-busting behavior. It also offered some additional insights that can be explored within the context of my second study that focuses on the emergence of extensive sanctions-busters.

First, the sanctions-busting cooperation that occurred between Iraq and Iran following the Iraq's invasion of Kuwait was particularly surprising. Even after the two countries fought a bloody war that lasted almost the length of the 1980s, Iranian traders and implicitly the Iranian Government were willing to facilitate in the regime in breaking the UN-embargo and blockade imposed against it. Obviously, this was not done out of loyalty or empathy. Instead, this suggests that sanctioned states and the entrepreneurs that inhabit them are driven by pragmatic, profit-seeking ends—not political ones. The skills Iranian traders picked up in sanctions-busting on their own country's behalf were readily applicable to doing so on the behalf of Iraq. The tacit—if corruption-driven—cooperation that occurred along the Iraq-Iran border further suggested that sanctioned states might be more willing to aid each other in defeating the sanctions than when only one of the parties has been sanctioned.

Second, this suggests that there are certain first-mover advantages and reputational feedback mechanisms involved in becoming an extensive sanctions-buster. By having such initially strong connections to Iran when the U.S. sanctions were first imposed against Iran in 1979, the UAE was the best positioned country to capitalize on opportunities created by the sanctions. While the UAE's initial trade flows with Iran were not extraordinarily high, this was because a large proportion of the trade occurring between the two states was being conducted illicitly. As Dubai's reputation for being the principal sanctions-busting entrepôt into Iran grew, so did the amount of business it was able to attract from the United States and other third parties. This reputation led an increasingly large number of international firms to brazenly take advantage of Dubai in sanctions-busting on Iran's behalf. Once Dubai had established itself, however, there was little need for other countries to fulfill the role it was playing. This suggests that in any given sanctions-episode, there will only be a limited number of states involved in extensive sanctions-busting.

Third, this analysis has also shed light on an area of trade with sanctioned states that has hitherto been neglected: how such trade is financed. Since trade with sanctioned states often occurs in a nebulous realm of legality, this case suggests that traders in both third parties and target states are attracted to venues with loosely regulated financial systems. Dubai's traditional role as hub for *hawala* transactions and its emergent position as a regional financial center provided Iranian traders with the means to carry out their global purchases—with the U.S. and other states—while keeping a low-profile to avoid detection. Dubai's opaque financial system was a crucial component of what made it such an excellent diversion point for trading with Iran.

Fourth, the case study also shed light on the role played by illicit trade in sanctions-busting. While the statistical analysis could only capture the absence of an otherwise expected effect, this case illustrated how the UAE-Iranian smuggling network emerged in response to the sanctions. Building upon the traditional trade networks that existed between its traders and the rest of the Persian Gulf, utilizing the fleets of small, difficult-to-detect dhows that used Dubai as a hub, and taking advantage of Dubai's laissez faire regulatory system, a sanctions-busting industry was able to incubate within Dubai from the time that the U.S. Government first imposed sanctions against Iran in 1979. After the United States re-imposed sanctions against Iran in 1984 and slowly ratcheted up their pressure, this sanctions-busting industry was able to grow in lockstep to service Iran's growing needs. By the time the UN-mandated sanctions were imposed against Iraq, this sector was well-developed and more than capable of also taking advantage of the illicit sanctions-busting opportunities afforded by them. While smuggling did not completely displace legitimate trade between the UAE and Iran, it persistently accounted for a large proportion of the two countries' trade. As I argued, such trade occurs most readily between the target and its immediate neighbors and this case largely bore that out. While this evidence does not confirm that these causal processes are at work amongst all neighbors of sanctioned states, it contributes to the plausibility of my assertion.

In the next chapter, I will seek to build the insights from this case into my account of how extensive sanctions-busting states emerge. The evidence thus far has shown strong support for my theory's explanation of general third party responses. Given the attention received by so-called "black knight" sanctions-busters, however, the most difficult test of my theory will be in ascertaining whether my theory also pertains to those states. From the evidence revealed in this case study, though, there are strong reasons to expect that the triadic theory of third party response will perform well.

CHAPTER 5

EXPLAINING THE EMERGENCE OF COLD WAR SANCTIONS BUSTERS

This chapter explores why certain third party states became extensive sanctions busters during the Cold War. Given that competition between the United States and Soviet Union dominated the international politics of this era, many of the sanctions episodes imposed during it involved disputes between rival members of the alliance blocs they led. Yet in her cross-episode analysis of cooperation with sanctioned states, Lisa Martin (1992: 90-91) found no evidence that the sender was any more likely to receive third party cooperation in sanctions cases involving target and sender states from rival blocs. My findings in *Chapter 3* do suggest, however, that the targets of economic sanctions were more likely to receive third party assistance during the Cold War. Hufbauer et al. (1990; 2007) contend that politically-motivated "black knights" conducted the lion's share of the sanctions-busting during this period. For the realist account, the set of Cold War sanctions-busting states should constitute the body of "most-likely" cases for the theory's explanation. Through evaluating the states that engaged in extensive sanctions busting during this period, I seek to conduct a critical test of my theory against the rival realist alternative.

The chapter proceeds as follows. The first section provides an overview of the Cold War sanctions employed from 1950-1990 and discusses the body of cases included in the dataset. The next section establishes the operational criteria for identifying states engaged in extensive sanctions busting and explains the process used to code the dependent variable. Next, I provide an overview of my theory's operational hypotheses and the rival realist predictions.

Summarizing Cold War Sanctions from 1950-1990

The use of economic sanctions became more prevalent during the Cold War than it had in previous periods. In her analysis of Cold War sanctions, Martin (1992) examines variation in the amount of cooperation that sender states received in imposing sanctions. Using a sample of 101 cases from 1945-1989 from Hufbauer et al.'s (1990) dataset, Martin (1990: 49) finds that, on average, 5.67 states participated in each sanctions episode.[133] The dataset used in my study draws on 76 of sanctions episodes included in Hufbauer et al.'s (1990) sanctions database (see: *Appendix B*). This sample is smaller than the one evaluated by Martin (1992), because it encompasses 5 fewer years, it excludes cases that did not include a state as a primary sender, and economic data was not available for all of the target states.[134] While the United States served as the primary sender in 72% of the cases, the dataset also includes observations from a number of different sender states, including the Soviet Union. The dataset contains a diverse array of targets from around the world, spanning from 1950 until 1990. The average duration of the sanctions episodes included in the dataset is 6 years, but this figure does not include observations from sanctions episodes that endured beyond 1990. Due to their duration, the sanctions episodes

[133] The standard deviation of the variable's distribution is of 11.88. Noting that the sanctions co-sponsored by the UN against Rhodesia and South Africa engendered a disproportionate amount of cooperation—hence skewing her dataset—Martin excludes these cases from her analysis. When Martin (1992: 51) excludes the sanctions episodes involving Rhodesia and South Africa, the mean number of states participating in each sanctions episode drops to 4.22 with a standard deviation of 6.04. Such cases do not pose a problem for my analysis because they offer insight into the effects that the greater cooperation engendered by IOs have on the responses of non-participants.
[134] The cases excluded because they only had only had IOs as primary senders, include: UN v. S. Africa (1962-94), UN & Org. of African Unity v. Portugal (1963-74), Arab League v. U.S.A. & Netherlands (1973-74), Arab League v. Egypt (1978-83), Arab League v. Canada (1979), and EC v. Turkey (1981-86). These cases could not be included because of the triadic unit of analysis by which the study is structured.

imposed by the United States against North Korea (1950-1990), Cuba (1960-1990), and North Vietnam (1954-1990) constitute the episodes with largest number of observations in the dataset. Like the dataset used in *Chapter 3*, this dataset also has wide variation in the types of sanctions employed and in the participation of international organizations in the sanctioning efforts.

Of the 76 sanctions episodes included in my analysis, Hufbauer et al. (2007: 75-87) assert that "black knight" sanctions-busting took place in 15.6% of them. Though this figure does not provide any more detailed information on the states providing the assistance, the years it was provided in, nor in what levels, it offers some first-cut insights into the occurrence of third party sanctions-busting in the dataset. The measure, for example, suggests that extensive sanctions-busting occurs rather infrequently. Reviewing the 12 episodes flagged for black knights also shows that 11 of them involved the United States as the sender. Comparatively, then, "black knight" sanctions-busting occurred in 20% of the cases involving the United States as the sender and only in 4.5% of the cases involving other senders. This suggests that not only does the United States have sanctions-busting problem, but that it is more of a problem for the U.S. than it is for other countries.

In this analysis, I attempt to move beyond the crudeness of the "black knight" variable to provide a more nuanced account of third party sanctions-busting. I contend that Hufbauer et al.'s (1990; 2007) measure undercounts the actual amount of sanctions-busting that occurs by focusing too much on politically-motivated assistance. From my theory's perspective, politically- and commercially-motivated third party trade with sanctioned states should have *largely* similar effects on sanctions outcomes.[135] The "black knight" variable is also too loosely defined and

[135] I acknowledge that free assistance given by a third party government to a target government may be more beneficial to the target state than equivalent commerce gotten through the international marketplace. Yet, little assistance in international politics is ever given with no strings attached. This devalues the notion that such assistance is truly "free."

provides too little information about the nature of the sanctions-busting that took place. In disaggregating sanctions-busting from an episode-level measure to yearly observations of third party responses, I seek to provide a more nuanced, consistent measure of sanctions-busting behavior. By creating uniform criteria for what constitutes extensive sanctions-busting and then using that metric to identify which states engaged in sanctions-busting and when they did it, my dataset will offer a far better measure of the actual amount of sanctions-busting occurring than currently exists.

Assessing the Emergence of Extensive Sanctions-Busters

This study defines sanctions-busting assistance in terms of international trade. Sanctions-busting behavior is conceptualized as a significant increase in a third party's trade with the target following the imposition of sanctions, constituted in high enough levels so as to have a salient impact upon the economic costs the sanctions would otherwise impose. The operational definition of sanctions-busting trade has two key components: a significant increase in third party-target trade after sanctions are imposed and an absolute threshold for which a trading partner can be of significant importance to the target state. This operationalization provides a mechanism for exploring how the commercial relationship between the third party and target changes after sanctions are imposed. It also requires establishing standards for both attributes where none exist. Within this analysis, I employ a retroactive technique of assessing baseline trade flows in developing the differential measure used as part of my dependent variable.

To capture the first of these two elements—post-sanctions change in third-party-target trade—separate trade growth indexes were created for exports and imports between the third party and target states for the years preceding and during the sanctions. Average index figures of the import and export growth between the target and third party are created for the three years preceding the sanctions (where possible)[136] to provide a baseline measure of the states' pre-sanctions trade relationship. These pre-sanctions index figures were then subtracted from the third party-target states' annual trade-growth percentage during the years the sanctions were in place. This provides a percentage by which the third-party state's trade with the target state was either higher or lower than the baseline levels of growth established by the pre-sanctions indexes. The threshold set for constituting sanctions-busting behavior is a 5-percent positive growth in the third-party state's imports/exports after the imposition of sanctions beyond the baseline established by the index figure. Given that changes may occur in one-time boosts, sanctions busters are considered to remain busters the following years if their trade growth with the target state remains positive. While there are sound reasons to think this is a strong measure, alternative coding schemes were also tested and provided results consisted with those reported in the study.[137] Even as this measure entails retroactive comparison, it measures trade changes instead of static trade flows—partially accounting for dynamics in states' trade relationships.

In terms of the second criterion, for a third-party state to qualify as a significant trading partner its trade with the target had to comprise at least 5-percent of the target's overall trade. Using this qualification on the third party's share of the target's total trade ($TRADESHARE_{T3}$) is important for several reasons. First, it identifies those states with which the target's trade is most concentrated, providing a criterion for determining the salience of the third party's trade in terms of the target's dependence upon it. Second, third parties conducting only minimal trade

[136] Due to the emergence of new states this was not always possible and more limited measures had to be taken of pre-sanctions trade growth. If only two years of previous observations were available, then an average of the previous two years was used. If only the previous year was present, that observation was used. If the state became independent during the course of the sanctions regime, the third party-target trade index was set at 0.
[137] The author will provide additional materials to demonstrate the robustness of similar measures upon request.

with the target could have their trade change figures fluctuate significantly due to only small changes in trade flows. As such, this criterion plays an important screening role in only identifying those states with which the target has salient commercial relationships, and whose support could meaningfully ameliorate the effects of the sanctions. It also has larger theoretical implications, as I predicted that target states' governments and firms are most likely to concentrate their persuasive efforts on those states upon which they are most dependent. This criterion captures the inherent element of commercial dependency that exists between the target and third party states as part of the sanctions-busting relationship. The population cannot be restricted solely to examining those states that meet this qualification, however, because the states that meet this specification change over time and the imposition of sanctions influences which states actually become this salient to the target.

Using these criteria, a binary variable signifying the third-party state is a sanctions-buster (SANCTBUST) is coded as 1 in the years that the third-party state's trade with the target meets these criteria and 0 otherwise. The variable is coded using data on recorded international trade flows, primarily compiled by the International Monetary Fund, from Gleditsch's (2002) "Expanded Trade Data Set 4.1."[138] This alternate set of trade data is used to provide as a further robustness check of my findings, demonstrating that my findings are not data-dependent. This coding has face validity in that it captures the most likely culprits, such as the Soviet Union on behalf of Cuba, South Africa on behalf of Rhodesia, and China on behalf of North Korea. Additionally, however, it flags non-intuitive cases like Japan's sanctions-busting on behalf of Cuba and Belgium and Spain's busting on behalf of Libya. The dependent variable SANCTBUST identifies 1,495 cases of sanctions-busting among states that sanctions-busted

[138] Data on "legitimate" sanctions-evading trade could be biased, as it may be in the third parties' interest to cover up the trade or doctor the trade figures they report (Dadak 2003). While this may bias the data against finding sanctions-busting cases, it does not invalidate those cases in which it is found to have occurred.

either imports or exports, which constitutes 2.34-percent of the total observations in the set.[139] The table in *Appendix B* contains the listing of the sanctions cases in the set and the number of observations within each in which states are identified as sanctions-busting.

Operationalizing the Hypotheses and Model

I begin this section by discussing how my dataset is structured in the quantitative analysis. After that, I discuss my theory's perspective on why certain states may become as extensive sanctions-busters, emphasizing the positive externalities of trade clustering. I then present my theory's hypotheses and explain how they are operationalized. Next, I discuss the realist alternative's set of predictions regarding sanctions-busting behavior. As in *Chapter 3*, I parse out the convergent or divergent relationships between my theory's predictions and their rival realist counterparts. The section concludes with a discussion of the control variables also included in the analysis.

Structuring the Triadic Dataset

The unit of analysis within the dataset is the *episode-triad-year,* consisting of the primary sender of the sanctions, the sanctions' target, and individual third-party states taken annually for each sanctions episode. In this triadic unit of analysis, the sender and target states are identified separately with respect to every individual sanctions episode for all years the sanctions are in place. Then, for each sender-target pairing in a sanctions episode, the remaining states in the

[139] In the full model data set, third-party states are flagged as import sanctions busters 1,048 times, 999 times for being export sanctions busters, and in 552 cases the state was a sanctions-buster for both.

world are matched with the sender-target pairs as "third-party states" to form the triad. This approach differs from the one taken in *Chapter 3*, as overlapping sanctions episodes are not aggregated together, but rather considered distinct from one another. The two different approaches were used to demonstrate that results yielded by my analyses are robust across different operationalizations. The observations are taken on a yearly basis instead of aggregating behavior across the course of the sanctions regime to account for temporal variation in the conditions under which sanctions-busting occurred. Overall, this coding method produces 63,778 triadic-observation years in the full model's data set. For a full list of the cases included, see *Appendix B.*

The Triadic Theory of Third Party Response and Extensive Sanctions-Busters

Contrary to the realist assertion that politically-driven black knight states drove most of the sanctions-busting during the Cold War, my theory contends that commercial motives can, for the most part, explain the responses of the third party states that engaged in prolific sanctions-busting during this period. As the theory of third party response explains, there are a host of factors based upon the transaction costs involved in trading with sanctioned states that lead firms and target states to prefer concentrating their trade upon a small number of third parties. The positive externalities that come from stronger commercial interdependence between the target and third party provide a feedback mechanism whereby the third parties with strong commercial relationships with the target attract more commerce than countries with weaker connections. This, in-turn, provides greater incentives for other firms to do business in the states that have the strongest commercial relationships with the target. These processes were strongly evidenced in

Dubai's emergence as a leading sanctions-busting hub. This suggests that there are economies of scale involved in conducting sanctions-busting trade, which can lead to the emergence of a small number of states that engage in an extensive amount of sanctions-busting trade with the target. While political factors positively contribute to the profiles of states that make them attractive sanctions-busting venues, they are viewed as neither necessary nor sufficient conditions for sanctions-busting to occur. Thus, the same factors that make third parties attractive venues for trading with sanctioned states, in general, should also influence those outlier states that emerge as extensive busters in the same way.

Operationalizing the Hypotheses of the Triadic Theory of Third Party Response

In this section I detail my theory's hypotheses concerning the emergence of extensive sanctions-busters and discuss how they are operationalized. In addition to using different trade data in this analysis, I also draw on several other data sources than the ones used in the previous analysis. In the same vein as the previous analysis, my theory predicts that states with large, open economies will be more likely to become extensive sanctions-busters. In particular, countries with large economies will be significantly more attractive for potential sanctions-busting firms due to their greater ability to absorb and produce substantial amounts of goods. LN(ECONOMIC SIZE$_3$) is operationalized as the log of third party's economic size using GDP data from Gleditsch's (2002) "Expanded Trade Data Set 4.1." Third parties with open economies should be more capable of re-direct significant trade flows to target states than states with autarkic economies. The variable representing the third party's trade openness (LAG(TRADE OPENNESS)$_3$) is coded using data on the total yearly trade conducted by third party states and

GDP data from Gleditsch (2002) and is lagged one year. My theory also predicts that extensive sanctions-busting is more likely to occur in observations in which both the target and third party are democratic than when one or both are autocratic. Once again, a dummy variable (JOINTLY DEMOCRACTIC$_{3T}$) is coded as 1 if both the third party and target states have POLITY2 scores of 6 or above and as 0 otherwise (Marshall and Jaggers, 2004). I formalize these predictions in the following three hypotheses:

> H1: The larger the third-party state's economy, the more likely it will be to engage in extensive sanctions-busting on the target's behalf.
>
> H2: The more open the third-party state's economy is to trade, the more likely it will be to engage in extensive sanctions-busting on the target's behalf.
>
> H3: If both the target and third-party states are democratic, the more likely the third party will be to engage in extensive sanctions-busting on the target's behalf.

Just as my theory made divergent predictions regarding the effects of distance and contiguity in the previous analysis, these effects should hold or be even stronger in the case of extensive sanctions-busters. The farther a third party states is from the target, the more difficult and less economical it will be for that states to engage in extensive sanctions-busting on its behalf. This variable (LN(DISTANCE$_{3T}$)) is coded using the logged distance between the states' capital cities, except for contiguous states for which the value is coded as 0 (Bennett and Stam, 2000). While the transportation costs involved in trading with the target are likely to be the lowest for states sharing a border with it, those countries' trade with the target is also likely to be the most scrutinized by the sender and international community. To avoid potential retaliation from the sender state for their sanctions-busting activities, both the firms and governments of states bordering the target (BORDER STATES$_{3T}$) will actively seek to mask their trade. These efforts can entail smuggling and other forms of illicit trade that may, in varying degrees, be conducted with the third party government's blessing (Naylor, 2001; Dadak, 2003). Due to unobserved illicit trade flows taking place between the target and its bordering states, I predict that border states should be less likely (in terms of their legitimate trade flows) to become extensive sanctions busters.

> H4: The farther away that a third party state is from the target, the less likely it is to engage in extensive sanctions-busting on the target's behalf.
>
> H5: If the target and third party states share a border, the third party state is less likely to engage in extensive sanctions-busting on the target's behalf.

The degree of a third party's commercial dependence upon trade with the target should have a strong effect upon the likelihood of the state becoming an extensive sanctions buster. The greater a third party's dependence upon a target, the more attractive the state will be to firms seeking to do business to and from the target. This creates positive externalities for clustering behavior among firms trading with sanctioned states—the larger their numbers are in a given country, the less likely are the perceived risks their trade will be disrupted. The presence of strong third party ties to a target state also denotes that the country has both the opportunity and willingness to increase its commercial engagement with the target. As such, I predict that the degree of third party's commercial dependence upon the target has a strong positive affect on its likelihood of becoming an extensive sanctions buster. In this study, LAG(TRADESHARE$_{3T}$) is coded using data from Gleditsch (2002) and is lagged one year to prevent for simultaneity bias.

> H6: The greater the third party state's commercial dependence upon trade with the target state is, the more likely it will be to engage in extensive sanctions-busting on the target's behalf.

Given the implications that engaging in extensive sanctions-busting can have upon the potential efficacy of the sender's sanctions, the nature of the third party's trade takes on an additional element of political saliency. These effects should have the strongest potential effects upon the third party's alliance partners. My theory contends that the governments of third parties sharing defense pacts with the target state (DEFENSE PACT$_{3T}$) have greater political incentives to facilitate in extensive sanctions-busting on target's behalf.[140] Allies of the target can encourage trade with the target by subsidizing firms' trade with the state or by offering firms protection from punitive measures taken by the sender. As such, the target's allies are more likely candidates to become extensive sanctions busters.

> H7: If the third party shares a defense pact with the target, it will be more likely to engage in extensive sanctions-busting on the target's behalf.

Extensive sanctions-busting necessitates an inherent degree of commercial interdependence between the third party and target states. It is the very salience of target's commercial relationship with an extensively sanctions-busting third party that makes the relative increase in the states' trade that occurs subsequent the sanctions meaningful. As discussed earlier, the salience of such trade relationships provides the target with strong incentives to actively pressure its largest trading partners not to join the sanctions. Indeed, if the target has a high degree of trade dependence upon a particular third party it implies that, in turn, the importance of its trade relationship with the target is also likely to be substantively significant.[141] This has substantively important implications for the effects that an alliance between the third party and sender states has on the likelihood of that third party becoming an extensive sanctions-

[140] The defense pact variables are coded identically to the way they were in the previous analysis.
[141] This does not mean that the nature of the trade two states' trade relationships will be symmetrical, only that if the two states' absolute trade flows are high enough so as to make it the trade relationship extremely important for the target state, then that trade flow will also likely represent a non-trivial sum for the third party as well.

buster. Given that only a small degree of interdependence in my first empirical model caused third party alliances with the sender to have a positive effect (DEFENSE PACT$_{3S}$), the pre-conditions established for being an extensive sanctions buster guarantees that non-trivial commercial ties must be present between the third party and target if extensive sanctions-busting is to occur.[142] Thus, it is not necessary to include an additional interaction term to assess the joint effects of a third party defense pact with the sender and third party-target commercial interdependence on the likelihood of the third party becoming an extensive sanctions buster. This suggests that the same factors that made states allied to the sender attractive venues for trading with the target in the general model contribute to such states becoming extensive sanctions-busters. As such, my theory contends that a third party faced with a decision on whether to allow its firms to engage in extensive sanctions busting on behalf of a target state that is highly dependent upon its commerce, the third party will be more likely to become an extensive sanctions-buster when it is allied to the sender.

> H8: If the third party shares a defense pact with the sender, it will be more likely to engage in extensive sanctions-busting on the target's behalf.

Operationalizing the Rival Realist Predictions

The salience of the realist alternative's predictions should be strongest when addressing sanctions-busting, as the behavior is so beneficial to targets and so detrimental to the policy objectives of senders. These effects should be further magnified by the bipolar distribution of power during which this analysis takes place. Congruent with my theory, the realist account predicts that allies of the target (DEFENSE PACT$_{3T}$) will be more likely to become extensive

[142] In other words, it is impossible for a third party to be an extensive sanctions buster if it has no commercial dependence upon the target. Thus, running an interaction term premised on the ascertaining the probability of an impossible scenario is of no substantive value.

sanctions busters. Yet, the realist theory argues that such alliances should provide a sufficient motive—absent commercial incentives—to motivate third party sanctions-busting. It contends that third party government's security interests are the primary driver of the state's responses. On the other hand, the realist account asserts that third party allies of the sender (DEFENSE PACT$_{3S}$) will prioritize their relationships with the sender over their commercial interests with the target. This prediction is much stronger than the one made in *Chapter 3*, as it asserts only that allies of the sender should abstain from engaging in extensive sanctions-busting on a target's behalf—not that they will completely abstain from commercial opportunism. If this prediction has any general validity, it should be observed under these circumstances.

The realist theory makes the same type of predictions regarding the effects of rivalries as it did in the previous study. Third party rivals of the target (RIVALRY$_{3T}$) should have very strong incentives not to sanctions-bust on the target's behalf because it would not want to ameliorate the damage being done to its adversary by the sanctions. From this perspective, the third party government's security interests vis-à-vis its ally outweigh any commercial interests its constituencies have with the target. A la the black knight hypothesis, the realist account also predicts that rivals of the sender (RIVALRY$_{3S}$) should be more likely to engage in sanctions-busting on the target's behalf. Consistent with the United States' airlift campaign on behalf of Berlin to thwart the Soviet blockade against it, the realist account predicts that sanctions-busting may be a commonly strategy used in great power politics.[143] In that same vein, the realist theory would also predict that third party states that are great powers (MAJOR POWER$_{3}$) would also be more likely to engage in extensive sanctions-busting than other states—even controlling for economic considerations.

[143] This variable is operationalized the same way as it was in the previous analysis, using data from Klein et al. (2006).

The Control Variables

As the estimation technique used in this analysis does not require instrumental variables, fewer controls are included. LN(ECONOMIC SIZE$_T$) is included to control for the effects of the target's economic size. Given its strange effect on third party trade with target states in *Chapter 3*, I also have included the variable (PAST COLONY$_{3T}$) for whether or not the third party and target states had a past colonial relationships using date from CEPII (2006). Even though the variable demonstrated a substantial negative effect on third parties' trade with target states in the past analysis, I would still predict that the presence of a colonial relationship between the target and third parties should increase the third party's likelihood of sanctions-busting on the target's behalf. The presence of the social ties created by the shared colonial relationship should offer both political and commercial incentives for targets to reach out to states with whom they share colonial pasts and for third party's to respond favorably to such entreaties.

Most of the control variables included in the model address sanctions-related effects on sanctions-busting activities. Hufbauer et al.'s (1990, 48) "Cost" variable is included within the analysis to measure the senders' incurred costs in imposing sanctions. COST is a 4-point ordinal measure of sanctions severity going from least to most severe. A score of 1 indicates that the sanctions may have incurred a net gain for the sender, while a 4 indicates that the sanctions incurred major losses for the sender. As an alternative measure for the severity of the sanctions, I also code a dummy variable (SEVERE SANCTIONS) for if the sender's sanctions regime included import, export, and financial sanctions at the same time (1=Yes; 0=No).[144] The more severe the sanctions against the target are, the greater the incentives will be for third parties to sanctions-bust on its behalf. Additionally, the model includes the controls for whether the sender's

[144] *COST* and *SEVSANCT* have a correlation of .59.

sanctions were imposed to disrupt the target's military adventurism (DISRUPTIVE MOTIVE) or for security purposes (SECURITY MOTIVE).[145] I also include a count variable (DURATION) for the number of years the sanctions have been in place. The longer the sanctions have been around, the harder it should be for senders to keep up pressure on third-party states not to bust the sanctions.

While I use the same variable denoting whether or not a sanctions regime received the support of an international organization (IO SUPPORT) that I did in *Chapter 3*, I predict that it will have the opposite effect on trade with sanctioned states in this analysis.[146] While the support of an IO may have a generally negative effect upon third party trade with sanctioned states, it also has the simultaneous effect of making the sanctions regime against the target harsher. This implies that for states willing to bear the [potentially] harsher political costs of sanctions-busting when the sender has the support of an IO, the commercial incentives of doing so will be magnified by the broader support the sanctions have in the international community. The negative general effects that IOs have on third party trade with sanctioned states may also drive firms to concentrate their business on a few states willing bear the costs of engaging in extensive sanctions-busting. Thus, sanctions regimes with the support of IOs should have more extensive sanctions-busters than those without them.

A variable is also coded for the number of ongoing sanctions that both the trading partners are being subjected to at one time (OVERLAP).[147] As my case study in *Chapter 4* suggested, sanctioned states facing multiple external sanctions may be more likely to trade with each other than other partners. This variable examines whether or not, in terms of their legitimate

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[145] The variables *SEVSANCT, SECSANCT, and DISSANCT* all use the same case source material from Hufbauer et al. (2007) as their counter-parts in *Chapter 4.*

[146] In this study, though, I operationalize the variable using data from the Hufbauer et al. (1990) dataset.

[147] Though these sanctions cases are not included within the analysis, Overlap includes sanctions cases in which organizational senders imposed sanctions upon the target or third party during the given year. These cases are: UN v. S. Africa, UN & Org. of African Unity v. Portugal, Arab League v. U.S.A. & Netherlands, Arab League v. Egypt, Arab League v. Canada, and EC v. Turkey (Hufbauer et al., 1990).

trade flows, sanctioned states cooperate more with one another to defeat the sanctions imposed against them. This addresses the broader, substantively interesting issue of whether pariah states cooperate more with one another because of the shared challenges they face. Finally, I also include a dummy variable for whether or not the sender country was the United States to test whether, as Hufbauer et al.'s (2007) coding of the "black knight" variable suggests, sanctions-busting is more of a problem for the United States than it is for other countries.

Conducting the Quantitative Analysis

Three sanctions-busting models are run using logistic regression with White-Huber robust standard errors, which are displayed in *Table 3*. Model 1 jointly assesses the performance of the predictions of the triadic theory of third party response and the realist account, including the base set of control variables. In Model 2, a dummy variable for whether the United States was the sender is included in the analysis. Model 3 includes the additional controls for the effects of the types of sanctions being imposed, excluding the COST variable due to multicollinearity issues with SEVERE SANCTIONS. This model focuses the analysis on cross-episode differences in sanctions-busting behavior. Temporal dependence is addressed in all five models by including a variable measuring the number of elapsed years since sanctions-busting behavior has occurred (YEARS W/O BUSTING) and three natural cubic spline variables (Beck, Katz, and Tucker, 1998). Despite the relative dearth of sanctions-busting observations, Model 1 has an adjusted-R^2 of 16.5%, which indicates that it provides a significant improvement over simply assuming a non-busting mean. The model makes correct positive predictions of sanctions-busting behavior 64.68% of the time.[148]

Table 5.1: Logit Models of Sanctions-Busting Behavior

	Model 1		*Model 2*		*Model 3*	
	Coef.	*S.E.*	*Coef.*	*S.E.*	*Coef.*	*S.E.*
LN(ECONOMIC SIZE$_3$)	.71†	(.02)	.71†	(.02)	.79†	(.02)
LAG(TRADE OPENNESS$_3$)	.75†	(.07)	.75†	(.07)	.83†	(.07)
LAG(TRADESHARE$_{3T}$)	4.40†	(.39)	4.40†	(.39)	5.21†	(.39)
JOINTLY DEMOCRACTIC$_{3T}$	.47†	(.12)	.39†	(.12)	.74†	(.12)
DEFENSE PACT$_{3T}$	.41†	(.11)	.41†	(.11)	.66†	(.11)
DEFENSE PACT$_{3US}$	.33†	(.07)	.39†	(.08)	.22**	(.07)
LN(DISTANCE$_{3T}$)	-.29†	(.04)	-.28†	(.04)	-.24†	(.04)
BORDER STATES$_{3T}$	-1.42†	(.30)	-1.38†	(.29)	-1.08†	(.31)
RIVALRY$_{3T}$	-.16	(.20)	-.15	(.20)	-.01	(.20)
RIVALRY$_{3US}$	-.06	(.12)	-.03	(.12)	-.21	(.13)
MAJOR POWER$_3$	-.01	(.11)	-.02	(.11)	-.15	(.12)
LN(ECONOMIC SIZE$_T$)	-.11†	(.02)	-.11†	(.02)	-.08**	(.02)
PAST COLONY$_{3T}$	.59†	(.14)	.57†	(.15)	.64†	(.15)
OVERLAP	.18†	(.05)	.18†	(.05)	.15**	(.06)
IO SUPPORT	.63**	(.23)	.60**	(.23)	.82†	(.22)
DURATION	.08†	(.01)	.08†	(.01)	.03†	(.01)
COST	.27†	(.05)	.25†	(.05)		
SEVERE SANCTIONS					.99†	(.09)
DISRUPTIVE MOTIVE					.90†	(.10)
SECURITY MOTIVE					.40†	(.09)
U.S. SENDER			-.18♦	(.09)		
YEARS W/O BUSTING	-1.51†	(.07)	-1.50†	(.07)	-1.51†	(.07)
SPLINE 1	-.08†	(.01)	-.08†	(.01)	-.08†	(.01)
SPLINE 2	.03†	(.00)	.03†	(.00)	.03†	(.00)
SPLINE 3	-.00	(.00)	-.00	(.00)	-.00	(.00)
CONSTANT	-7.79†	(.47)	-7.70†	(.47)	-9.30†	(.51)
# Observations	63,778		63,778		61,799	
Wald χ^2	3,686.19		3,684.41		3,653.91	
Pseudo R^2	.50		0.50		.52	

Note: ** and † designate statistical significance at the 99%, and 99.9% confidence levels respectively. ♦ designates that the variable achieved signficance at the at the 94% confidence level. All tests of significance use two-tailed tests.

[148] The post-estimation commands are running using Long and Freese's (2006) suite of S-Post commands.

The results from the three models offer decidedly stronger support for the triadic theory of third party response than they do for the realist account.[149] The evidence from Cold War sanctions-busting cases provide validation for all eight of triadic theory's hypotheses, while yielding almost no support for the realist predictions. The divergent performances of the two theories are striking, given that the research design of the study was meant to be particularly amenable to the realist account. The empirical analysis also yields interesting findings with respect to the effects of having the support of an IO, the motives behind the sanctions' imposition, the identity of the sender, and the overlap of sanctions regimes had on sanctions-busting behavior.

The Results' Implications for the Triadic Theory of Third Party Response's Hypotheses

The evidence from the 76 episodes of Cold War sanctions suggest that third party sanctions-busting during this period was predominantly driven by the interests of the states' commercial constituencies rather than great power politics. The triadic theory of third party response offers an explanation of how both third parties' incentives and opportunities affect their likelihood of engaging in extensive sanctions-busting for which this empirical test provides strong support. To begin, the size and openness of third party states' economies both had positive, statistically significant effects on the sanctions-busting variable at the 99.9% confidence level. Consistent with prior results, these findings suggest that the commercial profile of third party states strongly influences which countries firms select to conduct their sanctions-busting

[149] The results hold true even if the high-leverage sanctions cases (*US v. N. Korea, US v. Vietnam,* and *US v. Cuba*) are excluded.

trade. On average and holding all other factors constant,[150] a one-standard deviation (S.D.) increase in LN(ECONOMIC SIZE$_3$) increases the odds that a third party will sanctions-bust by a factor of 3.82. With the same caveats, a one-S.D. increase in LAG(TRADE OPENNESS$_3$) increases the odds of a third party sanctions-busting by a factor of 1.32. Thus, countries with large, open economies are more likely to engage in extensive sanctions-busting than countries with small or autarkic economies irrespective of the political incentives they may have to do so. The findings also demonstrate that the more commercially dependent a third party is upon the target, the more likely it will be to engage in extensive sanctions-busting on its behalf. This effect is statistically significant at the 99.9% confidence level across all three models. Holding all other factors constant, a one-S.D. increase in LAG(TRADESHARE$_{3T}$) will, on average, increase the odds of a third party sanctions-busting by 1.24. This implies third parties with strong commercial ties to the target will be the most attractive venues to firms seeking to engage in sanctions-busting trade, which has self-reinforcing effects.

In contrast to findings in the *Chapter 3*, the joint presence of democratic institutions in both the target and third party states (JOINTLY DEMOCRACTIC$_{3T}$) exercises a positive, statistically significant effect (at the 99.9% confidence level) upon sanctions-busting behavior in this study. Substantively, this implies that extensive sanctions-busting is more likely to occur between two states that are democracies than when either or both of them are not. On average and holding all other factors constant, the presence of joint democratic institutions in both the target and third party increases the odds of extensive sanctions-busting occurring by a factor of 1.60 compared to when they are not present. One potential explanation is that that the sample of cases in this study includes senders other than the United States. Thus, this study contains observations in which the third party and target are democracies but the senders are not. In cases in which the sender is

[150] Unless otherwise specified, all the odds-ratios are computed using coefficients from Model 1.

autocratic, the effects of joint democratic institutions between the target and sender could be more pronounced. Another explanation is that that shared democratic institutions between the target and third parties only have a demonstrable effect when they involve the deepest degree of cooperation, e.g., extensive sanctions-busting. To test these potential explanations, I ran Model 1 using only the observations in which the sender was democratic and then only using observations in which the sender was non-democratic.[151] The results of these disaggregated samples reveal that JOINTLY DEMOCRACTIC$_{3T}$ attains positive, statistical significance in the sample in which the sender is democratic but not in the non-democratic sample. These findings suggest, then, that holding the sender constant as the United States in the first study did not bias the effects that JOINTLY DEMOCRACTIC$_{3T}$ had on third party trade with sanctioned states. This supports the notion that shared democratic institutions only exert significant effects in cases in which third parties engage in extensive sanctions-busting.

The effects of distance and contiguity on the likelihood of third parties engaging in extensive sanctions-busting also had the predicted effects. The farther a third party state is from the target, the less likely it will be to become a sanctions buster. This negative effect is statistically significant at the 99.9% confidence level in all three models. Holding all other factors constant, a one-S.D. increase in LN(DISTANCE$_{3T}$) will, on average, decrease the odds of a third party becoming a sanctions-buster by a factor of 0.63. As expected, the effect of being contiguous to the target (BORDER STATES$_{3T}$) also had a negative, statistically significant effect at the 99.9% confidence level across all three models. On average and holding all other factors constant, third parties that are contiguous to the target will be less likely to sanctions-bust by a factor .24 than those that are not. As my theory explains, the presence of shared borders with a

[151] The observations in which the sender was democratic constitute 87% of the sample observations, while observations in which the sender was non-democratic constitute the other 13%.

target state increase the incentives for individuals and firms in and the governments of neighboring states to conduct their sanctions-busting trade illicitly. The observable implication of this re-direction of trade is that these countries actually have their legitimate trade with sanctioned states decline. This explanation reconciles the seemingly contradictory findings with respect to both variables.

Finally, the effects of having defense pacts with the target (DEFENSE PACT$_{3T}$) and/or sender (DEFENSE PACT$_{3S}$) of the sanctions both yield the positive, statistically significant effects (at the 99.9% confidence level) on third parties' likelihood of sanctions-busting. On average and holding all else constant, having a defense pact with the target increases the odds of a third party sanctions-busting by a factor 1.50 compared to if it did not have one. This means that third party states are more likely to engage in extensive sanctions-busting on behalf of their allies then they are for non-allied states. In comparison, having a defense pact with the sender on average increases a third party's odds of sanctions-busting by a factor of 1.39. Strikingly, this means that third party states are more likely to engage in extensive sanctions-busting when the sender of the sanctions is their ally as opposed to when it is not. This finding both validates my theory and contradicts the rival realist prediction. Thus, the presence of alliance entanglements between a third party and either the target or sender states will contribute to its likelihood of engaging in extensive sanctions-busting.

Performance of the Realist Variables

The remaining realist variables offer almost no support for the realist theory. The models' results indicate that third party rivalries with the target (RIVALRY$_{3T}$) and/or sender

(RIVALRY$_{3S}$) do not have statistically significant effects on extensive sanctions-busting behavior. More surprising is that great power states (MAJOR POWER$_{3}$) are also no more likely to become sanctions busters than are weaker states. Given the sample's Cold War context and realist account's emphasis on great power politics, the lack of support for this prediction is a glaring problem for the theory. Indeed, the only prediction that the realist account correctly made involved the effects that alliances between the third party and target have on sanctions-busting behavior. Once again, however, the realist account of the effects of sender alliances is contradicted by the evidence. The theory simply has no explanation for why allies of the sender state should be more likely to become extensive sanctions busters. Since this empirical test was designed with the intention of providing the most favorable conditions for the realist account, the almost complete failure of the theory to explain the findings casts severe doubt on the theory's applicability to the subject matter.

Discussion of the Control and Sanctions Variables

The control variables yield a number of interesting findings. Concordant with the previous study, the economic size of the target has a negative, statistically significant effect on the likelihood of third parties becoming sanctions-busters on its behalf. This suggests that target states with large economies have less of a need for extensive sanctions-busting because their economies are more capable of adjusting to the sanctions on their own. In contrast to *Chapter 3,* however, past colonial relationships (PAST COLONY$_{3T}$) between the target and third parties have a positive, significant effect on the likelihood of the third party becoming an extensive sanctions buster at the 99.9% confidence level. On average and holding everything else constant, the presence of a past colonial relationship between the target and third party increases the odds of extensive sanctions-busting by a factor of 1.80 compared to if the states do not have such a relationship. In this case, PAST COLONY$_{3T}$ not only moves from insignificance to significance, but the sign and substantive implications are completely opposite of one another between the two studies. The findings here reveal that former colonial partners of sanctioned states are significantly more likely to emerge as sanctions-busting benefactors on the states' behalves, while the previous study indicates that such states are highly prone to having their commercial relationships disrupted by the sanctions. The strong dichotomy between the two studies' findings suggests that colonial relationships may have an all-or-nothing effect: on the whole, sanctions tend to disrupt the commercial relationships of third parties and targets sharing past colonial relationships more than other states, but, in the most extreme cases, the ties created by past colonial relationships can motivate large-scale sanctions-busting.

The findings from Model 2 provide an interesting counter-point to the distribution of "black knight" sanctions-busting cases Hufbauer et al.'s (1990; 2007) dataset. Given that their coding of sanctions-busting behavior flagged episodes of U.S.-imposed sanctions in an overwhelmingly higher proportion than those of all other states combined, it follows that a variable controlling for American sanctions (U.S. SENDER) should exert a decidedly positive effect. However, the results indicate that sanctions imposed by the United States have a negative, statistically significant effect at the 94.8% confidence level. Holding all other factors constant, the odds of sanctions regimes imposed by the United States producing sanctions-busters will, on average, be lower than those of other states by a factor of .84. Contrary to the insights produced by the "black knight" variable, the United States is actually better at deterring extensive sanctions-busting than other sender states—even if it still has a major problem with the phenomenon.

The effects of sanctions regimes having the support of international organizations and of overlapping sanctions regimes also produce salient results. As I predicted, sanctions regimes supported by international organizations (IO SUPPORT) are actually more likely to produce sanctions busters. This effect is positive and significant at the 99% confidence level across all three models. On average and holding all else constant, the odds of sanctions regimes supported by IOs producing sanctions busters will be higher than those without such support by a factor of 1.88. So while IOs may have a detrimental effect upon third party trade with sanctioned states in general, they also increase the incentives for certain states to become extensive sanctions busters. This challenges the conventional wisdom that having the support of IOs will always contribute to the success sanctions regimes (Martin, 1992; Drezner, 2000), as such support increases the incentives for third parties to become spoiler states. The number of sanctions regimes to which both the target and third parties (OVERLAP) are subjected has a strong, positive effect on sanctions-busting that is significant at the 99% confidence level. For every sanctions regime in place on either the third party or target, the odds that they will sanctions-bust on each others' behalf increases by a factor of 1.20. This indicates that sanctioned states are more likely to cooperate with one another to defeat the sanctions in place against them, and that the more duress they are under, the more likely they are to seek out the cooperative assistance of similarly situated states. This "birds-of-a-feather" effect suggests that senders should be weary of cooperation between pariah states that may be subject to numerous sanctions regimes.

In terms of the sanctions, the results from the analyses suggest that the harsher sanctions against the target are and the longer they are in place, the more prevalent extensive sanctions-busters are likely to be. The two variables denoting the harshness of the sanctions (COST and SEVERE SANCTIONS) exerted positive, statistically significant effects on sanctions-busting behavior at the 99.9% confidence level. Holding all other factors constant, a one-unit increase in COST increases the odds of third party sanctions-busting by an average factor of 1.30. In that same vein, sanctions regimes comprised of import, export, and financial sanctions have higher odds of producing third-party sanctions-busters by an average factor of 2.68 compared to those not including all three types of sanctions.[152] Combined with the findings concerning IOs, this suggests that harsher sanctions strongly contribute to the emergence of extensive sanctions busters. The duration of sanctions has a positive effect on the likelihood that third-party states will sanctions-bust in all three models, with the odds of a state sanctions-busting increasing, on average, by a factor 1.08 every year sanctions are in place. This suggests that senders become less effective at deterring extensive sanctions-busting the longer their sanctions regimes endure. Also significant, the temporal control for every year a third party does not sanctions-bust in a given case *(*YEARS W/O BUSTING*)* decreases the odds that it will do so in a given year by an average factor of .22.

Finally, the findings in Model 3 reveal that sanctions busters are more likely to emerge when the senders' sanctions constitute attempts to disrupt target states' military adventurism (DISRUPTIVE MOTIVE) or check their military capacity (SECURITY MOTIVE). Both these variables had positive, statistically significant effects at the 99.9% confidence level. On average and holding all other factors constant, the odds of sanctions regimes imposed to disrupt military adventurism producing sanctions busters are higher by a factor of 2.45 than sanctions imposed for other reasons (e.g., human rights or democratization). In comparison, the odds of sanctions imposed to check the military capacity of target states, on average, producing sanctions busters

[152] This odds ratio is computed using the coefficient of *SEVSANCT* from Model 3.

are higher by a factor of 1.50 than sanctions imposed for other reasons. The purpose of the senders' sanctions in these cases suggest that target states should be highly motivated to resist capitulating to the sender's demands—leading them to seek out extensive support from other states. For the right price, my theory suggests that there will always be third parties willing to offer it.

Weighing the Balance of Evidence

The results of the quantitative analysis demonstrated that the triadic theory of third party response provides a far better explanation of extensive sanctions-busting behavior than the rival realist account does. Evidence from the Cold War sanctions-busting cases strongly supports each of my theory's major hypotheses, while it provides almost no support for the realist account's key predictions. The results suggest that even during Cold War, third party states' responses to sanctions were primarily driven by the interests of their commercial constituencies. Contrary to the realist perspective, my theory asserts that while the foreign policy interests of third party and target governments play a role in shaping how sanctions affect their constituencies' trade, such interests are not determinative of the states' responses. *Table 5.2* provides support for this argument. Using predicted values from Model 1, it comparatively demonstrates the substantive significance of firms' incentives to sanctions-bust versus their government's security interests.[153] *Table 5.2*'s scenarios indicate that sanctions-busting is

[153] The third party government is considered interested in sanctions-busting if DEFENSE PACT$_{3T}$ =1, DEFENSE PACT$_{3S}$=0, RIVALRY$_{3T}$ =0, and RIVALRY$_{3S}$ =1. The government's interests are opposed if DEFENSE PACT$_{3T}$ =0, DEFENSE PACT$_{3S}$ =1, RIVALRY$_{3T}$ =1, and RIVALRY$_{3S}$ =0. Firm interest is considered minimal if JOINTLY DEMOCRACTIC$_{3T}$ =0, PAST COLONY$_{3T}$ =0, and LAG(TRADE OPENNESS$_{3}$), LAG(TRADESHARE$_{3T}$), and LN(ECONOMIC SIZE$_{3}$) are set at their 25th percentile values. Firm interest is considered to be strongly present if JOINTLY DEMOCRACTIC$_{3T}$ =1 and PAST COLONY$_{3T}$ =1, with LAG(TRADE OPENNESS$_{3}$), LAG(TRADESHARE$_{3T}$), and LN(ECONOMIC SIZE$_{3}$) ARE set at their 75th percentile values. In all the predicted values, MAJOR POWER$_{3}$=*1,* BORDER

roughly 19-times more likely to occur when firm-interest in doing it is high compared to scenarios in which those interests are absent. The scenarios show that governmental interests for and against sanctions-busting do not have the substantively significant effects that realism predicts. Altogether, the highest probability of sanctions-busting occurs when both the government's security interests and economic interests align in favor of sanctions-busting. Tellingly, though, when governmental interests are opposed to sanctions-busting but the commercial incentives for doing it are high, the predicted probability of the third party sanctions-busting is still very high.

Table 5.2: Predicted Probabilities for a Major Power Sanctions-Busting

		Govt. Interest in Sanctions-Busting	
		Opposed	Present
Firm Interest in Sanctions-Busting	Not Present	*1.06%*	*1.26%*
	Present	*21.10 %*	*24.16 %*

The identities of the states that engaged within the most prolific amount of sanctions-busting also shed light on findings from empirical analysis. *Figure 5.1* lists a group of the most prolific sanctions-busting states in the sample. It is important to note in interpreting these figures that the United States was the primary sender in 72% of the episodes evaluated. While the

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STATES$_{3T}$ =0, OVERLAP =1, COST =*2,* IO SUPPORT =*0,* DURATION =1, YEARS W/O BUSTING =0, the spline values=0, and the remaining variables are set at their means.

United States' absolute number of sanctions-busting observations is smaller relative to other states, this figure is significant in proportion to the number of cases the U.S. played the role of a third party. Given the United States' commercial profile, it is not surprising that American firms would avidly seek to capitalize on sanctions-busting opportunities presented by other countries. The large number of sanctions-busting cases involving Japan, Great Britain, France, and the Federal Republic of Germany is also consistent with my theory's predictions. All four of these states have large, open economies and all four are allies of the United States—lending further support to my analysis in *Chapter 3*.

The amount of sanctions-busting conducted by the Soviet Union is less in-line with my theory—challenging the process-oriented account of my theory. The Soviet Union had a command economy and its foreign policies were frequently driven by its Cold War rivalry with the United States. Even though it had a large economy, the Soviet Union did not have a private sector full of firms pressuring the Soviet Government to subsidize their trade with Cuba. Indeed, the rationale behind Hufbauer et al.'s (1990) "black knight" variable highlights the Soviet Government's political motives driving its sanctions-busting on behalf of Cuba. Yet, Hufbauer et al.'s (1990) account fails to mention that Japan and China also engaged in an extensive amount of sanctions-busting on Cuba's behalf during this period. At face value, it would appear that Japan's motives for sanctions-busting on Cuba's behalf were more commercial than political or ideological. The sanctions-busting conducted by China would seemingly be more consistent with Soviet Union's motivations, however. Given the significance Cuban sanctions episode and the presence of high-profile cases that both support and contradict my theory's predictions, this episode seems to warrant more in-depth case analysis.

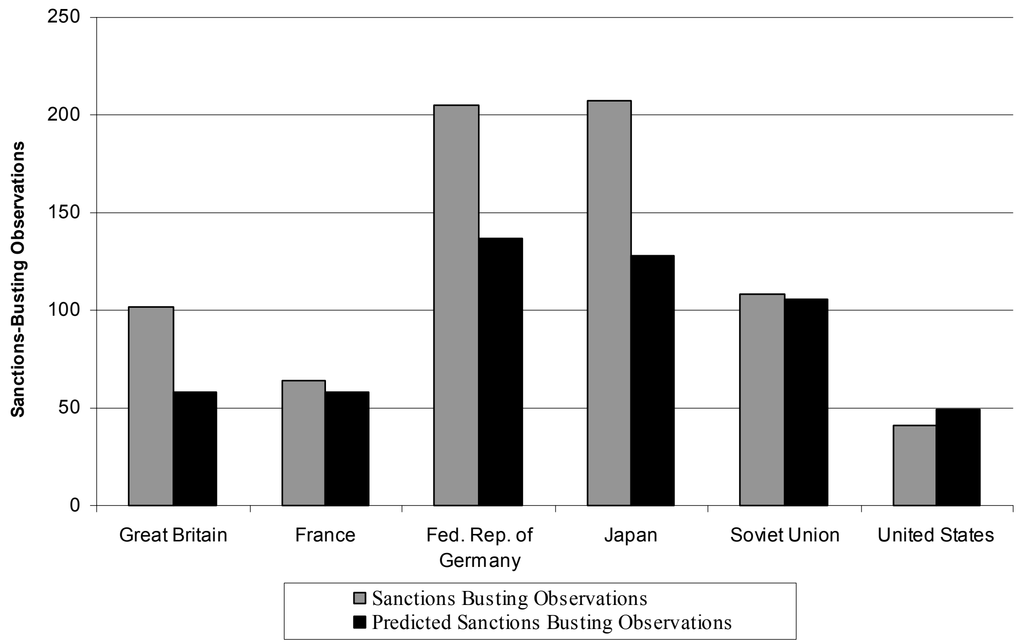

Figure 5.1: Select Prolific Sanctions Busters

Conclusion

In this chapter, I sought to conduct a critical test of my theory against the rival realist alternative using a body of evidence that should have heavily favored the realist account. The analysis of the Cold War sanctions-busting cases provided overwhelming support for the triadic theory of third party response and decisively contradicted several core realist predictions. This chapter's empirical tests thus achieved two ends: it strongly validated my theory and largely discredited the rival realist account as a generalizable explanation of third party responses. As the discussion in the previous section indicates, however, scholars' initial interest in "black knight" sanction-busting was not completely unwarranted. While my findings in this chapter suggest that the Soviet Union's response to the American sanctions against Cuba is *not* analogous to the majority of sanctions-busting cases that exist, my theory's explanation of that particular case appears fairly weak. In accordance with the nested analytic approach, I will conduct a small-n analysis using on-the-line and off-the-line sanctions-busting cases that have occurred during the U.S. sanctions against Cuba. Such an analysis should contribute to a better understanding of the findings from this chapter and help illuminate the causal processes underlying the cases that are inconsistent with my theory.

CHAPTER 6

SANCTIONS-BUSTING ON CUBA'S BEHALF: THE COLD WAR AND BEYOND

This chapter explores what motivated the emergence extensive sanctions-busters on Cuba's behalf during the American sanctions imposed against it from 1960-2006. During this period, United States maintained an almost complete ban on trade with Cuba, making only minor changes to its policies periodically over the years. What makes this sanctions episode so interesting is how self-conscious the United States was of the effects that third party trade with Cuba would have on its sanctions' effectiveness. Indeed, the main adjustments the U.S. made to its sanctions strategy over the years tended to focus on deterring third party trade with Cuba, as opposed to adjusting its own trade strategy with the country. Though the sanctions episode is most well-known for the Soviet intercession it sparked, less attention has been given to the other states that came to Cuba's assistance. The paucity of attention given to the responses of other third party states belies the fact that the black knight theory only partially explains the amount of sanctions-busting trade with Cuba that took place. Given that the sanctions against Cuba have been so prominently held up as a failure of U.S. sanctions-policy, a better, broader account is needed of what has motivated third party sanctions-busting on the country's behalf.

While my theory performed well in explaining sanctions-busting during the Cold War, conducting this small-n analysis is still a valuable exercise. Evaluating the Cuban sanctions episode offers an opportunity to sharpen my theory's insights and to explore the interactive aspects of my causal account were not addressed in the UAE case study. Through studying this sanctions episode, I seek to uncover what aspect of the Soviet Union's "black knight" sanctions-busting made its behavior such a powerful analogy in the sanctions literature. My analysis will also explore why other third party states sanctions-busted on Cuba's behalf. Building upon my findings from previous chapters, I also examine the effects that the end of the Cold War had on states' sanctions-busting behavior and the mixed role played by international organizations. Finally, this analysis offers an opportunity to look more closely at how third party states' responses influence one another's behavior—an area in which Martin's (1992) theory places a significant amount of emphasis but heretofore has not been addressed in detail. Thus, I am able to show how the numerous triadic interactions between the sender, target, and third party states play out in concert with one another.

This chapter focuses on tracing the general causes and consequences of third parties' decisions to sanctions-bust or not. I do not attempt to provide a complete history of why U.S. sanctions have been kept in place so long, nor do I delve deeply into discussions of how effective the sanctions have been.[154] In their excellent books, Morris Morely (1987) and Donna Kaplowitz (1998) already offer detailed histories of the U.S. sanctions imposed against Cuba and, to some extent, the nature of third party responses to those sanctions. Indeed, Kaplowitz's (1998) account places the third-party trade and assistance that Cuba received at the forefront of her explanation of how Cuba has been able to endure the U.S. embargo for almost four decades. Rather than retracing the historical research already conducted by these authors, I focus on leveraging the analytically interesting components of this sanctions episode to explore and develop my study's explanatory theories.

[154] To read more on these topics, see: Kaplowitz, 1998; Preeg, 1999; Malloy, 2001; Askari et al., 2003b; Eizenstat, 2004.

The results of this inquiry provide fuller insight into the circumstances in which "black knight" sanctions busters emerge. As I find, it is not that politically-motivated sanctions-busting does not occur—it is just that realism emphasizes the wrong political variables. Drawing parallels between the Soviet Union's and Communist Bloc countries' Cold War sanctions-busting and Venezuela's latter day support for the Cuban regime, I find evidence that the presence of an ideological conflict between a third party and a sender plays a key role in making the realist considerations strong enough to justify not-for-profit sanctions-busting on a target state's behalf. In this narrow range of cases, third party states' political interests can trumpet their commercial ones—motivating them to engage in *costly* sanctions-busting. So while my triadic theory of third party provides the dominant account of how third parties respond to the imposition of sanctions, I am able to reconcile my theory with the acknowledgment that, under certain circumstances, third party responses may be driven by other salient motives. In addition, this sanctions episode provides a rich account of the efforts a powerful sender state may undertake to coerce the cooperation of third parties and constraints that tie its hands. Overall, my analysis demonstrates that this sanctions-episode broadly conforms to my theory's expectations—despite the presence of its prominent outliers.

Developing a Complimentary Account of Sanctions-Busting Motivations through a Small-N Analysis

The realist perspective on sanctions-busting asserts that states' responses are primarily driven by their political interests, either in opposition of the sender or in support of the target. The realist theory diverges from my triadic account in that it does not condition third party trade with sanctioned states on the extent to which it is profitable. Indeed, the “black knight” analogy deliberately invokes the notion of third parties acting as politically-motivated spoiler states, as does Hufbauer et al.'s (1990) reference of the Soviet Union's sanctions-busting on Cuba's behalf. The enormous degree of assistance provided by the Soviet Union to Cuba has been well-documented.[155] Yuri Pavlov (1994: 261), a former Soviet Ambassador to Latin America, observed that the Soviet Union's “relationship with Cuba was the biggest single expenditure of the USSR on a friendly political regime, amounting to hundreds of millions of tons of oil and other raw materials, machinery, equipment, and foodstuff worth scores of billions of dollars, which could have found a better use domestically or brought greater returns if exported at normal prices elsewhere.” Rather than an archetypical model for friendly third party assistance, the extent of the Soviet aid given to Cuba makes it a significant outlier. As *Table 5.2* illustrated, third parties rarely sanctions-bust unless they have profitable incentives to do so—even if they are rivals with the sender and allies with the target. This suggests that there is an element, other than the realist variables explored within the quantitative analysis, capable of motivating substantial third party assistance to sanctioned states that has been omitted from the account.

In using the small-n analysis as a theory-building exercise (Lieberman, 2005), I seek to illuminate why costly “black knight” sanctions-busters exist and delineate an alternative path to sanctions-busting. I will draw on the off-the-line sanctions-busting cases that I identify to draw inferences on what the missing variable might be. In doing so, I seek to explain the seemingly narrow but substantively significant number of cases in which politics trump profits in motivating third party behavior. If successful, this exercise will potentially explain why prominent outliers to my theory exist *and* reveal the conditions under which state behaviors are

[155] For detailed accounts of the Soviet-Cuban political and economic relationships during the Cold War, see: Morely, 1987; Pavlov, 1994; Kaplowitz, 1998.

driven by alternative motives. This exploratory small-n analysis will seek to identify the common causes—if any exist—driving costly sanctions-busting on Cuba's behalf and analyze whether such mechanisms could potentially play a complementary role in my triadic theory of third party response.

The next sections explore how the U.S. attempted to gain third party cooperation for its sanctions, what effects those efforts had on Cuba's attempts to secure third party support, and how third party states ultimately responded. My analysis looks at two periods during the U.S. sanctions: 1960-1974 and 1991-2006. In the first period, the U.S. was able to obtain fairly significant cooperation with its sanctions from member countries of the Organization of American States (OAS). This cooperation ended in 1975, a year in which the U.S. also loosened its sanctions policies. From 1975-1990, Cuba dramatically increased its commercial dependence upon the Soviet Union and Communist Bloc countries, despite the relaxation of U.S. efforts to obtain third party support for its sanctions. While this period has some analytically interesting aspects, the behavior of Cuba's primary sanctions-busters during this period was much the same as the preceding era. As such, I focus my second analysis on the period from 1991-2006. My analysis of this period examines how the end of the Cold War affected the U.S. sanctions policies towards Cuba, its efforts to obtain third party cooperation, and third party states' responses.

For both periods, I will discuss how the American sanctions affected third party trade with Cuba—focusing on the states that engaged in extensive sanctions-busting on Cuba's behalf. Problematically, Cuba is not a member of the IMF and its trade statistics and economic data are missing or questionable for many of the earlier years in the sample (Askari et al., 2003b: 114). This is compounded by the fact that much of the trade conducted by Cuba with the Soviet Union and other communist bloc countries often involved subsidized barter trade. As such, the operational parameters used to identify sanctions-busters are cast more loosely than in the quantitative analysis. In some cases, the types of sanctions-busting behavior observed also had less to do with national bilateral trade flows than they did with providing Cuba with access to the ships it needed to carry out its trade with other countries. As such, I cast my discussions wider than simply focusing on direct trade flows.

The Third Party Response to U.S. Sanctions, 1960-1974

Overview of the U.S. Sanctions and Efforts to Obtain Third Party Support

Starting in 1960, the U.S. Government imposed a series of increasingly stringent sanctions that by 1963 cutoff nearly all direct and indirect trade between the United States and Cuba. The U.S. Government was actually quite successful in obtaining a significant amount of third party support for its sanctions from Latin American countries and to a limited degree from its Western allies during this period. Despite these successes, Cuba was able to forge substantial commercial linkages with the Soviet Union and, to an increasing degree in the 1970s, other communist countries capable of supplanting its prior dependence upon the United States. Capitalist countries, such as Japan and Spain, also emerged as important trading partners for Cuba in helping it weather the American sanctions imposed against it—despite the U.S. Government's best efforts to deter such trade. By the early 1970s, though, the consensus support amongst Latin American countries for U.S. sanctions against Cuba began to crumble.

The Direct U.S. Sanctions Imposed against Cuba

Before the Cuban Revolution that brought Fidel Castro into power, the United States had enjoyed a close political and commercial relationship with Cuba. In 1959, the United States purchased over two-thirds of Cuba's exports (mainly sugar) and supplied it with over three-fifths of its total imports (Kaplowitz, 1998: 31-32). Despite the U.S. Government's support for the Batista regime, it remained unclear at first what sort of alignment the new Castro-led government in Cuba would have and what affect the revolution would have on American commercial interests in the country (Morely, 1987: 72-106). U.S.-relations with Cuba took a dramatic turn for the worse after Castro expropriated American-owned oil refineries in Cuba in June of 1960, following the companies' refusal to refine Soviet oil.[156] President Eisenhower responded by cutting the U.S. sugar import quota from Cuba by 700,000 tons on July 6. Castro, in turn, retaliated several months later by nationalizing hundreds of millions of dollars of U.S. properties in Cuba—including banks, agricultural properties, and mines (Morely, 1987: 112-113). Caught in this "spiral of antagonism," the Eisenhower Administration moved to sever most American exports to Cuba under the aegis of the *Export Control Act of 1949*, preventing all but the sale of medical products and foodstuffs to country (Kaplowitz, 1998: 40). In justifying this action, President Eisenhower claimed that the purpose of the sanctions "was to deny Cuba items, particular spare parts for American–made equipment, and thus cause costly shutdowns…" that would have "a snowballing effect" on the Cuban economy (Eisenhower, 1965: 621).[157]

American political and commercial relations with Cuba continued to worsen after John F. Kennedy became president in 1961 and the calamitous Bay of Pigs invasion he approved in the

[156] The companies in question, Shell, Texaco, and Standard Oil, were following the advice and directives of the U.S. State Department in their response to the Cuban Regime's demands (Malloy, 1987: 104-106).
[157] Morely (1987: 121) also quotes this passage.

early days of his administration.[158] Castro's immediate response to Bay of Pigs invasion on April 16, 1961 was to declare publicly that Cuba's Revolution had been socialist in nature—which he had, up until that point, not yet done (Pavlov, 1994: 18). The failure of the Bay of Pigs invasion created a strong backlash against the Cuban regime in American policy circles. In February of 1962, the U.S. Government banned all trade with Cuba under the aegis of a strict set of import restrictions issued by the Treasury Department and the *Trading with the Enemy Act* (Kaplowitz, 1998: 48). This led Cuba to seek a stronger security relationship with the Soviet Union, setting up the showdown with the United States over the placement of Soviet nuclear missiles in Cuba in the fall of 1962.[159] After the Cuban missile crisis, the U.S. Government's escalation of its sanctions came to a head in 1963 with the Treasury Department's issuance of the "Cuban Assets Control Regulations" (CACR). The CACR froze nearly all Cuban assets in the United States, banned U.S. firms and citizens from engaging in any sort of transactions with the Cuban Government, prohibited nearly all financial and commercial transactions between U.S. individuals and firms with Cuban trading partners,[160] embargoed all Cuban imports, and severely restricted the travel of U.S. citizens to Cuba (Kaplowitz, 1998: 64-66; Askari et al., 2003b: 129). This measure effectively prohibited U.S.-owned subsidiaries and companies with American citizens on their boards from trading with Cuba, introducing an important extraterritorial element to the U.S. sanctions (Kaplowitz, 1998: 64-65). Yet, this measure was only one part of a much broader effort to prevent third party trade with Cuba.

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[158] For more on the Bay of Pigs, see: Morely, 135-146; Kaplowitz, 1998: 45-47;
[159] For more on the Cuban missile crisis, see: Pavlov, 1994: 33-41; Allison and Zelikow, 1994.
[160] Certain exemptions could be obtained through receiving licenses from the U.S. Government.

U.S. Efforts to Obtain Multilateral Support / Adherence for Its Sanctions

Recognizing that its direct efforts alone might not be sufficient to isolate Cuba, the U.S. Government actively sought third party support for its sanctions. Following the Bay of Pigs disaster, Congress passed legislation in the fall of 1961 that prohibited U.S. foreign aid from being given to countries that provided assistance to the Cuban Regime.[161] Notably, this was the first piece of Congressional legislation aimed at compelling third party compliance with U.S. sanctions goals, but would not be the last. Throughout this initial period of sanctions, the U.S. Government employed a variety of tactics to prevent third party trade with Cuba, which included the use of international organizations, corporate blacklisting, extraterritorial sanctions, diplomatic pressure, and even covert operations (Morely, 1987).

In particular, the United States relied heavily upon international organizations in its efforts to garner and hold together third party support for its sanctions. The United States looked to the OAS as one of its primary tools for isolating Castro's regime in the Western hemisphere. In January of 1962, the U.S. sought and successfully managed to get Cuba expelled from the organization due to its ties to the global communist movement. Building on these efforts, the United States convinced the OAS to impose a full embargo on Cuba in July in 1964—liberally applying the necessary "arm-twisting" to achieve the two-thirds majority needed to obtain the organization's approval (Kaplowitz, 1998; 59, 67-68). Mexico was the only country to ignore the OAS ruling, refusing to break off its political and commercial relations with Cuba ("U.S. Opposes...,".1971). The American diplomatic push to isolate Cuba in Latin American was "relentless" (Morely, 1987; 176). According to State Department officials, "There wasn't a single conference held at the OAS level that was informally devoid of U.S. pressure. [There was] a

[161] This legislation was entitled the *Foreign Assistance Act of 1961* (Askari et al., 2003b; 128).

certain paranoia, [an] obsession on our part.... Our disposition was to use the OAS where possible as an isolating instrument..."[162] Consistent with my other findings, the U.S. used the OAS to place a damper on Cuba's commercial relationships with its Latin American trading partners through obtaining the organization's support for its sanctions efforts.

The United States also attempted to use NATO as a vehicle for rallying third party support for its sanctions amongst its Western European allies and Canada. According to Morely (1987: 123), "Washington policymakers believed that the success of the economic embargo would depend, in large part, on Havana's incapacity to locate alternative capitalist trading and financial partners." As such, the U.S. lobbied its NATO allies to deny the Cuban regime any sort of military or strategic assistance, to reduce their purchases of Cuban sugar, to prevent the diversions of American products through their countries, to discourage their firms from exporting to Cuba, limit the trade credits they offered to Cuba, and to prevent ships under their flag from transporting goods to or from Cuba.[163] In contrast to the OAS, U.S. policymakers used NATO mainly as a forum for lobbying the organization's constituent states to support the U.S. sanctioning effort—not to obtain formal commitments from the entire organization.[164]

The effectiveness of the U.S. diplomatic campaign was mixed, both according to issue area and the degree to which countries complied with American requests. In general, U.S. efforts were most effective in convincing U.S. allies to curb their exports of strategic goods to Cuba and to deny trade credits to the Cuban Government (Morely, 1987, 238). Though officials like Dean Rusk and Walter Rostow in State Department initially expected to obtain strong

[162] This quote was obtained from Morely (1987: 176, 445), who obtained it from a personal interview conducted at the U.S. State Department in 1973.
[163] Morely (1987: Chapters 4 and 5) provides a detailed discussion of U.S. diplomatic efforts to obtain the support of its NATO allies, drawing extensively on archival and first-hand accounts.
[164] This is likely in part because American diplomats knew that it did not have the necessary consensus to get NATO-wide approval for a full embargo on Cuba.

support from NATO allies, U.S. diplomatic efforts relied mainly upon “moral suasion” as opposed to coercion or threats—even when the expected levels of cooperation where not forthcoming (Morely, 1987: 191-192, 196). Addressing Congress in 1963, Secretary of State Rusk argued against imposing coercive measures against U.S. allies to compel their support “because that could create some very sharp issues with friendly governments.”[165] Indeed American allies, such as Canada and Great Britain, were willing to butt heads with the United States over their refusal to curb their trade with Cuba to the levels desired the U.S. Government.

Morely (1987: 238) aptly captures the reticence in American diplomatic circles towards coercing the cooperation of U.S. allies, which warrants quoting his research at length.

> Although there was considerable “browbeating [of] the Europeans into seeing it our way,” both the Kennedy and Johnson administrations exhibited a strongly pragmatic attitude. Ultimately, Washington was not prepared “to put on the screws and initiative a confrontation with [important allies] over Cuba” to a point where long-term political and military relationships were endangered. As a State Department official put it, “there is a limit to which we will jeopardize relations with friendly countries by getting unity with them over something like this” (Morely, 1987: 238).

As this quote suggest, U.S. policymakers exercised considerable restraint in dealing with American allies—despite their acknowledged importance to the sanctioning effort. Whereas arm-twisting was deemed appropriate for obtaining the support of Latin American states, the U.S. avoided employing such tactics in garnering the support of Canada and its Western European allies. Consistent with my theory's explanation, the United State's valued the maintenance of its alliance relationships over the potential gains it could achieve through coercing its allies' participation in its sanctioning effort.

Beyond just a pure trade embargo, the United States' sought to exploit Cuba's dependence upon maritime trade in its efforts to isolate the country from global commerce. U.S. efforts on

[165] Quoted in Morely (1987: 201).

this front involved state-to-state diplomacy, the extraterritorial coercion of foreign firms, and the imposition of domestic policies that punished firms that facilitated in trade with Cuba. To put a damper on sanctions-busting, President Kennedy vastly increased the U.S. Department of Commerce's oversight and enforcement powers in 1961. Policies were put in place so that cargo vessels visiting the U.S. with planned stops in Cuba would be searched for strategic goods. The U.S. Government also began blacklisting companies found to be violating its sanctions policies (Morly, 1987: 190). In October of 1962, Congress passed *The Battle Act.* This measure denied U.S. foreign assistance to countries that allowed their ships or aircraft to transport strategic goods to Cuba and denied port access to foreign vessels trading with Cuba (Kaplowitz, 1998: 49). The executive branch backed up these policies in 1963 with the a national security memorandum that disallowed shipping companies engaged in trade with Cuba from carrying cargo financed by the U.S. Government (Kaplowitz, 1998: 63-64). Overall, these policies were largely effective at cutting down the amount of commercial shipping traffic that Cuba received—causing a 61% decline in the number of visits Cuba received from ships hailing from capitalist countries from 1962-1963. They were particularly effective in gaining the compliance of Liberia, Turkey, Honduras, Panama, Greece, and West Germany, while the shipping industries of Italy, Great Britain, and Spain remained largely undeterred by them (Morely, 1987: 197-203; Kaplowitz, 1998: 64).

Throughout the end of the 1960s the U.S. kept up its diplomatic pressure on third party states to continue to isolate Cuba, but their interest in maintaining the embargo waned by the early 1970s. During the Johnson Administration (1963-1969), the U.S. Government was surprisingly effective in persuading American MNCs to support the U.S. sanctions against Cuba in their business enterprises abroad not through coercion, but by “moral suasion” (Morely, 1987:

211). Ideology and appeals to patriotism seemed to have a dampening effect on American firms' pursuit of profits at all costs in this period. In 1967, the U.S. scored its last great multilateral victory in convincing the OAS to adopt a measures calling on its member states to deny government-financed cargo and docking privileges to ships that transported goods to Cuba (Kaplowitz, 1998: 73). By the early 1970s, though, countries such as Peru, Chile, and Argentina initiated challenges to the regional sanctions against Cuba—making it a contentious issue in U.S. bilateral relations and in the OAS ("U.S. Opposes...," 1971). Canada and Argentina, in particular, also began to place significant pressure on the U.S. Government to lift its ban on U.S. subsidiaries from trading with Cuba in 1973 (Morely, 1987: 274-275). These efforts placed significant pressure on the U.S. Government ease its efforts to secure third party compliance for its sanctions. In 1975, the U.S. finally acceded to this pressure in two ways: it assented to lifting the OAS embargo against Cuba (even voting yes on the measure) and it lifted its restrictions on U.S. subsidiaries' trade with Cuba.

Cuba's Response to the Sanctions

The Cuban response to the American sanctions offers insight into both the pragmatic and political strategies employed by sanctioned states to mitigate their costs. Due to its significant initial dependence upon the United States and the strength of the sanctions it imposed, Cuba's response to the sanctions made it one of the country's greatest national priorities. While this is generally not the case for most sanctioned states, this case illustrates how a highly-motivated target state can mobilize its political and commercial resources towards obtaining third party trade and assistance.

For Castro's Government, there were few choices available to it in terms of replacing its lost trade with the United States beyond the Soviet Union. The Soviet Union's economy was large enough to substitute for the United States', it possessed crucial commodities, such as oil, and it could produce *much* of what the Cuban Government needed in terms of manufactured and industrial products. Also, it was the only country powerful enough to contravene U.S. interests in the Caribbean by extending its security umbrella to the country. Just three days after Eisenhower's initial decision to decrease the U.S. sugar quota by 700,000 tons in July of 1960, the Soviet Union responded by announcing that it would increase its sugar purchases from Cuba by that same amount (Pavlov, 1994: 13). This signaled that, early on, the Soviet Union was willing to engage in tit-for-tat Cold War politics in the United States' dispute with Cuba. Despite this announcement, the Soviet Union did not immediately offer Cuba major security guarantees nor commit itself to providing the substantial degree of economic assistance Cuba would need to weather an enduring American embargo. Indeed, Castro would have to court Secretary Nikita Khrushchev and other Soviet elites to obtain the country's patronage.

When Castro led the revolt against the U.S.-backed Batista regime in 1959, the revolutionary movement had no clearly defined ideological commitment to Marxist-Leninism. As Pavlov (1994: 18-20) discusses, Castro's decision to publicly announce the "socialist" nature of the Cuban Revolution during the Bay of Pigs invasion was a calculated measure designed to place pressure on the Soviet Union to offer the Cuban regime its support. Despite the significance of the announcement, there were still those within the Soviet Union that questioned "the enormous material expenses involved, as well as the political risks to Soviet-American relations" of becoming Cuba's benefactor (Pavlov, 1994: 21-22). Most remaining doubts about Castro's genuine commitment to socialism were largely dispelled on December 1, 1961 when he dramatically declared on television: “I am a Marxist-Leninist and shall remain a Marxist-Leninist until the day I die.” Such declarations were not made to shore up domestic support for Castro's regime. Quite the contrary, these pronouncements lost Castro the support of those within the revolutionary movement that had wanted to overthrow Batista but were disinclined to become communists. Castro's high-profile commitment to communism sent a strong signal to the Soviet Government about the type of enduring political relationship he sought to form with the Soviet Union and put the country's reputation at stake, almost forcing the Soviet Union to demonstrate its resolve in supporting the international communist movement (Pavlov, 1994: 22-25). While it would be an oversimplification to say that the U.S. sanctions caused Cuba to adopt communism, the sanctions certainly increased Castro's incentives for adopting the ideology. Since Castro's regime could only survive a full U.S. trade embargo with substantial outside assistance,[166] adopting communism gave Castro the greatest possible leverage in acquiring the foreign support his regime needed to survive.

The combination of the U.S. and OAS sanctions imposed against Cuba and the patronage it secured from the Soviet Union led to the complete re-orientation of Cuba's international trade flows from what they otherwise would have been. In responding to the sanctions, Cuba embraced—and soon learned how to exploit—the assistance offered to it by the Soviet Union. It also fostered close ties with other socialist counties in Eastern Europe and with China. Kaplowitz (1998: 77) estimates that from 1961-1973, Cuba conducted 73% of its trade with communist states. Out of that, trade with the Soviet Union constituted roughly 48% of Cuba's annual trade and trade with China accounted for an average of 9% of its yearly totals. In 1972, Cuba joined the Council for Mutual Economic Assistance (COMECON), giving it greater access,

[166] This was largely perceived to be the case in the immediate period after sanctions' imposition in the early 1960s. Many within U.S. policy circles also (though wrongly) thought this to be the case after the Cold War's conclusion.

under favorable terms, to markets in countries like Hungary, East Germany, Czechoslovakia, and Bulgaria. Even before then, however, Cuban trade with these countries rose substantially relative to their pre-sanctions levels.

Though Cuba's trading partners were predominantly communist countries during this period, it still sought to maintain a positive commercial reputation with the capitalist world. Surprisingly, Cuba gained a sterling reputation for paying off any financing offered to it by foreign governments for its import purchases in full and on time. This made U.S. efforts to tarnish the country's commercial reputation (to deter third parties from doing business with it) more difficult. From 1963-1964, Cuban trade with capitalist countries increased by 80% to around $230 million—recovering from their sharp decline caused by the Cuban missile crisis (Morely, 1987: 213). Cuba's commercial relationships with countries, such as Japan, Spain, and Great Britain, not only persevered the sanctions but in some cases grew substantially stronger. Despite the United States' best efforts to convince its allies not to sanctions-bust on Cuba's behalf, it simply did not have will punish those that did so anyway. As Senator J. William Fulbright, Chairman of the Senate Foreign Relations Committee, conceded in 1964: "It is simply not within our power to compel our allies to cut off their trade with Cuba, unless we are prepared to take drastic action against them."[167] Even with the American resentment such trade engendered, Cuba managed to do business with many U.S. allies—though it cost them far higher than it otherwise would have. The "Cubans were paying well above normal prices for major equipment imports from Western Europe partly because suppliers were jittery over dealing with Havana, fearing U.S. retaliation," and they were often sorely limited in their choice suppliers (Morely, 1987: 238).

[167] Quoted in Morely (1987: 215).

By the latter part of the 1960s, Cuba's trade with the non-socialist world had begun to steadily recover. In the latter part of the 1960s, Cuba conducted over of a quarter of its trade with capitalist states (Kaplowitz, 1998: 77). This figure climbed to 32% in 1972 and 41% in 1974 (Morely, 1987: 267). These increases occurred in spite of Cuba's dearth of hard currency reserves, as much its export trade with communist bloc countries involved barter exchanges of sugar for oil, foodstuffs, and/or manufactured goods.

The Emergence of Third Party Sanctions-Busters

In this section, I profile five countries that engaged in extensive sanctions-busting on the Cuban Government's behalf from 1960-1974. These states' were not the only countries in the world to have traded in significant volumes with Cuba or to have provided it with crucial exports denied to it by the United States, but they do represent the largest and most consistent busters of the American sanctions. For reasons I discuss, China and the Soviet Union are considered to be off-the-line cases because their motives are not consistent with my theory. The case summaries explore the ulterior motivates driving the assistance these countries' provided to Cuba. With respect to Japan, Great Britain, and Spain, the case summaries are used to demonstrate why their behaviors were consistent with my theory's predictions.

Soviet Union

According to my theory, the Soviet Union does not fit the profile for a typical sanctions-busting state. While its economy was large, it was dominated by the state and bereft of profit-seeking free enterprises. And though the Soviet Union did have domestic demands for products (like wheat) that it could not fulfill domestically, its national economic welfare was, in general, not that dependent upon international trade.[168] The Soviet Union's relationship with Cuba before 1959 also would not suggest that it could profit from sanctions-busting on its behalf. The Soviet Union was almost half the world away from Cuba and the degree to which it was economically dependent upon the state was minimal. Reversing that indicator, however, the U.S. sanctions against Cuba did create a latent commercial dependence with Cuba that Castro thought only the Soviet Union could fulfill. Consistent with the realist theory, the Soviet Union did have a Cold War rivalry with the United States at the onset the U.S. sanctions, but it had yet to have formed a close military alliance with Castro's regime at that point. And while the Soviet Union did consent to Castro's requests for security guarantees in the latter part of 1960, it was not until Castro made his two dramatic public commitments to Marxist-Leninism in 1961 that large outlays of Soviet assistance to Cuba began to be made (Pavlov, 1994: 17-24).[169]

Soviet trade with Cuba was, for the most part, quite costly due to the subsidized terms of trade that were offered to Castro's regime. In most of the trade agreements signed between the Soviet Union and Cuba and, especially as time went on, the Soviets agreed to pay far higher than the global price for sugar (Cuba's primary export) or offered the regime extremely favorable terms-of-trade in oil-for-sugar bartering arrangements. These deals amounted to billions of dollars of subsidized assistance that the Soviet Union provided to Cuba.[170] Interestingly, in its initial post-sanctions trade agreement with Cuba in 1960, the Soviet Union only agreed to purchase Cuban sugar at world prices. For Cuba, this was less than the subsidized price the

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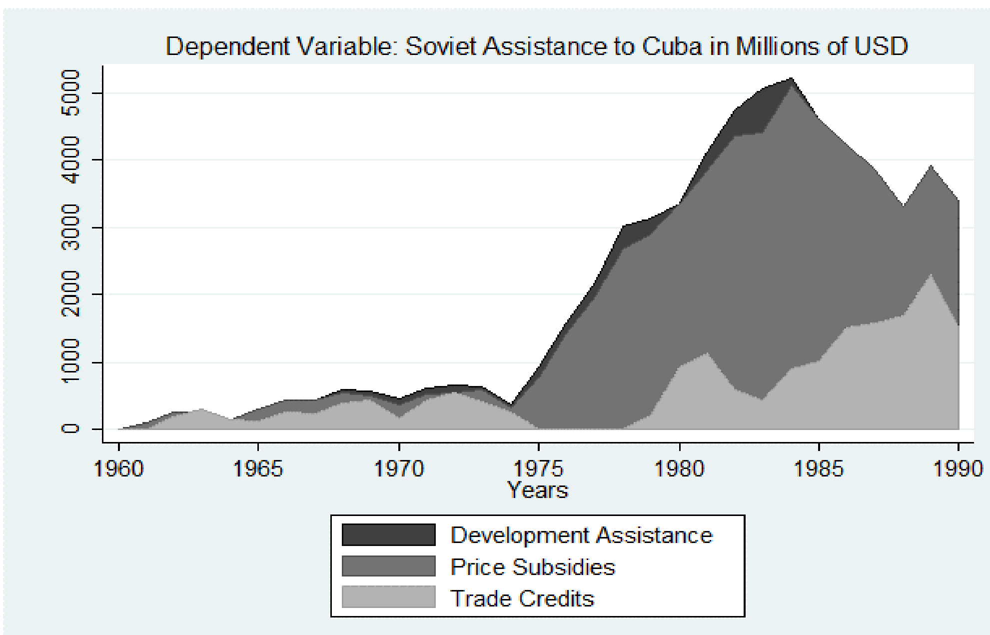
[168] Commercially, the Soviet economy was not geared towards export-oriented development either.
[169] Despite the public pledge given to Cuba by the Soviet Union that it would come to its defense, the Soviet Union never signed a formal treaty with Cuba that legalized this commitment (Pavlov, 1994: 59).
[170] Though estimates vary, one popular figure touts that Cuba received a total of $40 billion worth of assistance from the Soviet Union from 1961-1985 (Kaplowitz, 1998: 77).

United States had been paying for its sugar before the sanctions were imposed (Phillips, 1960a). This suggests that the Soviet Union was unwilling to offer Cuba substantial subsidies prior to Castro's declaration that Cuba was a socialist state. In 1966, Soviet aid to Cuba (through subsidies and long-term trade credits) amounted to as much as $365 million and by 1973 that figure had risen to as much as $600 million a year ("23% of Cuba's Trade...," 1967; Stern, 1974). It is also difficult to assert that the Soviet Union negotiated these biased deals because it needed Cuban exports, like sugar and nickel. Indeed, Pavlov (1994: 80) finds that the supposed "Soviet dependence on imports from Cuba was created by politically motivated and economically unsound decisions," and "was maintained artificially, without any serious attempt to reduce it." As such, Soviet trade with Cuba was neither conducted because of its profitability nor its strategic value to Soviet economy; rather, it was carried out almost completely for Cuba's benefit.

The data in *Figure 6.1* provide a fascinating look at the distribution of Soviet assistance to Cuba from 1960-1990. These raw data were triangulated by Leogrande and Thomas (2002) using a variety sources, and they constitute the best comprehensive account of the aid provided to Cuba by the Soviet Union that exists. As the graph shows, most of the Soviet aid to Cuba in the period from 1960-1974 came in the form of trade credits. Increasingly over time, however, Soviet aid shifted to price subsidies. A large portion of the subsidized assistance came from the Soviet Union's purchase of Cuban sugar at inflated prices and sales of Soviet oil to Cuba at significant discounts. Indeed, Cuba opportunistically exploited these generous subsidies during 1980s, buying foreign sugar at market prices and re-selling it to the Soviet Union *and* re-exporting the discount oil it purchased from the Soviet Union to third parties. As Kaplowitz (1998: 119) found, re-exports of Soviet oil actually overtook sugar as Cuba's largest export earner in 1986. The massive amount of subsidized trade assistance provided to Cuba during the 1980s certainly bears that finding out. In this bizarre twist, the target state exploited the imbalanced terms-of-trade being offered to it by a third party instead of vice-versa. On the basis of the figures displayed in *Figure 6.1,* Leogrande and Thomas (2002: 342) estimate that the Soviet Union provided Cuba with a total of $65 billion worth of assistance from 1960-1990. Though beyond the scope of this time period, these findings have significant implications for the types of adjustments Cuba would need to make in the next case period following the severance of Soviet aid.



Source: Leogrande and Thomas (2002)

Figure 6.1: Soviet Assistance to Cuba from 1960-1990

So if not profits, what motivated the Soviet Union's sanctions-busting assistance to Cuba? In this case, an alignment of three variables seemed to play a crucial role in motivating Soviet assistance: the Soviet Union's antagonism towards the U.S., its security relationship with Cuba, *and* the ideological conflict at stake in the issue. In correspondence to Castro, Secretary

Khrushchev said that his country's assistance to Cuba was done out of “internationalist duty” rather than “mercantilist considerations”; even so, the Soviet leadership “pragmatically” viewed supporting Castro's regime to be in the Soviet Union's long-term strategic interests and of value in promoting the global communist movement (Pavolv, 1994: 26). Only by viewing the stakes of the sanctions issue as greater than the immediate fate of the Cuba—upon which Soviet national security was almost negligibly dependent—was the Soviet Government able to justify its massive outlays to Castro's regime. This suggests that the ideological component of the sanctions triad—the ideological affinity between the target and third party and the adversarial stance this placed them in vis-a-vis the sender—played a critical role in motivating the Soviet Union to offer such extraordinary assistance to Cuba.

The People's Republic of China

The emergence of communist China as another significant sanctions-buster on Cuba's behalf is also largely inconsistent with my theory. At this juncture in its economic development, China was not yet reliant upon foreign export markets as an engine of economic growth nor did it have private enterprises pushing to exploit Cuba's imbalanced terms-of-trade. Commercially, China had not been dependent upon trade with Cuba to any substantial degree preceding the imposition of U.S. sanctions.[171] While China did need to import sugar, Cuba's distance from China and the prices it paid for Cuban sugar indicate that China could have gotten better deals elsewhere (Szulc, 1965). Like Cuba, Red China had an adversarial relationship with the United States and was, itself, subject to a sustained sanctioning effort by the U.S. Government. Before the Revolution, the U.S.-backed Batista regime in Cuba had not even established official

[171] In 1958, the Batista regime in Cuba only sold 50,000 tons of sugar to Red China (Phillips, 1960b).

diplomatic ties with Red China (Phillips, 1960b). After Castro came to power, China made overtures to the new Cuban regime and sought to establish ties with it. Once Catro's declarations placed Cuba in the socialist camp in 1961, China also shared an ideological affinity with the Cuban regime. Due to the Sino-Soviet split in the early 1960s, however, the ideological variant of communism and political agenda that China sought to promote in Cuba competed with Soviet interests rather than complementing them (Schwartz, 1964; "Castro Charges...," 1966).

The Chinese Government's interest in supporting the Cuban regime was evidenced early on 1960. In response to the U.S. sanctions, China offered to negotiate a long-term trade agreement with Cuba that coincided with the establishment of closer bilateral relations. In agreement brokered in July of 1960, China agreed to purchase 500,000 tons of Cuban sugar annually for five years at market prices. In return, the Cuban Government was to receive 80% of its payment in Chinese manufactured and industrial goods—including the shipment of whole factories to Cuba (Phillips, 1960b). In 1962, China and Cuba expanded their trade relationship even farther—negotiating the exchange of Chinese foodstuffs, chemicals, medicine, and other merchandise in return for Cuban nickel, copper, sugar, and fruit ("China and Cuba Sign...," 1962). China also extended interest free loans to Cuba to finance its purchases from China from 1962-1963 ("Red China and Cuba Sign...," 1963). Throughout this period, Castro played off political rivalry between China and the Soviet in pursuit of more lucrative assistance packages from both states. Yet, the Soviet Union continued to be Cuba's largest trading partner by far. Of the total trade conducted by Cuba with communist countries in 1964, trade with the Soviet constituted 66% of it while trade with China only constituted 18% of it (Hofmann, 1965). Castro was able to leverage this intra-communist competition to negotiate a higher purchase price for

Cuban sugar from China than the already subsidized price the Soviet had agreed to pay in 1965 (Szulc, 1965c).

The fine line that Castro strode in balancing its relations between China and the Soviet Union came to a head in 1996, when the Chinese Government reneged on its trade deal with Cuba—cutting its sugar purchases by 200,000 tons and rice exports by half ("Cuba May Profit...," 1966). This move was viewed as retaliation for Cuba's closer movement into the Soviet Union's ideological camp and was accompanied by vociferous criticism on the part of both Chinese and Cuban Governments. Castro accused China of engaging in a massive propaganda campaign designed to challenge his regime's ideological positions and of betraying his countrymen by refusing to deliver the promised foodstuffs upon which his country was dependent ("Castro Charges Peking...," 1966; "Cuba May Profit...," 1966). While these events disrupted the trajectory of increasingly closer ties between the two countries, China still continued to serve as Cuba's second leading trade partner for the duration of this period. As well, this break in Sino-Cuban relations firmly ensconced Cuba's principal dependence upon the Soviet Union.

This case presents challenges for my theory, though it does support certain elements of my broader findings. Both Cuba and China were subject to extensive American efforts to isolate their countries economically in the early 1960s (Krock, 1964b). The series of trade agreements brokered between Cuba and China demonstrates how sanctioned states can have enhanced incentives to cooperate with one other to defeat the sanctions impost against them, evidencing my findings from *Chapter 5.* Yet, China need not have provided Cuba with the level of favorable subsidies and financing that it did to obtain its cooperation. In this case, China's ideological motivations seemed to play a large role in the assistance that it extended to Cuba *and* what it expected to receive in return. China's adversarial relationship with the United States and ideological affinity for the Cuban regime motivated it to provide of a significant amount of assistance to Cuba—but its political and military ties to the country were not sufficient to warrant the provision of assistance comparable to Soviet levels.[172] Unfortunately for Cuba, the ideological and political demands of its two largest patrons were irreconcilable with Castro's ability to continue appeasing both. Cuba chose the wealthier, more powerful Soviet Union to be its champion "black knight" instead of China.

Japan

The close economic relationship that formed between Japan and Cuba following the imposition of U.S. sanctions is consistent with my theory and the nature of the economic embargo imposed against Cuba. Japan's economy both required the import of significant amounts of sugar and was focused on export-led growth during the 1960s (Morely, 1987: 221-222). As such, Japan had the market size, substitutable industrial sector, and commercial orientation to exploit the economic opportunities created by the U.S. sanctions against Cuba. While not geographically proximate to Cuba, Cuba's isolation from most of its trading partners following in the Western Hemisphere following the 1964 OAS embargo made trade with Japan as competitive as Cuba's alternative options. Politically, Japan had no substantive connection to Catro's regime or ideology. It did, however, have an alliance with the United States—an alliance that it was cautious of disrupting. As such, the Japanese did make some concessions to

[172] As well, the Chinese Government did not have the resources capable of providing levels of assistance comparable to that given by the Soviet Union without impoverishing itself.

American entreaties. Even so, it was still willing to use the alliance as a shield to deflect significant reprisals from the U.S. Government for its commercially-driven trade with Cuba.

In 1961, Japan had been Cuba's second largest capitalist trade partner—falling second to only the United States. Whereas U.S. efforts to isolate Cuba during the missile crisis in 1962 led to a sharp decline in most of the United States' allies' trade with Cuba, Japan's trade with the county actually increased 28% to over $46 million (Gulick, 1963). Most of this trade constituted Japanese sugar imports. The U.S. repeatedly engaged the Japanese over its trade with Cuba, pressuring it to look for other markets from which to obtain its sugar. Yet, Japanese imports of Cuban sugar rose steadily from 161,000 tons in 1963 to 542,000 tons in 1967—spurred on by sugar's low cost (Morely, 1987: 222). This helped turn Japan into Cuba's third largest trading partner by the latter part of the 1960s (Kaplowitz, 1998: 77). In the interest of maintaining tranquility in the alliance, Japan did make a number of concessions to the U.S. Government in refraining from selling strategic goods to Cuba and in restricting its ships from visiting Cuban ports. On the other side, the U.S. refrained from employing any coercive measures beyond diplomatic pressure (Morely, 1987: 222-223).

Japan's trade with Cuba was motivated almost exclusively by commercial considerations. Despite its alliance with the United States, Japan sought to take advantage of Cuba's restricted export market for its sugar market. While the alliance it shared with the United States led Japan to make some concessions on its behalf in support of its sanctions, it also provided the country with political cover to engage in extensive sanctions-busting on Cuba's behalf.

Spain

As a capitalist country with past colonial ties to the Cuba, Spain's emergence as a leading sanctions-buster on Cuba's behalf is also consistent with my theory. While Spain's economy was not nearly as large as those of other European countries, it had stronger social and commercial linkages to Cuba through its past colonial relationship with the country. Under the leadership of Francisco Franco, the Spanish Government sought to rapidly industrialize the country's economy. As an authoritarian regime that was shut out of the European Community, Spain was to some extent commercially isolated from its Western European counterparts (Morely, 1987: 226). This increased its dependence upon trading outlets in Latin American and Eastern Europe ("Cuban Trade Expanded...," 1964). Also, Spain was not a member of NATO during this period.[173] Under the *Pact of Madrid* (1953), however, the United States did have a formalized, cooperative military arrangement with Spain. Under the aegis of this treaty, Spain received U.S. military assistance and, in return, granted the U.S. Government basing rights on its territory. In terms of its formal commitments, the treaty did not rise to the level a defense pact, but in practice it placed similar restraints on the American use of coercion against the Spanish Governments.

Unlike the previous three cases, Spain's economic relationship with Cuba was not dominated by its purchases of Cuban sugar—though Spain did purchase its fair share of it. Instead, the Spanish response sough to take advantage of the market for manufactured and industrial exports created by the embargo against Cuba and American efforts to deter ships and aircraft from visiting the country. From 1962 to 1964, Spanish trade with Cuba grew from $9.9 million to $97 million (Gulick, 1963; Morely, 1987: 227). In 1964, the Spanish Government brokered a deal with Cuba to purchase 350,000 tons of sugar to be partially paid for by the

[173] Spain did not join NATO until 1982.

provision of $51 million worth of Spanish-made fishing ships ("Cuban Trade Expanded...," 1964). Indeed, Spain's trade with Cuba constituted exactly the type of goods the U.S. sought to deny to the Cuban regime, including: trucks, steel, machinery, agricultural equipment, trucks, ships, buses and electrical equipment (Szulc, 1965b; Morely, 1987: 227-228). Spain also refused to block its ships and airlines from traveling to Cuba, which placed a significant gap in the U.S. effort to coordinate non-communist shipping boycott of the island (Szulc, 1965b). Almost overnight, the U.S. sanctions had helped Spain become Cuba's leading trading partner in Western Europe ("Havana to Expand...," 1965).

Spain's refusal to cooperate drew the attention and ire of American policymakers. In 1963, the U.S. Government threatened to cutoff aid to Spain under the aegis of the legislative requirements of the *Foreign Assistance Act* ("Spain Is Warned...," 1963; Szulc, 1964). Spain's refusal to comply with its demands led the U.S. Government to the brink of cutting off its $30 million of military assistance to Spain in February of 1964. Yet by cutting off its military assistance to Spain, the U.S. would have violated the terms of the treaty that gave the U.S. its basing privileges in Spain—potentially abrogating the agreement (Marder, 1964b). This action was forestalled when Franco agreed to halt air-cargo shipments to Cuba. The Johnson Administration deemed this action as sufficient evidence of Spanish compliance with U.S. sanctioning efforts—despite its rather trivial effects. In truth, "The White House tilted toward no reprisals [against Spain] on the grounds that the large complex of air and sea bases and a new Polaris missile submarine facility at Rota on Spain's south coast constituted vital security interests, compared with which the Cuba problem was a secondary issue" (Morely, 1987: 226). As my theory would predict, the U.S. was willing to put up with sanctions-busting by an erstwhile ally so as to not disrupt its political-military relationships with the country. Spain eventually did curb its shipping traffic with Cuba in the fall of 1964, but in response to Venezuelan—not American—pressure.

Spain continued to be one of Cuba's leading trading partners throughout the latter part of the 1960s until commercial considerations disrupted their relationship. In 1971, Cuba's delinquency in paying back its $200 million debt to the Spanish Government and lingering disputes over compensation for the $300 million worth of Spanish property that Castro's regime had expropriated following the Revolution led to a minor trade war between the two countries ("Cuba, Spain Start...," 1971; "Cuba, Spain Duel...," 1971). As well, Spain was also seeking to negotiate that Cuba pay for a larger share of its import purchases with hard currency instead of barter trade—a difficult proposition for the cash-strapped Cuban Government ("Spain Denies Rift...," 1971). As the dispute escalated, both parties applied retaliatory trade sanctions against one another and Cuba's diplomatic mission to Spain was recalled. While both sides eventually reached a settlement, the incident emphasizes the following point: Spain was not seeking to subsidize Castro's regime with its trade to Cuba, it was only seeking to profit from it. Spain continued to be one of Cuba's largest trading partners even after this incident.

Great Britain

The final state that engaged profligate trade with Cuba in the face the American sanctions was Great Britain. As an industrialized state, with a large, open economy, and a sizeable merchant-marine sector, Great Britain fits the perfect commercial profile for sanctions-busting according to my theory. During the 1960s and into the 1970s, Great Britain also faced growing trade deficits and a declining share of the global export market (Morely, 1987: 228). Capable of meeting only half its food needs and lacking much in the way of natural resources, trade was Great Britain's "lifeblood" (Farnsworth, 1964). This created significant political pressure on the British Government to maintain open trade policies and, indeed, British public opinion favored trade with Cuba (Marder, 1964a). Though Great Britain had few political ties to Cuba, it had a robust political and military relationship with the United States both as part of and in part from their NATO alliance. The United States sought to pressure Great Britain using both bilateral and multilateral channels to compel its cooperation. The frequent recalcitrance on the part of the British to cooperate was a source significant intra-alliance conflict between the two states.

In the initial years of the U.S. sanctions, Great Britain was Cuba's largest trading partner in Western Europe (Gulick, 1963). While Britain failed to embrace the full trade embargo against Cuba, it accepted the consensus position within NATO to restrict the sale of strategic goods to the country (Farnsworth, 1964). In other areas, it directly challenges U.S. efforts to isolate the island. Contravening the U.S. efforts to isolate Cuba from international shipping, British vessels increased their number of visits to Cuba from 133 to 180 from 1963-1964. In a move that was more symbolic than anything else, the United States cut its military aid to Great Britain by a $100,000 under the auspices of the *Foreign Assistance Act* in 1964 (Dale, 1964). The measure had little immediate effect. Confronted with sustained U.S. pressure over the issue, though, the number of visits to Cuba by British vessels fell to 62 in 1968 (Morely, 1987: 207-208).

A particularly contentious dispute over the sanctions issue involved the Cuban Government's efforts to purchase of British-manufactured buses in 1964. The United States argued that the sale of the buses constituted a strategic transaction, while the British viewed it purely in commercial terms (Krock, 1964a). From Secretary of State Rusk's perspective, if the

U.S. could not prevent its strongest ally from trading with Cuba, then other countries' resolve to participate would be greatly undermined (Marder, 1964a). U.S. policymakers went to great lengths to derail the deal, but only succeeded in convincing the British Government to withdrawal its initial financing package that it had offered to facilitate the deal (Morely, 1987: 231-233). Despite the substantial pressure brought to bear against British Government bilaterally and through NATO, the U.S. could not deter the British from allowing the deal from going forward. As *Washington Post* editorial wryly put it: “Short of breaking up the alliance, there is not much that this country can do when a private British firm decides to sell some buses to Cuba” (“Porous Embargo,” 1964). The British Government refused to sacrifice the interests of its commercial constituencies on the United States' behalf on an issue that only marginally affected its security. While some, like Sen. Stephen Young, viewed the British bus deal as “despicable,” others, like Sec. Rusk, accepted that the sale stemmed from a pragmatic difference in perspectives (Marder, 1964a; “Rusk Calls Dispute…”, 1964). Similar high-profile disputes over British sanctions-buster were raised over British sales of cranes and a fertilizer plant to Cuba (Morely, 1987: 233-235).

For the most part, Great Britain's trade relationship with Cuba was driven by the country's pragmatic commercial interests. It strongly resisted the United States' efforts to politicize its trade with Cuba and to cast a self-serving definition of what constituted dangerous trade with communist states. For instance, the British poignantly argued that if the United States could sell its surplus wheat to the Soviet Union, then why could it not sell buses to Cuba (Krock, 1964b)? In this case in particular, it would seem that U.S. expectations of British compliance suffered from Snyder's (1996) “halo effect.” The United States wanted much more cooperation from the British Government that it was domestically acceptable or desirable for it to offer. To some extent, the alliance between the two countries mediated the dispute. While the United States rigorously pressured Great British diplomatically and imposed paltry legislative penalties against it, the State Department frankly and publicly rejected the notion that it would issue conduct broader reprisals against the British over their failure to cooperate (Raymont, 1964). As well, the British Government did make a series of smaller concessions to the United States in the interest of maintaining some degree of harmony in their relationship (Morely, 1987: 231-232). Despite these peace-making gestures, Great Britain was still Cuba's third largest non-communist trading partner throughout the latter half of the 1960s (Kaplowitz, 1998: 77). Consistent with my theory, the British Government willingly faced the ire of its powerful ally in placing the interests of its commercial constituencies at the forefront of its considerations in responding to the sanctions, and it largely got away with doing so.

Summary

In this section, I have detailed the individual motives of five states that sanctions-busted extensively on Cuba's behalf and how their interactions with both Cuba and the United States affected their responses. In the cases of Chinese and the Soviet Union, it was clearly shown that their trade with Cuba was not motivated by the pursuit of profits or mercantile gain. In both cases, I found that the countries' ideological affinity with the Cuban regime and the broader ideological issues they perceived to be at stake in the issue motivated the assistance they provided to Cuba. In contrast, my analysis of the sanctions-busting conducted by Japan, Spain, and Great Britain was consistent with my theoretical account. In all three cases, the states sought to exploit the imbalanced terms-of-trade created by the U.S. sanctions in Cuba for commercial gain. The divergent perspectives held by the United States and these countries regarding the sanctions was conditioned more upon the structure and needs of their national economies than it was on geopolitics. As Dale (1964) surmised at the time, the interests of the United States' principal allies [e.g., Japan, Canada, Western Europe] "are not identical on the issue of trade with the Communist countries. But in one key sense the allies are in an identical situation: Foreign trade is far more important for all of them than it is for the United States" (Dale, 1964). Unfortunately for the United States' sanctioning efforts, its strongest allies were the countries who could commercially *benefit* the most from sanctions-busting on Cuba's behalf. On the flip-side, however, the United States' adversaries were placed in a position in which sanctions-busting on Cuba's behalf would *cost* them dearly. As it stood, both the United States' allies and adversaries perceived benefits in sanctions-busting on Cuba's behalf—though for different reasons.

This case period also illustrates several interesting elements of my theory. First, my discussion of the United States' efforts to recruit third party support demonstrates the dual standard applied to countries that were military allies of the United States versus those that were not. Whereas U.S. policymakers were willing to "twist arms" to obtain the compliance of Latin American countries, they were decidedly more constrained in their efforts to convince Japan, Spain, and Great Britain to cease their sanctions-busting activities. As well, the United States' use of the OAS illustrates how having the backing of an international organization can facilitate a sender's ability gain and maintain wide-scale support for its sanctions. Finally, the analysis helps reveal why having the support of IOs, in general, dampens aggregate third party trade with sanctioned states but also increases the likelihood that large sanctions-busters will emerge. By cutting off Cuba's access to all its natural trading partners in the Western Hemisphere, the OAS sanctions forced Cuba to concentrate its efforts on recruiting the support of a smaller number of states that were a great distance away. Given these circumstances, it was much easier for Cuba to negotiate massive package deals with a small number of countries than it would have been to diversify its trade amongst a host of third parties. In the next section, I explore what effect the end of the Cold War had U.S. efforts to elicit third party support and upon third parties' willingness to sanctions-bust on Cuba's behalf.

The Third Party Response to U.S. Sanctions, 1991-2005

By the mid-1980s, Cuba had become almost wholly dependent upon subsidized trade with the Soviet Union and COMECON countries (see: *Figure 6.1*). This occurred even in the absence of active U.S. efforts to deter third party trade with the country. It was estimated Cuba conducted 85% of its trade with the Soviet Union and Eastern European countries in 1988 and received somewhere in the neighborhood of $3.5-4.5 billion worth of Soviet aid that year (Kaplowitz, 1998: 145; Purcell, 1991/92: 131). Yet by 1989, the Soviet Union had begun to be consumed by domestic problems and continuing to support Cuba had become increasingly untenable economically and politically (Pavlov, 1994: 176-186). The Soviet Union's refusal to sign a new five year trade agreement with Cuba in 1990 was one of the first signs that the country's largess was about to end. In the fall of 1991, Mikhail Gorbachev announced that future trade agreements with Cuba would “reflect Soviet commercial interests” and require payment “in hard currency at market rates” (Purcell, 1991/92: 132). With that announcement, the Soviet Union effectively ended its thirty years of patronage and left Cuba to its own fate in holding out against the American sanctions. To the surprise of many, Castro's regime stumbled but did not collapse. Despite a resurgent sanctioning effort on the part of the United States, Cuba's economy rebounded in the wake of renewed third party interest from countries in Latin America, East Asia, Canada, and Western Europe. This time around, U.S. efforts to deter third party trade with Cuba unleashed a wave of backlash amongst American allies. As this section details, Castro's regime endured by initiating market reforms, courting profit-seeking third party trading partners, and seeking the patronage of a new benefactor—Venezuela.

Overview of the U.S. Sanctions and Efforts to Obtain Third Party Support

Following the United States' Cold War victory over the Soviet Union, there was an expectation in American policy circles that Castro's regime in Cuba would soon follow suit (Smith, 1996: 99; Morely and McGillion, 200: 22). From 1989-1993, Cuba's GDP sank by some where between 35-50% (Preeg, 1999: 23; Askari et al., 2003b: 114). Yet when Cuba did not immediately collapse, interest groups capitalized on the perception that Cuba was on the brink of folding to encourage lawmakers to reinvigorate their sanctioning efforts. In particular, the Cuban American National Foundation (CANF)—a group representing a strongly anti-Castro contingent of Cuban exiles—played a significant role in convincing Congress and the executive branch into taking a hard-line stance against Cuba.[174]

The rhetoric and goals of the U.S. sanctioning effort also changed during this period. Rather than focusing on removing the threat posed by Cuba to U.S. national security, the political justifications for maintaining the sanctions shifted to the need to democratize Cuba and punish the regime's human rights violations (Smith, 1998: 535-537; Morely and McGillion,

[174] For an in-depth discussion of the emergence of CANF during the 1980s, its relationship with lawmakers and the presidential administrations of Reagan, Bush, and Clinton, and its political influence, see: Haney and Vanderbush, 2005; Kaplowitz, 1998: Chapters 7-9; Morely and McGillion, 2002: 10-22.

2002: 3-6). Summarizing the post-Cold War policy objectives of the U.S. sanctions, Preeg (1999: 33) observes that they were "designed to squeeze the Cuban economy to the point of suffering or collapse whereby the Castro Government is forced to hold democratic elections or is violently overthrown." Implicit within the American stance was that irrespective of whatever Cuba did to moderate its objectionable foreign policies, the U.S. sanctions would not be lifted until Castro left power (Smith, 1998: 536). Domestic politics, highlighted by presidential campaign politics in Florida and the lobbying efforts of CANF, thus became the chief motivator of the U.S. sanctions' policies towards Cuba (Kaplowitz, 1998: 203-206; Hanley and Vanderbush, 2005: 168-170). So while the U.S. trade embargo against Cuba changed little during the transition from the Cold War, the motives underpinning were altered dramatically. In large part, this remained true through 2006.

The Direct U.S. Sanctions Imposed against Cuba

Given that a full trade embargo was already in place against Cuba at the end of the Cold War, there were few direct measures the U.S. Government could take to tighten its sanctions. In the first years of the President George H.W. Bush's administration, new policies were imposed that placed stronger limitations on the remittances and humanitarian gifts that U.S. citizens could send to the Cuba and cut down the amount of money U.S. travelers to Cuba could spend during their visits (Kaplowitz, 1998: 149-150). Another import step taken by Congress in 1996 was to codify the U.S. embargo against Cuba into law, whereas previously it had existed solely through the authority of the executive branch. This measure, contained in a proviso within the "Helms-Burton Act" (discussed in more detail below), meant that lifting the sanctions would hence require an act of Congress as opposed to just presidential prerogative (Hanley and Vanderbush, 2005: 104-107). Fisk (2000: 72) argues that this provision went along way towards halting the disintegration of the trade sanctions by tying the executive branches' hands on the issue. In 1998, President Clinton relaxed many of the restrictions regarding remittances and travel to Cuba and allowed direct flights to Cuba from the United States to resume—measures still under presidential jurisdiction. As in the Iranian case, the *Sanctions Reform and Export Enhancement Act of 2000* lifted the sanctions on sales of food and medicine to Cuba. This legislation opened up a large gap in the U.S. sanctions regime. A GAO report notes that in response to the lifting of the sanctions on these products alone, U.S. exports to Cuba rose from $6 million in 2000 to over $350 million in 2006 (U.S. GAO, 2007: 3). Despite the erosion of the sanctions, the second Bush Administration enacted new policies in 2004 (an election year) that reimposed stringent restrictions on travel to Cuba, reduced the amount of money U.S. travelers could spend in Cuba from $167 a day to $50 a day, and further clamped down on remittances (U.S. GAO, 2007: 72). All told, the direct pressure the U.S. sought to place on Cuba with its sanctions remained markedly strong until 2000, at which point their stringency was somewhat diminished.

U.S. Efforts to Obtain Multilateral Support / Adherence for Its Sanctions

The vast majority of U.S. efforts to strengthen the sanctions against Cuba after the Cold War focused on attempting to coerce third party firms and states into participating in the U.S. sanctions effort. Yet these efforts were often uncoordinated, lacked consensus across the legislative and executive branches, and were imposed with little regard for the broader political impact they would have. In 1989, Sen. Connie Mack first proposed legislation that would have re-imposed the ban on U.S. subsidiary trade with Cuba. At the time, the Bush Administration opposed such a measure. A State Department cable sent to the American embassies in Canada, France, and Belgium explained the administration's position on the legislation, stating that: “We permit [subsidiary trade] because we recognize that attempting to apply our embargo to third countries will lead to unproductive and bitter trade disputes with our allies” (Kaplowitz, 1998: 151). Prophetically, the Bush Administration anticipated exactly the type of response the measure would create when it was passed as part of the *Cuban Democracy Act (CDA)* three years later. In the interim period, though, U.S. subsidiaries' trade with Cuba grew from $331 million in 1989 to $715 million in 1991, which accounted for *18%* of Cuba's total trade that year (Kaplowitz and Kaplowitz, 1992; Kaplowitz, 1998: 152).[175] Sales of food and medical supplies to Cuba accounted for much of this trade. Clearly, there was strong interest amongst American firms of taking advantage of opportunities created in Cuba by the Soviet Union's declining support for the country. Denied direct access to the Cuba, American firms were forced to carry out their trade through foreign subsidiaries in third party countries.

Efforts to strengthen the sanctions against Cuba were driven largely by a small group of powerful Congressmen who held key committee positions and the support of the anti-Castro Cuba lobby.[176] Battles over extending the U.S. sanctioning efforts to include third parties often pitted Congress versus the President. In 1990, President Bush vetoed trade legislation that contained the Mack amendment barring subsidiary trade with Cuba and, in 1991, he vetoed the legislation which would have made American assistance to the Soviet Union conditional upon the cessation of that country's assistance to Cuba (Morely and McGillion, 2002: 40). During the election year of 1992, however, the better angels of President Bush's judgment were subject to

[175] During the 1980s, U.S. subsidiary trade with Cuba had hovered around $250 million a year (Kaplowitz, 1998: 152).
[176] For excellent works that address the domestic politics involved in the post-Cold War sanctions against Cuba, see: Morely and McGillion, 2002 and Haney and Vanderbush, 2005.

electoral politics in Florida and the large Cuban constituency it contained. Authored by Rep. Robert Torricelli (and with the assistance of CANF), the *CDA* contained provisions that: banned U.S.-owned foreign subsidiaries from trading with Cuba, prohibited ships that had visited Cuban ports from docking in the United States for 180 days, authorized penalties of up to $50,000 for violations of the sanctions, and encouraged the president to pressure third parties not to provide assistance to the Cuban Government.[177] The Bush Administration initially opposed the *CDA*, arguing that its extraterritorial provisions were legally questionable, would hurt U.S. commercial interests, and would anger third party governments (Morely and McGillion, 2002: 43-46, 51). After presidential rival Bill Clinton endorsed the legislation, however, President Bush reversed his position—once the bill contained an opt-out clause for national security purposes (Haney and Vanderbush, 2005: 86-91). Robert Morely, the Staff Director for Latin America at the NSC, noted that his agency and the State Department "were both seriously concerned about the impact of the CDA legislation on relations with friendly countries like Canada and Britain, our NATO allies," but observed that most within the administration agreed that vetoing it "was not worth a major fight with Congress."[178] Concerns about the legislation's diplomatic externalities meant little to the legislation's aplomb champion, as Rep. Torricelli expressed confidence that Castro's regime would fold within "months" of the *CDA's* passage (Smith, 1998: 536).

Just as many within the administration had predicted, the legislation inflamed the governments of many of Cuba's third party trading partners. The *CDA* evoked strident criticism from Canada, the EU, Mexico, Latin America and Japan. Canada and Great Britain went so far as so adopt blocking legislation within their own countries that *criminalized* obeying the *CDA,*

[177] The latter provision was done through invoking the *Foreign Assistance Act of 1961*, which was still in effect after the Cold War's conclusion.
[178] This quotation is quoted in Morlely and McGillion (2002: 50-51) and was obtained by the authors from a telephone interview with Robert Morely.

with Canada's punishments including up to 5 years of imprisonment (Kaplowitz, 1998: 153-154). This created both a diplomatic furor for U.S. Government and an intractable quandary for U.S. businesses, forcing them to choose between breaking the laws or angering the the governments of their host states versus violating the laws of their home country. Such was the international opposition to the measure that one month after the *CDA*'s passage, the United Nations General Assembly passed a resolution condemning the U.S. sanctions against Cuba and the new extraterritorial provisions they contained (Smith, 1998: 536). These resentments simmered, especially among U.S. allies, but the ferocity of most third party states' responses did not match the outrage expressed in their rhetoric (Kaplowitz, 1998: 153-154). Their anger was prepared to boil over, however, when Congress sought to further strengthen the extraterritorial provisions of the U.S. sanctions against Cuba in 1996.

While the *CDA* had the desired effect of cutting off (or at least down on) U.S. subsidiary trade with Cuba, it neither achieved the multilateral support for the sanctions that lawmakers had hoped for or brought about the collapse of Castro's regime. The *LIBERTAD Act* (aka, the "Helms-Burton Act")[179] emerged from the steadfast efforts of the highly conservative Chairman of the Senate Foreign Relations Committee, Sen. Jesse Helms. According to Daniel Fisk, who penned the legislation on Helms's behalf as a staff member of that committee, the *LIBERTAD Act* had four goals:

> (1) to halt the drift in US policy;
> (2) to stimulate global isolation of the Castro regime;
> (3) to prepare the US for the inevitable transition;
> (4) to shut-off Castro's escape route by complicating his foreign investment schemes (Fisk, 2000: 72)

[179] The "Helms-Burton Act" has received significant attention from both the scholarly and policymaking communities, see: Haney and Vanderbush, 2005; Kaplowitz, 1998; Morely and McGillion, 2002; Eizenstat, 2004; Shambaugh, 1999; Fisk, 2000; Smith, 1998; Roy, 2000.

Though not necessarily controversial goals, it was how the legislation sought to accomplish them that made it so notorious in the international community. Smith (1998: 537) writes that "If the CDA was extraterritorial in nature, Helms-Burton is virtually imperial, as epitomized by Senator Jesse Helms's (R-N.C.) remark that 'all we're saying to these countries is, obey *our* law.'"[180]

In addition to codifying the U.S. sanctions into law, the "Helms-Burton Act" targeted third party companies—including their senior management and shareholders—that traded or invested in Cuba, prohibited U.S. nationals from engaging in any commercial or financial transactions that *in any way* involved expropriated properties in Cuba, and sought to cut aid to the Russian Government equivalent to the amount of the assistance it gave Cuba (Morely and McGillion, 2002: 101-103). The legislation's provisions that prohibited U.S. firms engaging in transactions that involved expropriated properties in Cuba created significant logistical and legal issues for American firms, forcing them to ensure that none of their foreign business partners' dealings with Cuba violated the law's provision. This put pressure on American firms to choose foreign business partners that did no business with Cuba. The legislation's controversial *Title III* gave U.S. citizens with claims to commercial properties that had been expropriated by Cuba the *right* to sue third party investors and traders known to be profiting those properties in U.S. courts. *Title IV* also denied U.S. visas to the management-level employees and principal shareholders of such firms. The final draft of the legislation contained presidential waiver provisions for *Title III* and the restrictions on providing foreign assistance to Russia.

Even when the bill was only under consideration in Congress, it sparked the angry attention of third party governments. The EU went so far as to write a letter to Newt Gingrich, the Speaker of the House, protesting the legislation's extraterritorial provisions (Morely and McGillion, 2002: 84-85). This did not stop the House from overwhelmingly passing the bill.

[180] Emphasis was added within Smith's text, but was not included in Helms's original statement.

Initially, the Clinton Administration went out of its way to assure U.S. allies and third party states that the legislation had little chance of actually passing. The political calculus changed, however, after the Cuban Government shot down two civilian planes of a Cuban activist group called Brothers to the Rescue two weeks before the presidential primary in Florida. Based heavily upon domestic politics involved, President Clinton assented to signing the "Helms-Burton Act" into law in March of 1996 (Haney and Vanderbush, 2005: 106-107; Morely and McGillion, 2002: 98-107).

The international response to the legislation's passage was profoundly negative, especially amongst the United States' allies. In the lead up to the passage of the "Helms-Burton Act," Canada had strongly lobbied the U.S. Government against the legislation's passage (Kirk and McKenna, 1997: 168-169). After the bill passed, Canada immediately imposed blocking legislation to forbid compliance with the measure and threatened retaliatory legislation that would allow Canadians to counter-sue American firms in their courts for any losses suffered due to "Helms-Burton." In July of 1996, the U.S. Government barred 9 executives and shareholders of Sherritt International, a Canadian mining company that did a substantial amount of business with Cuba, from visiting the United States under the aegis of *Title IV* (Sanger, 1996). The incensed Canadians followed through with their threat and passed retaliatory legislation in January of 1997 (Kaplowitz, 1998: 185). Canada's stalwart opposition to the American sanctions' effort led Sen. Helms to compare the country's willingness to deal with Fidel Castro to Chamberlain's appeasement of Hitler at Munich in 1938 ("Cuba Visit Likened...," 1997).[181] Clearly, the sanctions dispute was taking its toll on U.S.-Canadian relations.

The same was also true for the United States' European allies. Beyond unleashing a torrent of criticism against the measure, all 15 of the states in the EU passed retaliatory

[181] Also quoted in Kirk and McKenna (1997: 173).

legislation in response to the “Helms-Burton Act” (Kaplowiz, 1998: 167; Morely and McGillion, 2002: 120-130). Testifying before Congress, Preeg (1997: 30) discussed the issues at root in Europe's opposition to the legislation, saying that the Europeans “certainly feel that we are using unacceptable policy instruments that conflict with the principles and, in their view, the letter of our [American] commitments in the WTO and they are challenging it as a matter of principle as well as self-interest.” Towards that end, the EU countries formally brought sought against the “Helms-Burton Act” in the WTO to obtain a ruling against the “Helms-Burton Act” as a secondary boycott that violated international trade law (Sanger, 1998). As a stunned State Department observed, “We succeeded in doing what it is almost impossible to do... Every single European Union member state, even the ones who completely agreed with us on human rights, rejected Helms-Burton.”[182] Both on a bilateral basis and through the EU, the dispute with the United States over its extraterritorial sanctions (the *ILSA* included) emerged as the the leading source of trans-Atlantic conflict during that period.

The measure also invoked the ire of Mexico and other Latin American countries. In particular, the Mexican Government was irate over the “Helms-Burton Act” and took a leadership role with Canada in leading the hemispheric opposition to the legislation (Preston, 1996). The Latin American countries and Canada turned the sanctions issue into a multilateral, hemisphere-wide conflict, employing the same organizational apparatus the U.S. had earlier used to rally support for its sanctions. A resolution with 32 co-sponsors was brought before the OAS that roundly condemned the extraterritorial measures contained within the “Helms-Burton” legislation and passed with the United States' casting the sole dissenting vote (Rohter, 1996). The OAS further asked the Inter-American Juridical Committee (IAJC) to issue a ruling on legality of American measure (Morely and McKenna, 2002: 108). The IAJC subsequently found

[182] Quoted in Morely and McGillion (2002: 111), who obtained the quotation from a confidential interview.

that Helms-Burton Act violated international law on numerous counts. Whereas the OAS had been the vehicle by which the United States had built a multilateral coalition of support for its sanctions in 1960s, Latin American countries used the IO to organize their multilateral opposition to the U.S. sanctions in the 1990s.

The Clinton Administration did its best to manage the conflict created by the political fallout created by the legislation. Though Clinton had invoked the *Title IV* provisions soon after the legislation's passage, he suspended the implementation of *Title III* in the summer of 1996 to facilitate in diplomatic negotiations with the countries affected by the legislation. Towards that end, the Clinton Administration sent Stuart Eizenstat on a trans-Atlantic tour to consult with the countries from the EU, Mexico, and Canada. Eizenstat's goal was to find some sort of compromise over the legislation to head off the initiation of any trade wars and mitigate the spillover the from the conflict. One of the Clinton Administration's fears was that the dispute over "Helms-Burton" was going to undermine the nascent WTO's legitimacy (Apple, 1997; Preeg, 1997).[183] In Eizenstat's (2004) own words, his mission met with a shocking amount of resistance and acrimony.

Tense negotiations over the "Helms-Burton Act" dragged on from 1996-1998. The Clinton Administration continued to offer the *Title III* waivers, while the Europeans, in return, kept suspending their WTO suit (Mitchell, 1997). In early 1997, the United States reached a provisional agreement with the EU. The EU countries agreed to develop more stringent regulations on transactions involving illegally expropriated properties in return for the United States' repeal of its *Title IV* provision. This settlement was almost dead on arrival due to

[183] The thought was that if the case were brought before the WTO and the U.S. lost the case (which there was a good chance it would), the United States' response likely would have been to invoke a national security waiver for the legislation (Sanger, 1997; Morely and McGillion, 2002: 123-126). Such a response could have done enormous damage to the WTO's credibility.

Congressional opposition. A spokesperson for Sen. Helm offered the following response to the agreement: “We've given up nothing.... The Senator will not accept any dilution of Helms-Burton, and he would certainly not give up a concrete tool like Title IV for some vague promises from the European Union” (Apple, 1997). Importantly, Europe was negotiating concurrently with the United States over the extraterritorial provisions contained within the *ILSA*. The $2 billion gas development deal reached by France's Total SA with Iran in the summer of 1997 sent a clear message of Europe's unwillingness to be cowed U.S. threats. As the EU's Trade Commissioner framed it, the United States' decision to follow through with its extraterritorial sanctions against Total would risk “setting in motion a chain of events which could seriously damage the wider [alliance] relationship” (Morely and McGillion, 2002: 129).

The negotiations carried on into the spring of 1998, when tentative agreement was reached. The EU countries agreed to let their WTO suit against the United States lapse, to step up their pressure against Castro's regime on its human rights record, and to deny “government loans, subsidies, and political risk insurance to companies” that invested in countries that had illegally expropriated significant amounts of foreign properties (Morely and McGillion, 2002: 139-140). In return, the Clinton Administration promised to continue to waive the implementation of *Title III* indefinitely, waive the sanctions against Total, and pursue the revocation of *Title IV* of the “Helms-Burton Act” in Congress (Sanger, 1998). Importantly, the European's promises were contingent upon the Congressional follow through in rescinding *Title IV*, which never happened. A stable stalemate had been achieved, however: the “Helms-Burton Act” remained in place, but the Clinton Administration did not enforce its most provocative aspects. Although the measure angered the American allies and Clinton backed off from stringently enforcing it, Fisk (2000: 75-76) observes that the measure did succeed in garnering an unprecedented level of multilateral pressure on Castro's regime over human rights issues.

It is also interesting that while U.S. commercial interests remained timid during the initial debates over the *CDA* and the “Helms-Burton Act,” they became increasingly active in 1997. As discussed in *Chapter 4*, groups like *USA*Engage* began taking a vocal stance against the United States' use of sanctions during this period. They were also willing to challenge CANF over the Cuban sanctions. This domestic opposition provided the Clinton Administration with greater political space to operate in during the negotiations over the “Helms-Burton Act” and set the stage for the passage of *Sanctions Reform and Export Enhancement Act of 2000.* President Bush, once in office, adopted much the same approach towards the “Helms-Burton Act” as Clinton had before him—continuing to renew the waiver of *Title III* and doing little with *Title IV* (Haney and Vanderbush, 2005: 134-135).

As this discussion has shown, the United States efforts to obtain third party support for its sanctions was fraught with difficulty. While the U.S. legislation was directed at all countries' trade with Cuba, it is notable that the United States took the political concerns of Canada and the EU more seriously than those of other countries. Even though hardliners within Congress viewed the acquisition of third party support as crucial to their sanctions effort, the (H.W.) Bush and Clinton Administrations balked at the damage that fully pursuing such measures would have on the United States' alliance relationships. Though domestic politics clearly played a dominant role in the passage of the *CDA* and the “Helms-Burton Act,” intra-alliance politics heavily constrained how U.S. Presidents implemented them.

Cuba's Response to the Sanctions

Facing the withdrawal of Soviet support, the Cuban economy underwent a period of substantial contraction. Cuba faced severe shortages of oil, food, and consumer goods. The loss of the Soviet Union's oil subsidies hit Cuba especially hard. Cuba was almost wholly dependent upon foreign energy supplies and it could not afford to continue its prior levels of energy consumption without subsidies (Askari et al., 2003: 125). In his 1991 address to the Cuban Communist Congress, Castro expressed the uncertainty that faced Cuba in the absence of its longtime patron:

> Nobody knows if oil will be available next year, what price our sugar will have, or whether the USSR will be in a position to export oil at all. We know that it needs it sugar, but will it be able to export? Who will export: the USSR or the Republics? What price will they pay for sugar? Will they want the garbage sugar price? …All these are problems and difficult uncertainties (Pavlov, 1994: 243).[184]

Castro was forced declare a period of economic emergency that placed the country at a wartime level of austerity (Castro called it the "Special Period in a Time of Peace"). From 1992-1993, Cuba teetered on the brink of collapse. To survive the withdrawal of Soviet assistance and the strengthened American sanctions, Castro pursued a three-pronged strategy that included: initiating capitalist reforms within Cuba, opening up the country to foreign investment, and courting the assistance new third party benefactors.

In response to the crisis facing his country, Castro initiated a series of liberalizing reforms to the Cuban economy. These included allowing farmers' markets to open up around the country, legalizing private holdings and purchases using U.S. currency, allowing citizens to

[184] Also quoted in Pavlov (1994: 243).

become self-employed, and amending the country's laws to become more attractive to foreign investment (Rieff, 1996; Smith, 1996). One area in particular that Castro sought foreign assistance in cultivating was the country's underdeveloped tourism sector. Indeed, Cuba was quite successful in attracting Canadian and European foreign direct investment in that realm. By 1990s, tourism overtook sugar as Cuba's primary source of hard currency (Monreal, 2002: 78). Castro further found creative ways of paying off foreign creditors through debt-for-equity swaps in joint-venture projects or state-owned enterprises, which were especially popular amongst Mexican investors (Pérez-López, 1996/97: 9). By legalizing the use of dollars, Castro also opened up the floodgates for overseas remittances, which "conservative" estimates placed at around $800 million during the mid-1990s (Rieff, 1996: 65). After enduring severe hardship during the early part of the decade, the Cuban economy began a steady recovery by the latter half of the 1990s.[185] Despite the positive trajectory of Cuba's economic turnaround, the country still suffered from a chronic lack of energy supplies and access to sufficient capital to fund its economic development.

Lacking the commercial wherewithal to solve these problems, the Cuban Government once again relied on the political acumen of Castro to secure foreign assistance (Fletcher, 1996). Castro's efforts focused on rekindling Cuba's past relationship with China and cultivating a new alliance Venezuela's Hugo Chávez. A major part of those efforts included a "hat-in-hand" endeavor to reconcile with China after the divisive ideological schism that had soured the countries' relations during the 1970s. Castro's diplomatic entreaty culminated in his first ever trip to China in December of 1995. During his 10-day visit, Chinese officials acknowledged that economic issues were the focus of talks between the two countries (Walker, 1995). In addition

[185] Over this period (1991-1999), though, Cuba's foreign debt in hard currency rose from $6.38 billion to $11 billion (Leogrande and Thomas, 2002: 338).

to mending relations with China, Castro sought to forge a close relationship with Venezuela's ambitious and ideologically sympathetic president. Castro first met Hugo Chávez in 1995, offering him a warm reception in Cuba after his release from prison—a sentence stemming from the failed coup attempt he led in 1992 (McCoy, 2000). Castro cultivated strong ties with the ambitious Chávez, who thought to take over the aging Castro's mantle as Latin America's leading revolutionary, anti-American firebrand. Castro's investment paid off when Chávez was elected president of Venezuela in 1998. In remarks during his first visit to Venezuela in over 40 years, Castro told the Venezuelan people: "I came here not looking for fuel, though Venezuela has a lot of it, but seeking understanding and brotherhood" (Rohter, 2000b). In the end, Castro succeeded at getting more than he could have hoped for of all three.

The Cuban Government's strategy for enduring the American sanctions in the post-Cold War era involved some differences, but many consistencies. Cuba's policies were consistent in that Castro did whatever was needed to ensure his regime's survival. If that entailed making market reforms, so be it. As well, Castro still sought politically-motivated handouts from wherever he could get them. While the number of wealthy, socialist countries sympathetic to Cuba's plight had dramatically shrunken, Castro sought to capitalize on the few opportunities that existed. Finally, Castro also committed Cuba to diversifying the number of trading partners upon which it was dependent. After being burned first by the United States and then by the Soviet Union, the regime sought to avoiding similar dependencies in the future.

Cuba's Post-Cold War Sanctions-Busters

In this section, I examine the countries that engaged in extensive sanctions-busting on Cuba's behalf after the Cold War's conclusion. Though overlap exists with the previous period's study of Russian and Chinese sanctions-busting, this section's inquiry reveals that the motives underpinning their actions changed. The countries explored in this section also include the Western Hemispheric nations of Venezuela and Canada—though for significantly different reasons. Whereas Canada's trade with Cuba stemmed from placing commercial interests at the forefront of it foreign policy agenda, Venezuela's patronage of Cuba was rooted in the socialist, anti-imperialist ideology of its President, Hugo Chávez. This section's cases demonstrate the powerful role that the waxing and waning of ideological imperatives can have on states' incentives to engage in *costly* sanctions-busting and the leading role that commercial interests play in third party responses when such considerations are absent.

Russia

From 1990-1991, the Soviet Union underwent a transformative change in its relationship with Cuba. Economically, the country could no longer sustain providing Cuba with assistance and, politically, the "Havana Lobby" lost much of its political clout. A key moment came after the attempted coup against Mikhail Gorbachev in August 1991, after which Gorbachev "accelerated [the] process of removing ideology from the USSR's relations with the outside world and [began] a reassessment of friendships and priorities" (Pavlov, 1994: 229). As the Soviet Union's commitment to communism faded, so too did its commitment to Cuba. "Marxist-

Leninism had been a cornerstone of Soviet-Cuban relations," writes Mervyn Bain (2008: 54-55), and the Soviet Union's disillusionment with it "…meant that one of the key reasons for the relationship's continuation had simply evaporate overnight, as had the importance for the Kremlin of a socialist state in the western hemisphere." Both pragmatic concerns and matters of principle then played a role in the discontinuation of "black knight" support to Cuba. The coinciding withdrawal of Soviet assistance with the severance of the countries' ideological ties lends further support to the notion that ideology played the key role in its costly "black knight" sanctions-busting.

Table 6.1: Cuba's Trade with the Soviet Union/Russia in Millions of Pesos, 1986-1998[186]

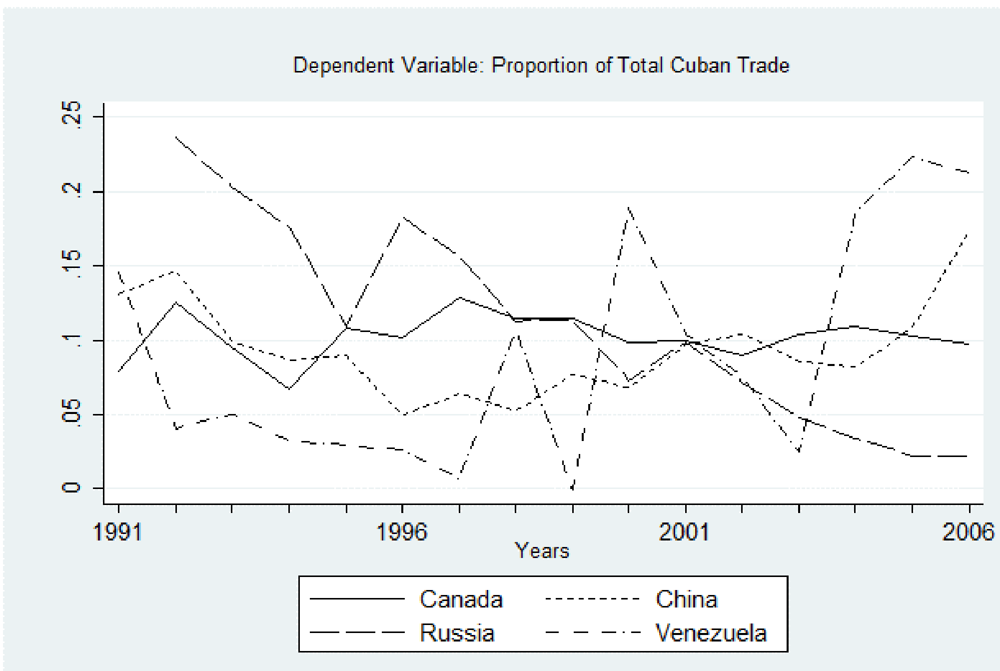
Year	Imports	Exports	Total Trade	% Change from Prior Year	% of Cuba's Total Trade
1986	5337.6	3935.9	9273.5	-6.33%	71.8
1987	5446	3868.7	9314.7	0.44%	7137
1988	5364.4	3683.1	9047.5	-2.87%	69.1
1989	5522.4	3231.2	8753.6	-3.25%	64.7
1990	5114.4	3597	8711.4	-0.48%	67.9
1991	2633.6	1794.7	4428.3	-49.17%	61.4
1992	566	191	757	-82.91%	18.5
1993	399.1	311.5	710.6	-6.13%	22.4
1994	309	200	509	-28.37%	15.2
1995	237	225	462	-9.23%	10.9
1996	465	406	871	88.53%	16.1
1997	284	352	636	-26.98%	11.9
1998	71	430	501	-21.23%	10

Source: Leogrande and Thomas (2002: 334-335).

After the Soviet Union's breakup, Russia emerged as the largest and most powerful successor state. Though Cuba continued to have some commercial relations with the other republics in the Commonwealth of Independent States, Russia was its principal trading partner. Russia was also the inheritor of the estimated $20 billion debt that Cuba had owed to the Soviet

[186] The trade data are in current year prices of Cuban Pesos.

Union. *Table 6.1* illustrates the precipitous decline in Cuba's trade with the Soviet Union and its Russian successor from 1991-1995. As Cuba's commercial relationship with Russia shifted to one based upon fair market trade, the prior levels of commerce that had existed between the two countries proved unsustainable. While the residual commercial interdependence between both states provided enough inertia to sustain Russian trade with Cuba after the Soviet breakup, those ties slowly eroded due to their comparative unprofitability. *Figure 6.2* shows that trade with Russia as a total proportion of Cuban trade fell steadily from 1992-2006, reaching negligible levels by 2005.



Source: Barbieri et al. (2008)

Figure 6.2: Leading Sanctions-Busters' Share of Cuban Trade, 1991-2006

According to my theory, Russia's had a mixed sanctions-busting profile at the start of this period, but that profile dramatically worsened during the 1990s. While geographically distant from Cuba, Russia had abnormally high levels of commercial interdependence with the Cuban regime as a holdover from its Soviet-era assistance. During the 1990s, Russia went through a period of severe economic turmoil as it adjusted to a capitalist-based system. The Russian economy contracted by 40% from 1989-1997 and, in 1998, the Russian Government faced an epic financial crisis (Jatar-Hausmann, 1998/99: 88). High oil prices helped to spark an economic recovery after the turn of the millennium, however. As its conversion to capitalism did not occur overnight, Russia's commercial sector also remained underdeveloped during the 1990s. In terms of its foreign policy, Russia's political alliance with Cuba effectively died with the dissolution of the Soviet Union (Pavlov, 1994). Indeed, Soviet/Russian relations with Cuba grew chilled following the Soviet withdrawal of assistance (Bain, 2008: 57-58). Throughout the early part of 1990s the Russian Government sought closer relations with the United States and the West. Under the presidency of Vladimir Putin, though, the country's relationship with the United States grew distant and, at times, even strained.

The change in Russia's trade relationship with Cuba reflects both the economic turmoil faced by both states during the 1990s and the commercial realities underlying their relationship. The artificial nature of commercial interdependence between the two countries was unsustainable in period when both countries' economies were contracting and such trade was comparatively less profitable than new trading opportunities that emerged at the Cold War's conclusion. Russian trade still remained important to Cuba during the early- and mid-1990s, though, as the country had yet to have developed alternative commercial linkages: indeed, "the realization had formed in both countries that it was easier and cheaper for oil for sugar swaps to be conducted rather than either country attempt to cultivate new trade links" (Bain, 2008: 54-67, 92). The oil-for-sugar deals between Russian and Cuban Governments lasted until 1999, at which point the Russian Government announced that future negotiations would be conducted by the private sector.[187] As both countries' economies adjusted over time, their commercial interests realized that better commercial opportunities existed elsewhere. This is evidenced by the fact that even after Russia's economy recovered in 2000, its trade with Cuba continued to decline—in spite of the interest President Putin expressed in rebuilding Russia's commercial relationship with the country.

The slow-death of the Soviet-era "black knight" and the re-orientation of the Russia's trade relationship with Cuba are wholly consistent with my theory's expectations. The sanctions-busting that the Soviet Union conducted on Cuba's behalf from 1960-1991 was artificially supported with massive government subsidies. Absent their provision and under a free-market system, such trade was neither profitable for the Russians nor the Cubans. While the extensive trade linkages that existed between the two countries during the Cold War helped sustain the two countries' trade out of inertia, Cuba's ability to find better products at lower prices from foreign competitors led it to diversify to new trading partners. Given time to adjust, Russia's trade with Cuba also came to reflect its private sector's natural commercial interests with the country, which were nowhere near high enough to generate past levels of sanctions-busting trade.

China

Despite its close earlier ties to Cuba, China's trade with Cuba had been largely supplanted by the Soviet Union during the latter part of the 1980s. In the wake of its eroding relationship with the Soviet Union, Castro reached out to China for assistance. The China of the

[187] These oil-for-sugar deals still constituted a form of subsidy for the Cuban Government, as Cuba was able to get more favorable terms of trade through the barter exchanges than it could have from the use of global market prices (Alonso and Galliano, 1999: 340-341).

1990s, however, was far different than the China discussed in the preceding period. China's economy had undergone substantial reforms that had reoriented it towards an export-led model of economic growth. Especially by the late 1990s, China's economy was big, booming, and voraciously seeking out foreign markets for its products. Politically, China was sympathetic to Cuba's plight—especially after Castro made overtures to heal ideological schism that had previously divided the countries (Walker, 1995; Fletcher, 1996). Despite the reforms they had made to their economies, both countries professed continued loyalty to the socialist model. Indeed, Cuba's pragmatic economic reforms in many ways paralleled the ones undertaken by China. When Castro visited China in 2003, then Secretary of the Chinese Communist Party Hu Jintao expressed solidarity with Cuba, saying that: "As socialist countries led by the Communist parties, China and Cuba share the same ideals and faith" and that "China will continue its longstanding friendship with Cuba and make efforts to further bilateral ties" (Rosenthal, 2003). While China provided Cuba with assistance and certain trade perks, its trade relationship with Cuba was heavily influenced by its commercial interests. While not an outright political adversary of the United States, China's meteoric economic growth made it into an emergent rival for natural resources, economic markets, and political influence in the developing world—including Latin America (Rohter, 2004).

As *Figure 6.2* illustrates, China remained a consistently significant trading of Cuba but the degree of that significance varied. China's relative portion of Cuba's total trade slowly declined from 1991-1996, but reversed trajectories in 1997. By 2006, Cuba conducted roughly 17% of its total trade with China. This more recent trade has been encouraged through Chinese subsidized assistance. For example, the Chinese Government extended highly favorable interest rates on loans (3% *per anum* over 20 years) to Cuba to help it finance purchases of Chinese goods (Bain, 2008: 71). Such trade credits equate to hundreds of millions of dollars worth of economic assistance (Rosenthal, 2003). Whereas assistance-backed trade came to dominate Cuba's commercial portfolio during the Cold War, there seems little interest in Cuba or in China in forming that sort of relationship. China's interest in Cuba appears to be part of broader strategy of investment and political engagement with the entire Latin American regime to meet its growing demand for natural resources and open up markets for its exports (Rohter, 2004; Johnson, 2005).

The Chinese Government's role as third party is more complicated in this period than in the preceding one, as it is difficult to separate out the regime's political interests from those of its commercial constituencies. Though China has made substantial market reforms to its economy, the state still plays a predominant role within it—both directly and indirectly.[188] At the very least, China could be said to have mixed motives in its trade relationship with Cuba, with commercial interests playing a much larger role in shaping its trade policies than in the previous period. In terms of my theory, China's commercial profile and pre-existing ties to Cuba already made it a leading sanctions-busting candidate. This makes it difficult to identify the extent to which China's ideological affinity with Cuba positively influenced the countries' trade relationship. Though the exact details of the degree of assistance China has provided to Cuba remain unclear, those sums appear to have been more than trivial.

[188] In some cases, elements of the state, like the Peoples' Liberation Army, control commercial enterprises that are part the Chinese Government's commercial constituencies. In others, free enterprises may exert influence upon the states' leadership.

Venezuela

Of all the countries in this time period, Venezuela presents the most intriguing findings. Venezuela did not have the Cold War ties to Castro's regime that China and Russia did. Indeed, Cuba had supported a revolutionary movement to overthrow Venezuela's Government in the 1960s, leading Venezuela to become an ardent supporter of the hemispheric sanctioning effort against Cuba (Kaplowitz, 1998: 67). Yet when Hugo Chávez was elected president in 1998 with a socialist domestic platform and an internationalist, anti-American foreign policy agenda (Gunson, 2006), he made strengthening Venezuela's ties to Cuba a national priority. In building stronger political and commercial ties with Cuba, Chávez sought to associate himself with Castro's revolutionary legacy and the regime's socialist ideology (Erikson, 2004; Shifter, 2006). By 2005, Chávez had turned Venezuela into Cuba's leading patron, offering it an estimated $1.7 billion worth of oil concessions. This sum dwarfed the United States' entire aid budget to Latin America that year (Harman, 2005). While Venezuela's sanctions-busting on Cuba's behalf is not consistent with my theory, it falls in the same mold as the other cases of ideologically-motivated sanctions-busting.

Venezuela had a rather weak commercial profile for sanctions-busting. The country's economy was of only middling size and it lacked a well-developed industrial and agricultural base. Venezuela's economy, instead, relied primarily on petroleum exports. Though it sits on one of the world's largest proven oil reserves, Venezuela's population has remained plagued by poverty—a problem that has only worsened under the presidency of Chávez (Gunson, 2006). Venezuela's bountiful supplies of oil would potentially find a natural market in a petro-hungry country like Cuba but for one major problem: Cuba lacked the money to pay for it. In terms of its foreign policy, Venezuela sought out a close political alliance with Cuba after Chávez assumed power in 1999. Not coincidentally, Chávez also adopted an adversarial stance towards the United States, regularly espousing anti-American rhetoric, blocking over-flights by the U.S. military, challenging U.S. efforts to form a hemispheric free trade zone, and attempting to form an anti-American bloc in Latin America (Snow, 2005; Harman, 2006; Shifter, 2006). Chávez has done all this while continuing to sell more than a third of its oil to the United States.

Venezuela's burgeoning commercial ties to Cuba have been closely tied to President Chávez's political agenda. As *Graph 7.2* shows, Venezuela was not a major Cuban trade partner until 2000. In the first year of his presidency, Chávez negotiated his first of several deals with Cuba to help supply the country with oil. As part of the deal struck in October 1999, Venezuela entered into a long-term joint venture with Cuba to refit and operate what had been an unused Soviet-era refinery in Cuba, for which Venezuela would (eventually) supply 70,000 barrels of oil per day.[189] This deal was particularly significant for Cuba as 1999 marked the last year of its oil-for-sugar swaps with Russia (Gott, 2000: 29). The two countries followed up on this deal with a more extensive arrangement in October of 2000. In the *Convenio Integral de Cooperación* ("*Integral Cooperation Accord*"), Chávez agreed to supply Cuba with 53,000 barrels of oil per day at preferential rates in exchange for technical assistance and the services of roughly 20,000-30,000 Cuban doctors, educators, and coaches (Rohter, 2000b; "With Help from Oil…," 2005).[190] These shipments subsequently accounted for roughly a third of the Cuban regime's energy supplies (Erikson, 2004: 35).

[189] This project did not come to fruition until 2007, as the Cienfuegos Refinery had been reliant upon out-dated Soviet equipment and technologies that needed to be refitted (Walter, 2007).

[190] Jesus Mendez Quijada, the President of the Venezuelan Medical Federation, had the following to say about the terms of the deal: "From a numerical point of view, it is absolutely irrational to send oil to someone who is going to pay by sending us doctors… If they want to give the oil away for free, then they shouldn't use that as an excuse" (Rohter, 2000a).

Chávez's generosity proved to be a domestically unpopular move. In 2002, Chávez was briefly deposed by a coup and the regime that came into power ordered Venezuela's state oil company to suspend its oil shipments to Cuba (Adams, 2002). Though Chávez restarted the shipments after he was reinstated, Venezuela's state oil company (PDVSA) was subsequently crippled by a major strike in 2003 (Erikson, 2004: Kazloff, 2007). The Cuban oil shipments sparked significant controversy in Venezuela, as its citizens questioned why they were not instead receiving higher pay or greater social benefits from the country's oil wealth. As well, the Cuban Government fell far behind on its oil payments to PDVSA,[191] which Chávez's Government showed scant interest in collecting (Rohter, 2000b; Adams, 2002; Erikson, 2004: 36). *Figure 6.2* evidences this dramatic dip in Venezuelan trade with Cuba over this period. Riding the wave of internationally high oil prices, however, Chávez remained undeterred in using his country's oil as a diplomatic tool ("Using Oil to Spread…," 2005; Harman, 2005). Even before being elected President, Chávez had expressed his provocative views on the utility of oil in international politics, stating that: "Oil is a geopolitical weapon and these imbeciles who govern us don't realize the power they have, as an oil producing country" (Kozloff, 2007: 7). Having—at least temporarily—resolved his country's domestic issues, Chávez saw to it that Venezuela would rapidly reemerge as Cuba's largest and most important trade partner (see: *Figure 6.2*). Towards that end, Venezuela announced in 2005 that it was upping its promised shipments of oil to Cuba to a total 90,000 barrels per day as part of a broader trade package with the country (Shifter, 2006).

As in the cases of China and Russia in the first period, the Venezuelan Government engaged in *costly* sanctions-busting on Cuba's behalf in contrast to my theory's expectations. According to my theory, there would be little reason to expect that a poor country, facing severe

[191] This sum totaled $752 million in 2004 (Erikson, 2004: 36).

domestic economic problems, would just give away its chief revenue earner to a sanctioned state. The cause of this assistance appears deeply rooted in Chávez's "Bolivarian" ideology, his close ties to Fidel Castro, and his political agenda for Latin America. From 1999-2005, Chávez made 13 trips to Cuba, developing close personal and working relationships with Castro (Harman, 2005). Chávez seemed to view himself as the Castro's natural successor in leading the revolutionary resistance against American hegemony in the region. His "Bolivarian" ideology emphasizes South American unity in standing up to American imperialism on the international front and socialist principles and strong central governance domestically (Ramírez, 2005: 81; Roberts, 2007).[192]

On the basis of this ideological agenda, Chávez saw common cause with Castro in supporting Cuba's socialist-based defiance of the United States. As early as 2000, Chávez discussed his vision of forming "an axis of power" with Cuba, saying that the deal[193] he had brokered with Castro "is not just a matter of friendship… It is a geopolitical vision of the integration of our people" (Rohter, 2000b). Chávez viewed supporting leftist-leaning political movements across Latin America (like Cuba did during the Cold War) as part of an obligation to spark "Bolivarian" revolutions across the region. He did this to, in his own words, draw a "new geopolitical map to counterbalance the global dominance of the United States" (Goodspeed, 2006). Chávez's widespread use of oil-diplomacy beyond Cuba evidence these goals. Assessing Chávez's diverse set of oil-funded or –based deals across Latin America, Ricardo Hausmann surmises that "There is no economic rationale in these deals.... It is a political investment. What

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[192] The "Bolivarian" ideology is steeped in mythos surrounding Simón Bolívar, the revolutionary responsible for liberating Venezuela from colonial rule of Spain in the 1800s. It is a mixture of populism, socialism, and pan-Latin Americanism that also encompasses Chávez's own predilection for militarism and authoritarianism (Shifter, 2006). Evidencing the ideological grandeur of Chávez's views, he convinced the legislature to have the country renamed "The Bolivarian Republic of Venezuela." According to Elias Pino Iturrieta,"Chavez wears this *Bolivarianismo* as a shield against economic globalization and what he calls the 'savage neoliberalism' of the international economy… Anyone questioning that view suddenly becomes a traitor to our supreme national myth" (Goodspeed, 2006).

[193] Chávez is referring to the *Integral Cooperation Accord.*

is less transparent is what Venezuela is going to get in return" (Harman, 2005). In Cuba's case, Chávez appeared to think that the intangible, ideological payoffs received through his close association with the "revolutionary" legacies of Castro and Cuba and in publicly spiting a U.S. policy initiative more than made up for the hefty price tag of supporting Cuba.

Canada

Aside from Sen. Helms's particularly strong views of Canada, its inclusion in the group of sanctions-busters with Russia, China, and the Venezuela was not done out of its similarity to those cases. Canada's interest in trading with Cuba was mainly commercial. To the extent that it became political was in defending the principle that the United States could not dictate trade policy to its firms. So whereas Canada protested the United States' extraterritorial sanctioning efforts but quietly cooperated with many of them during the 1960s (Morely, 1987: 219-221), the country staunchly defended its firms' trade from American interference in the 1990s. Canada's unwillingness to subordinate its constituencies' commercial interests to the foreign policy prerogatives of its closest ally and largest trading partner demonstrates the powerful commercial incentives that exit to sanctions-bust. Canada's emergence as one of Cuba's largest and most consistent sanctions-busters is in complete accordance with my theory.

Both Canada's commercial profile and its foreign policies towards the United States and Cuba made it an ideal third party venue for conducting sanctions-busting trade. The United States and Canada shared the world's largest bilateral trade relationship ($533.7 billion in 2006), despite the fact that Canada's economy is roughly 11 times smaller than its American counterpart (Fergusson, 2008: 1). Canada's close commercial and geographic relationship with the United

States and the similarities of their markets placed Canadian firms in an ideal position to provide Cuba with American goods or their equivalent substitutes. During the 1970s and early 1980s, Canada had also built up sizable commercial relationship with Cuba, but that relationship had waned due Cuba's economic troubles in the late 1980s (Kirk and McKenna, 1997: 107, 164). After the Soviet Union's dissolution, Canada found an increasing array of commercial opportunities available to it in Cuba's import and export markets. Politically, Canada was one of the United States' closest political and military allies[194] during this period—though the countries still had starkly different outlooks on their foreign policies.[195] Cuba was one such issue. From the Canadian perspective, the Cuban regime could best be rehabilitated and reintegrated into the inter-American community through political and commercial engagement rather than isolation.[196] As such, it pursued a more open, positive political relationship with the country. Canadian Prime Minister Jean Chrétien expressed his frustration with the United States over the issue during the "Helms-Burton" negotiations: "If you want to have an isolationist policy, that's your business. But don't tell us what to do. *That's our business*" (Roy, 2000: 84).[197] Kirk and McKenna (1997: 162) conclude that "the commercial bottom line has been the driving force" behind Canadian relations with Cuba and go on to observe that Canadian firms' interest in doing business with Cuba have been so acute "particularly because of the lack of U.S. competition."

Canada had a lot to lose and little to gain from cooperating with the United States in its sanctions against Cuba. As the United States' largest trading partner, close ally, and most proximate country with a similar market, it was the natural home for U.S. subsidiaries seeking to

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[194] Canada is a member of NATO with the United States.
[195] For more on Canadian foreign policy, see: James et al., 2006.
[196] According to Hristoulas (2006: 322) Canada had a "post-national" vision of international politics in which "*economic issues are considered security issues and security issues are economic* in nature. Canadian decision-makers believe that the fundamental causes of global security problems can be traced to economic instability." Emphasis included in the original.
[197] Emphasis added.

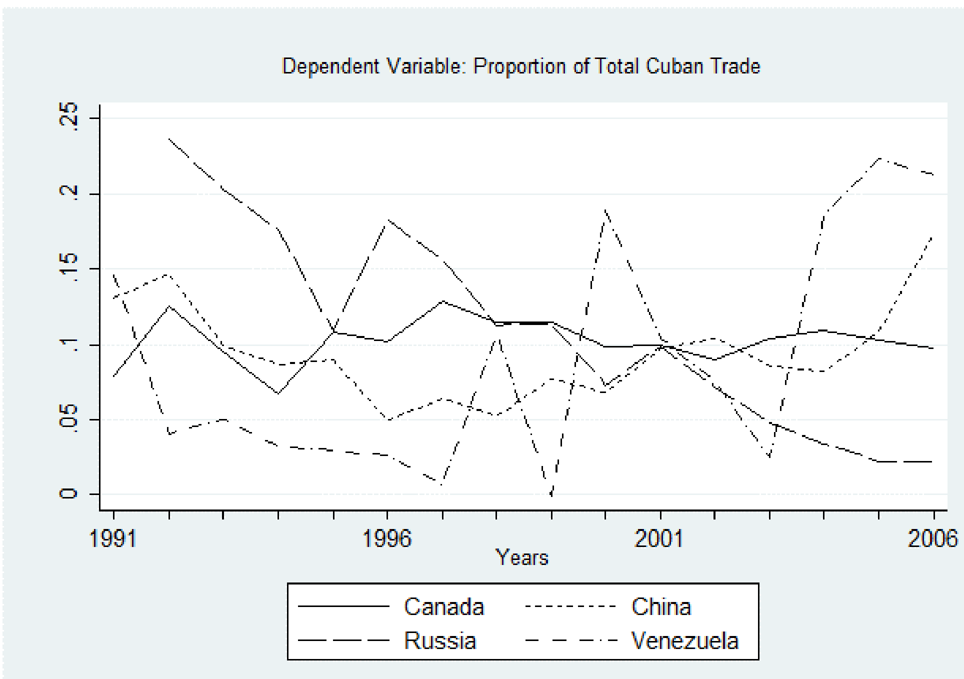
trade with Canada. For that reason, the *CDA* hit Canada especially hard. Though it imposed blocking legislation, it was difficult to force U.S.-owned firms *not* to comply with the American edicts.[198] *Figure 6.2* shows that Canada's trade with Cuba declined substantially from 1992-1994. If it had been totally enforced, the "Helms-Burton Act" could have had a similar effect on Canadian trade with, and foreign investment in, Cuba. Canadian firms, like Sherritt International, had made huge investments in Cuba's mining sector (Roy, 2000: 85). Giving up those investments for the sake of a renewed interest in U.S. property claims made 35 years after the fact was a political non-starter. Another provision in the legislation outlawed U.S. imports of goods that contained products stemming from expropriated properties, the most notable of which were nickel and sugar. This provision jeopardized a substantial pool of Canadian exports to the United States (Morely and McGillion, 2002: 213). This explains, in large part, why Canada responded so adamantly to the legislation. While the *CDA* hurt Canada's trade with Cuba, its efforts to de-fang the "Helms-Burton Act" were largely successful in providing cover for Canadian firms doing business with Cuba. Overall, Canada trade relationship with Cuba remained strong from 1991-2006 despite the United States' efforts—consistently accounting for roughly 10% of Cuba's total trade.

European Union Countries (Spain, Italy, France, and the Netherlands)

For this case, I broke from my prior approach of considering third party states individually, because the countries of the European Union decided to negotiate collectively in response to the United States' extraterritorial sanctions rather than individually. While Spain and

[198] Unless the case involved breaking pre-existing contracts, it would be very difficult to prove in the court of law why a company chose not to pursue potential trading opportunities in Cuba. As well, Canada had no control over the decisions of American parent companies regarding whether or not they wanted to form subsidiaries in Canada.

Italy were both consistently large sanctions-busters on Cuba's behalf during this period, other EU countries' trade with Cuba was more fluid, yet still very significant at times (e.g., France and the Netherlands). Collectively, though, EU countries posed the greatest sanctions-busting threat to the U.S. sanctions effort following the Cold War's conclusion. In 1994, for example, 45% of Cuba's foreign trade was conducted with EU countries ("Europeans Agree on...," 1996). This created incentives for hardliners in the U.S. Government to target European trade with Cuba and for the Europeans staunchly to defend their trade. This does not mean that cross-national variation in EU countries' sanctions-busting profiles did not matter—it did and, in some cases, a lot—those differences can be temporarily overlooked for the purposes of this small-n study.



Source: Barbieri et al. (2008)

Figure 6.3: European Union Countries' Share of Cuban Trade, 1991-2006

According to my theory, numerous countries within Western Europe had commercial profiles conductive to sanctions-busting. Many of the countries had large, industrialized economies that were comparable to the American market denied to Cuba and most engaged heavily in international trade. The common market created by the EU's customs union also meant that countries without large markets could ship the products they imported from Cuba to elsewhere in the EU.[199] For example, the Netherlands' port of Rotterdam was one of the world's largest trade and transshipment hubs (on par with Dubai), yet its domestic market was rather small. The customs union allowed the adeptly trading Netherlands to serve as the EU's principal entrepôt for international trade coming into or out of continental Europe. This only strengthens the rationale for considering the EU countries collectively in this analysis.

In terms of their foreign policy profiles, there was a significant overlap in Western European countries' memberships in the EU and in NATO.[200] In the previous case period (1960-1974), the United States sought to negotiate with European countries *within* NATO—a joint forum to which they all belonged. In this period, however, the United States was forced to negotiate *with* the EU as a discrete entity, which collectively represented European interests distinct from those of the United States. This allowed the EU countries to disaggregate their commercial interests over the sanctions issue from the security-based justifications that the United States was attempting to use. The European countries' sought to frame their trade with Cuba in purely commercial terms, while the U.S. claimed its sanctioning effort was an extension of its vital national security interests—which, hence, deserved its allies' support. For the most part, the Europeans were politically ambivalent towards Cuba other than their more diffuse interests in promoting democracy and human rights. Only Spain had a special social and political relationship with country, as previously discussed. The rest of the European countries' interests in Cuba were almost entirely commercial. Ian Lang, Great Britain's Trade Secretary,

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[199] The EC/EU's single market officially came into being on January 1, 1993.
[200] Spain joined NATO in 1982.

aptly summarized the European viewpoint: "We believe democracy should be encouraged in Cuba. We share the Americans' objective there. But we don't see the way of doing that as being to attack trading partners in other parts of the world who are carrying on legitimate business with Cuba" (Whitney, 1996).

In terms of the actual trade European Union countries conducted with Cuba, its share of Cuba's trade remained steadily significant throughout the 1990s—effectively weathering the United States' extraterritorial assaults. By far, Spain was Cuba's largest trading partner—continuing to take advantage of the close commercial and political relationship that it had maintained with it during the Cold War. Commercial interest from Italy, France, and the Netherlands was also substantial during this period (see: *Figure 6.3*). After 2002, though, Europe's share of Cuban trade began to decline. This seemingly reflects the increasingly large market shares that China and Venezuela began to capture through the subsidized assistance they offered to Cuba. This subsidized sanctions-busting effectively crowded out European firms from being able to compete effectively in Cuban markets, as it would have been unprofitable for them to try to match the terms-of-trade offered by competitors in China and Venezuela. Another reason for the decline was the repeal of American restrictions on food and medical exports to Cuba in 2000. Though Spain and Italy continued to be important trading partners of Cuba, their relative importance to Cuba declined considerably over this period.

Summary

This section depicted both the emergence and the death of two extensive sanctions-busters. It has also explored why some of the United States' closest allies were willing to break so forcefully with it over the Cuban sanctions issue. Together, these cases showed that third party states' willingness to engage in costly sanctions-busting appears to be highly dependent upon the presence of strong ideological imperatives. Once the Soviet Union/Russia forsook its ideological ties to communism, the political will to continue sanctions-busting on Cuba's behalf evaporated. In the absence of government subsidies, the two countries' commercial relationship slowly withered away. On the other hand, Venezuela demonstrated little interest in becoming a significant sanctions-buster on Cuba's behalf before Chávez came to power. That his brief deposition from power caused such a dramatic decline in Venezuela's trade with Cuba also suggests that his ideological vision, and not the country's natural interests, sustained the trade relationship. The evidence concerning China's interest in Cuba is less clear. Whereas the countries' ideological visions proved a point of contention in the past, their reconciliation acknowledged that, as two of the few remaining socialist countries in the world, they shared much more in common than they did with others. While their shared ideological ties provided China with incentives to be more generous with Cuba than other countries, its interests in Cuba were also part of its broader strategy of commercial engagement in Latin America. At the very least, China's motives were mixed in this time period.

More broadly, this discussion sheds light on several other salient issues related to my theory. The first involves a crowding-out principle regarding the number of significant sanctions-busters that any given target state will have at one time. Prior to the Soviet Union's cessation of support, it had effectively crowded out most of the other potentially large sanctions-busters. Absent the Soviet Union's largess, Cuba had to turn to its second-best sanctions-busting options: Canada and the EU. These countries sought to profit from their commercial relationships with Cuba rather than providing it with handouts. As Cuba was able to secure support from new patrons, however, it has had less need of the commercially-motivated sanctions-busting of countries in Europe. Second, the Canadian and European cases demonstrate the divisive politics that sanctions issues can spark between allies. While the literature emphasizes that allies' willingness to trade preferentially with one another to enhance their alliance's strength (Gowa and Mansfield, 1993; Gowa, 1994), this analysis shows how allies will just as readily undercut each other for commercial gain. Finally, this case period revealed that international organizations play a much more complicated role in affecting third party responses to sanctions than has previously been acknowledged (Martin, 1992; Drezner, 2000). IOs can be used both as instruments by the sender to support its sanctions efforts and as instruments by third parties to challenge them. In the case of the OAS and the EU, third party states used those organizations to thwart the United States' efforts to compel their cooperation.

Theory-Building from the Comparative Analysis of Cuba's Sanctions-Busters

The U.S. sanctions against Cuba are exceptional in terms of their duration, stringency, and the extent of the international controversy they have sparked. In academic and policy circles, this episode has also cast a long shadow over the study of sanctions. In particular, Soviet Union's sanctions-busting on behalf of Cuba during the Cold War became evocative of any instance in which a sanctioned state received significant amounts of third party trade or assistance. As the above cases have shown, however, the story of how Cuba has endured American sanctions for almost five decades involves a whole host of third party states that provided extensive assistance to Castro's regime. The individual case analyses revealed that Cuba relied on two types of sanctions-busting: opportunistic, profit-oriented trade and costly, heavily-subsidized assistance. While my theory can account for the former, it offers little in the way of explanation for the latter cases. At the same time, the realist-based theory that was developed to explain politically-motivated sanctions-busting also performed poorly in the large-n tests. In comparing the sanctions-busting cases, one common thread runs through all of the *off-the-line* cases in the sample: the presence of an ideological issue at stake for the third party in the sanctions dispute between the sender and target.

Table 6.2 summarizes the degree to which the sanctions-busting cases evaluated in the two case periods were consistent with my triadic theory of third party response. It shows that even during the height of the Cold War, U.S. allies were willing to exploit the commercial opportunities created by its sanctions. After the Cold War's conclusion, the United States ran into even further difficulties in preventing its allies from taking advantage of the commercial opportunities available in Cuba. In large part, this problem was more pronounced because the Cuba no longer had a single, dominant "black knight" to crowd out other potential sanctions-busters. As such, it was *not* that the problem of sanctions-busting became worse after the Cold War's conclusion, it was exactly the opposite. In the absence of an overwhelmingly generous patron, Cuba had to seek out a whole new set of smaller sanctions-busters to replace the large one it had lost.

The *off-the-line* cases observed in the two case periods all involved the provision of costly sanctions-busting assistance to Cuba. During the Cold War, the support offered by the Soviet Union and China was clearly motivated by their ideological ties to Castro's regime. In both cases, the countries saw supporting Cuba's resistance of the American sanctions as part of the broader struggle between communism and capitalism. That China drastically cut back its trade with Cuba after their ideological spat in the 1970s gives further credence to this explanation. This account is further supported by my findings in *Chapter 3* that sanctions-busting was more prevalent during the Cold War era, when the world was largely divided between the communist and capitalist camps. As the second case period demonstrated, ideologically-motivated sanctions-busting did not end with the Cold War. Cuba's reconciliation with communist China and the ties it forged with Chávez's socialist, anti-imperialist regime, once again gave it access to the types of subsidized handouts that it had enjoyed during the Cold War. While China's commercial interests played a much larger role in its post-Cold War sanctions-busting, its ideological ties with Cuba had a formative effect on the degree of support it was willing to offer the country.

Table 6.2: Categorical Fit of Sanctions Busters According to the Triadic Theory of Third Party Response

Period / Case Type	*On-the-Line Sanctions-Busters*	*Off-the-Line Sanctions-Busters*
1960-1974	Spain Japan Great Britain	China Soviet Union
1991-2006	Canada EU Countries Russia China (*Mixed*)	China (*Mixed*) Venezuela

So, what broader insight does this provide for revising my explanation of third party trade with states? My findings suggest that there are two types of sanctions-busting that produce observationally-equivalent outcomes in terms of third party trade with sanctioned states. The first type is based upon the commercially-driven incentives of third parties and is largely captured and explained by my triadic theory of third party response. My study's large-n analyses indicate that this is the predominant type of sanctions-busting that occurs in most cases. Its prevalence, even in the ideologically-charged Cuban case, demonstrates its pervasiveness. There is a certain irony in the United States' criticisms of Canada and Europe so soon after its Cold War victory, as it condemned the immorality of those countries' trade policies in that they were just trying "to make a buck" from their trade with Cuba.[201]

The second type of sanctions-busting entails the provision of costly, subsidized assistance to the target state. Due to the costs involved in its provision, this type of assistance appears to be much rarer. In that sense, the amount of this type assistance that Cuba received, and the number of countries that it received it from, is exceptionally high.[202] The four sample cases that Cuba received this type of assistance from the Soviet Union, China (twice), and Venezuela, ideological imperatives seemed to play the key role in motivating the third party states to engage in costly sanctions-busting. In some sense, the countries' adversarial relationships with the United States and political alliances with Cuba were merely an extension of those ideological imperatives. In both China cases, the country never really formed close military or security relationships with Cuba—demonstrating that the provision of its assistance was not conditional upon the presence of such ties. At least in this sanctions episode, it appears as if third party states' political ideologies were capable of motivating them to provide Cuba with the costly assistance.

Though I am cautious about generalizing these findings to other sanctions episodes, other prominent cases lend support to this notion. For example, the U.S.-led Berlin airlift could be viewed primarily in terms of its ideological struggle with the Soviet Union. While its desire to demonstrate its resolve to the Soviet Union certainly played a role in the United States' response, so did its ideological imperative to keep Berlin a "free" city. The generous support the United

[201] This comment was made by Caleb McCurry, a staff member of the U.S. House of Representatives International Relations Committee, on March 13, 1998. The passage was quoted in Roy (2000: 84).
[202] This is especially true if you count all the COMECON countries' trade with Cuba during the period of 1975-1990, which were not analyzed in this chapter.

States provided to Israel after the Arab League boycott imposed against it in 1948 has also been couched largely in ideological terms (Hufbauer et al., 2007: 8).[203] Supporters of the American aid given to Israel argue that the United States has a moral obligation to support the Middle East's only Western-style democracy—despite the substantial foreign policy and economic costs involved. At the very least, these cases suggest that it is plausible that ideological motivations could be a root cause of "black knight" sanctions-busting cases in other sanctions episodes.

Conclusion

This chapter has sought explore the sanctions episode containing the literature's most prominent sanctions-busting case. This was a case that my theory could not explain, a troubling revelation given its substantive significance. As I found in conducting the comparative analysis, the Soviet Union was not alone in the sanctions-busting assistance it provided to Cuba. Indeed, two sets of sanctions-busters appeared to have existed: those that did so for profit and those that were motivated by ideological reasons. What I also found in this study was that although prominent off-the-line sanctions-busters did exist, a large portion of my theory's causal account held up in explaining the events that transpired during the sanctions episode. My findings from the comparative analysis suggest that ideological imperatives can serve as a sufficient motivation for third parties to provide costly assistance to target states in the absence of commercial incentives.

Rather than serving as a rival account of third party behavior, as the realist perspective was, this account of ideologically-motivated sanctions-busting complements my triadic theory. In the absence of strong ideological imperatives, this study's broader findings suggest that third

[203] For more on the Arab League Boycott, see: Weiss, 2006.

party responses are predominantly driven by the commercial interests of their constituencies. The comparative study has illustrated an alternative rationale that third parties may rarely employ to justify engaging in costly sanctions-busting. The substantive scope of this explanation only potentially applies to a limited number of cases, but the range of cases it addresses—those in which third parties engage in costly instead of for-profit sanctions-busting—falls outside of my original theory's explanatory reach. This suggests that while I have demonstrated why my theory offers the greatest general leverage in understanding how and why third party states will respond to sanctions, future refinements to it should focus on accounting for the role played by the small, but salient number of states that appear to sanctions-bust for non-commercial reasons.

CHAPTER 7

CONCLUSION

This chapter summarizes the findings from the preceding empirical chapters and discusses the insights they provide into understanding how sanctions affect their targets' trade with other countries. In the first section, I evaluate the performance of the triadic theory of third party response, triangulating the results from the project's four studies. The evidence evaluated in these studies offers strong, consistent support for the triadic theory but also reveals a substantively significant gap in its explanatory coverage. I then assess the comparative performance of the triadic theory versus the realist alternative, and present the outlines of a complementary account of ideologically-motivated sanctions-busting. I cap off this section with a review of the other, more general, insights garnered from the analyses. In the following section, I discuss the implications of my findings for the sanctions subfield and the broader international relations literature. Next, I present the policy implications of my research and provide a series of recommendations for sender and target states. I conclude with a discussion of the issues for future research that this study has raised.

Explaining Trade with Sanctioned States

This project has developed an original, liberal-based theory that explains why cross-national variation exists in how sanctions affect their targets' trade with third parties. My theory asserts that a complex set of commercial incentives and political constraints guide both how firms and states respond to the imposition of sanctions. As such, I have argued that it is necessary to use of a triadic framework capable of accounting for the influences of both the target and sender states on third party responses. The triadic theory I developed contains two key components: 1) that third party governments tend to privilege their constituencies' commercial interests over foreign policy considerations in their response to sanctions, and 2) that profit-seeking firms will seek out the best venues from which to capitalize upon the commercial opportunities created by the sanctions. Upon this foundation, my theory seeks to explain the leading factors that affect whether economic sanctions make trade with their target comparatively more or less profitable for firms in third party states. Using a mixed-method research design that employed two large-n analyses with different dependent variables and datasets, a detailed process-tracing case study, and a small-n analysis, I found overwhelmingly strong support for my theory's general validity. In contrast, the evidence from these analyses yielded negligible support for the rival realist account. As the concluding small-n analysis revealed, however, my theory cannot account for a small but substantively important set of states that engage in costly sanctions-busting for apparently ideological reasons. This suggests the need to develop a complementary account, in addition to my more general theory, that explains why sanctions-busting occurs in these cases.

The Performance of the Triadic Theory's Key Hypotheses

Overall, six of my theory's seven key hypotheses held up well in the study's four empirical chapters, while the seventh received mixed support. The evidence strongly supported my theory's propositions concerning the commercial profiles of the states best equipped to profit from trading with sanctioned states. In both the quantitative studies, the evidence indicated that third party states with large economies are more likely to have their trade with sanctioned states increase than countries with smaller economies. These findings hold both in general and for those states that engage in extensive sanctions-busting. Yet as the case study of the UAE showed, having a large economy is not necessarily a prerequisite for becoming a prolific sanctions-buster. An alternative route to profitable sanctions-busting is through serving as a major international trade hub. Both statistical analyses also provided this hypothesis with strong support. Though my findings suggest that the most attractive third party venues will have both large and open economies, neither factor (beyond a certain point) is a necessary condition for engaging in sanctions-busting trade.

My theory's seemingly contradictory expectations concerning geographic proximity also held up within the analyses. Consistent with Kaempfer and Ross 's (2004) earlier findings, both of the quantitative studies showed that distance has a negative effect on third party trade with sanctioned states. This suggests that, in most cases, states that are geographically proximate to the target are better situated to trade with it profitably than are countries that are distant from it. I also argued that the incentives for states and firms that engage in sanctions-busting to hide or mask their trade leads to an under-reporting bias in official trade statistics that involve sanctioned states. For states sharing borders with the target or that are very proximate to it, the incentives to engage in illicit or clandestine trade are the highest because the transaction costs of doing so tend to be the lowest. Thus, I asserted that the unobserved levels of illicit trade occurring between sanctioned states and their neighbors actually depress their legitimate trade flows after sanctions are imposed. This was borne out by the fact that while border states are the most geographically proximate states to the target, the effect of the shared border was insignificant in the general model and negative in the analysis of significant sanctions-busters. As the UAE case revealed, smuggling made up a significant component of that country's commerce with Iran that was not reported in official trade state statistics. Though it did not share a border with Iran, its close proximity by water had a similar effect. These findings indicate that geography not only affects which third party states firms choose to trade with sanctioned states from, but also the methods they choose to carry it out.

The studies' findings provide mixed support for my hypothesis concerning the effects of democratic institutions on trade between third parties and target states. In the analysis of the U.S. sanctions episodes, the joint presence of democratic institutions in the target and third party states did not have a statistically significant effect. However, the presence of jointly democratic institutions between the target and a third parties did exercise a positive, significant effect on the likelihood that third party democracies would become extensive sanctions busters. On the basis of the robustness checks that I conducted in both analyses, I concluded that holding the sender constant as the United States in the first analysis was not responsible for biasing the results in a way that caused the variable to lose its significance. As such, the evidence appears to suggest that shared democratic institutions only matter in affecting third parties' likelihoods of engaging in extensive sanctions-busting, not in changing marginal trade flows. As the effects of democratic regimes on sender and targets' behavior has only recently become a topic of inquiry (Lektzian and Souva, 2003; Drury and Cox, 2006), this study's findings, and the more general effects of democratic institutions, warrant deeper inquiry.

In all four of the analyses, the hypothesis concerning the effects of commercial interdependence between the third party and target states received strong support. My theory asserts that the more commercially intertwined the third party and target states' economies are, the more secure their trade relationship will be from external disruption and the lower the transaction costs will be to simply build off existing commercial relationships to replace those lost because of the sanctions. In the analysis of the U.S. sanctions episodes, the third party's commercial dependence upon the target exercised an unconditional, positive effect on the countries' trade. In the analysis of the extensive sanctions-busters, the variable also exercised a positive, statistically significant effect on the likelihood that the third party would sanctions-bust on the target's behalf. The self-reinforcing effects of commercial interdependence were especially evident in the UAE-Iran case study. As the UAE's commercial ties to Iran strengthened, so did its reputation as a safe, profitable place to do business with Iran—which only attracted further business.

The hypothesis concerning the effects of alliances between the third party and target states also yielded consistent support within the empirical analyses. As my theory argues, states allied to the target constitute more attractive trading venues than non-allies because of their diminished likelihood of participating in the sanctions and their enhanced willingness to adopt favorable trade policies towards the target state. In both of the quantitative studies, being an ally of the target state exercised positive, statistically-significant effects on third parties' trade with target states. Substantively, however, the effects that alliances with the target had were not as substantial as the realist perspective argued they should have been. This indicates that while alliances positively contribute towards increasing third parties' trade with sanctioned countries, they do not play a determinative role in shaping what those trade flows ultimately are.

The study's most counterintuitive hypothesis involved the effects of alliances between third parties and the sender state. As I contend, alliances between the third party and sender will increase the third party state's trade with the target when they have strong commercial ties, but decrease it when no such linkages exist. This hypothesis received strong support from both of the quantitative models, achieving statistical significance across all the models run. As the analysis of the U.S. sanctions episodes showed, the conditional effect that sender alliances had upon third party trade with sanctioned states had strong substantive effects upon their trade. The positive effects of the third party's commercial dependence upon the target were much stronger for states allied to the United States than for those that were not. The analysis of the Cold War sanctions episodes revealed that even when examining only the most extensive and counterproductive (from the sender's perspective) category of third-party responses, states allied to the sender were still more likely to sanctions-bust than non-allies. The evidence presented in case study and small-n analysis support these findings. U.S. allies not only refused to cooperate with the American sanctions, at times, but some actively sought to exploit the commercial opportunities created by the sanctions in the target states. Due to their fear of disrupting the United States' alliance relationships, U.S. policymakers refrained from employing the types of coercive policies that they recognized would be necessary to compel their allies' cooperation in these cases.

Indeed, the case evidence provided strong validation for my theory's causal account of the processes involved in shaping the responses of the senders, targets, and third parties. As the evidence illustrated, U.S. policymakers really did express concern about employing coercion too harshly against their allies to obtain their participation. In the UAE case especially, I also found a host of evidence suggesting that American firms sought to exploit the political cover granted to the UAE by its alliance with the United States. In contrast to Martin's (1992) account, the evidence also suggested that U.S. commercial interests preferred to find ways of undermining or circumventing U.S. sanctions rather than lobbying for their multilateralization. My theory's general expectations that target states would act opportunistically in seeking third party support to weather the sanctions were also supported by the responses of Cuba and Iran. So while my research question focuses on explaining third party trade with sanctioned states, this demonstrates that my fundamental account of the motives driving the behaviors of the other agents involved in the model are accurate and relate to third party responses in the way my theory asserts they do.

Overall, the findings from the empirical analyses provide robust support for the general validity of my theory's predictions and its descriptive accuracy. The nested-analyses conducted of general third party responses and extensive sanctions busters offered strong validation to six of my theory's key hypotheses and mixed support for the seventh. Substantively, the breadth of the cases addressed in the empirical analyses also should instill confidence regarding the theory's general applicability to both the Cold War and post-Cold War eras. Despite the strength of the supporting evidence found for my theory, its shortcomings were acknowledged and explored within the small-n analysis of the Cuban sanctions episode. The analysis revealed that a small but salient number of states do sanctions-bust for political reasons, but they were not the reasons articulated by the realist perspective. Instead, the exploratory analysis revealed that in all four of the cases in which states engaged in costly sanctions-busting (i.e., sanctions-busting that is inconsistent with my theory), they appeared to do so largely because of ideological prerogatives.

"Black Knight" Sanctions-Busting: From a Rival to a Complementary Account

As a rival to my triadic theory, I developed a competing account of third party response based upon the realist perspective. This theory focused upon the role played by third parties' security interests in shaping their responses. The results of both the quantitative studies yielded little support for the realist hypotheses and, in the case of sender alliances, the results directly contradicted the theory's predictions. The findings from the small-n analysis were also revealing. While the sanctions episodes involving the provision of costly assistance to Cuba were inconsistent with my theory, the case evidence showed that the Soviet Union was willing to provide Cuba with assistance before it had formed an alliance with the country and that China provided Cuba with assistance in the absence of any clear security-based motives. Together, these findings demonstrate that the realist perspective offers neither generalizable insight into third party responses nor a compelling account of the cases my theory could not explain.

The findings from the small-n analysis of the Cuban sanctions episode do suggest, however, that a potentially complementary account of "black knight" assistance does exist. The comparative analysis revealed that in all four cases in which costly sanctions-busting occurred, ideological imperatives played a significant motive in driving the third parties' assistance. This appeared to be true for both China and the Soviet Union during the Cold War and, subsequent its conclusion, for Venezuela and to some extent China. This potential explanation is bolstered by the findings that trade with sanctioned states was more prevalent during the Cold War, a period during which the world was divided by ideological conflict. A potential account of costly sanctions-busting developed on the basis of these insights would argue that, in rare circumstances, third party states may be willing to sacrifice their material interests on behalf of sanctioned countries to further an ideological cause. According to this theory, countries' ideological imperatives could cause them to view the sanctions dispute between the target and sender as involving principles or issues beyond the immediate scope of their conflict. The costly assistance given to target states in such cases is thus done to advance some broader ideological objective or to defend the ideological principles perceived to be at stake in the dispute rather than because of concrete security-related objectives. Such ideological imperatives were common across the cases involving the Soviet Union, China, and Venezuela.

Given the broad support accorded to my theoretical account of commercially-motivated sanctions-busting, this ideologically-motivated account of third party sanctions-busting would play a niche role in explaining the behavior of a small number of states. My theory argues that, in most cases, commercial interests will play a dominant role in shaping third party states' responses but it does not preclude the existence of other national prerogatives. Since my theory views the formation of "national" preferences as arising from the complex interaction between states' leaders and their constituents, it is completely consistent with it to consider that, under certain circumstances, ideological imperatives could emerge as national priorities. In the Venezuelan case, President Chávez has been effective at placing such prerogatives at the forefront of his country's foreign trade policies—despite the domestic opposition such policies have engendered. The key to more fully evaluating what could be gained from adding this theoretical addendum to the "hard" core of my theory would be to conduct future large-n analyses on a wider body of cases involving *costly* sanctions-busting.

Within the confines of this study's inquiry, however, it is fair to say that my theory has received extensive support from a rigorous analysis of a wide body of evidence. Though prominent exceptions to my theoretical expectations may exist, my first-cut examination into their underlying causes suggests that such cases are not irreconcilable with my broader theoretical framework. As it stands, however, I am confident that my theory—as is—offers the most comprehensive explanation of third party trade with sanctioned states to date.

Other Salient Findings

In addition to my theoretically-motivated inquiry, my study also yielded several ancillary findings that warrant further discussion. The first of these involves the complicated role played by international organizations in affecting third party responses. As Martin (1992) and Drezner (2000) have argued, international organizations can play a significant role in facilitating sender states' efforts to obtain multilateral support for their sanctioning efforts. This notion received support from my analysis. Yet, I also found that having the support of an international organization also encourages the emergence of extensive sanctions busters. This has potentially important implications, especially in light of my study's broader findings concerning ideologically-motivated "black knights." IOs could lead to the emergence of extensive sanctions busters because the target state must become more reliant on a smaller pool of available third party states *or* because it may encourage the intervention of ideologically-motivated third parties that oppose the sanctioning organization's goals or principles. Within my analysis of Cuban sanctions episode, I also found evidence that third parties also used IOs to challenge the multilateral imposition of the sender's sanctions. All this suggests that IOs play a much more complicated role in affecting third party responses that the previous literature has acknowledged and are a topic warranting deeper investigation.

Another potentially salient finding concerns the enhanced cooperation found to exist between sanctioned states in seeking to circumvent the sanctions imposed against them. As the UAE-Iran case study showed, Iran was willing to tacitly cooperate with Iraq to facilitate in sanctions-busting on its behalf. Ostensibly, Iran's cooperation was driven by its constituents' commercial interests rather than direct state interests. Yet, the country invested little to stop the smuggling occurring through its waters that aided its bitterest enemy—even when confronted with international pressure over the issue. On the basis of this finding, I included a variable in the quantitative analysis in *Chapter 5*. Surprisingly, I found strong evidence that the more sanctions that two countries are subjected to—the more likely they are to sanctions-bust on one another's behalf. This suggests that birds-of-a-feather flock together when it comes to skirting the sanctions imposed against them. This parallels other prominent cases involving cooperation between sanctioned states. For example, the uranium enrichment technology for missiles deal brokered between Pakistan and North Korea follows this mold. Denied these technologies by the rest of the world's supplier states' export controls, these two states that had almost no other cultural, ideological, or political connections, bartered their most sensitive national security technologies with one another. As such, my findings suggest that sanctioning multiple countries could have unintended and counterproductive consequences.

Finally, the findings regarding the effects that the type, severity, and motives of the sanctions imposed by the sender have on third party responses also yielded interesting results. Within the my analysis of the U.S. sanctions episodes, I find that financial sanctions were the only type of sanction that had a significant, negative affect on their targets' trade. In terms of motives, the same analysis also showed that sanctions imposed by the United States to disrupt military adventurism had a more detrimental affect upon their targets' trade than other types of sanctions. Sanctions imposed by the United States to check the target state's military power did not have an aggregate negative effect on their trade, however. In the analysis involving Cold War sanctions-busters, the results indicated that the harsher the sanctions imposed by the sender state are, the more likely it is that extensive third party sanctions-busters will emerge. I also found that extensive sanctions-busters are also more likely to emerge both in sanctions-episodes imposed to check the military threat of the target or to disrupt its military adventurism. As in the case of international organizations, the findings regarding sanctions imposed to disrupt military adventurism have the effect of generally depressing most third parties' trade with the target, but also of encouraging the target to concentrate its trade with a few extensive sanctions busters. These findings further validate the utility of conducting the two separate analyses.

The Theoretical Implications of the Study's Findings

This study makes a number of contributions to sanctions literature and broader discipline. First, this inquiry suggests that the responses of third party states play a significant role in how sanctions affect their targets. The extent of the variation that existed across sanctions episodes and over time illustrates that this phenomenon affects sanctioned states differently in substantively important ways. Sanctioned states with three third parties that are extensively sanctions-busting on its behalf will likely be much better off, ceteris paribus, than ones that do not receive such assistance. This suggests that dyadic models of sanctions success that have neglected to account for the role of third parties potentially suffer from omitted variable bias. Recognizing this, many scholars have included Hufbauer et al.'s (1990; 2007) "black knight" variable in their analyses. Rather than providing a detailed account of the type of third party assistance that the target state received, the variable only signifies that the target received some sort of assistance from some unidentified party. My analysis illustrates that such wide variation exists in how sanctions change their targets' trade with parties that a more nuanced measure is necessary to capture its real effects. This potentially explains the "black knight" variable's mixed empirical track record. My findings suggest that third party responses are too import to ignore or to only marginally account for in studies of sanctions effectivness.

The theory developed in this project establishes a new triadic framework for the study of economic sanctions that can account for the effect that sanctions have on the complexly interdependent trade relationships that states have. A number of studies have already inquired into the externalities of economic sanctions (Van Bergeijk, 1994; Curovic, 1997; Caruso, 2003; Slovov, 2007; Yang et al., 2004), but they did not attempt to account for cross-national variation in third party states' responses. As this analysis revealed, the effects that sanctions have on third party trade are moderated or exacerbated by a variety of economic and political factors. As such, one-size-fits-all theories of how third parties are affected by sanctions at best provide an incomplete picture of third party response and, at worst, can be misleading. As my two quantitative studies have shown, some factors can depress general trade with sanctioned states *but* also increase the chances of a substantial "black knight" emerging. Studies only interested in the former would completely miss the potentially salient effects of the latter. In revealing the substantive importance of third party responses, this study has opened upon a whole new research agenda within the sanctions literature that hitherto been largely neglected.

More generally, my liberal-based theory also illustrates the utility of opening up the black box of the state in the study of economic sanctions. While a number of authors have already advanced this research agenda in the study of sender and target states (Kaempfer and Lowenberg, 1992; 1999; Morgan and Bapat, 2003), I have shown why this approach is important to take in understanding the response of third party states. Furthermore, I have shown why it is analytically important to have accurate micro-level assumptions about the responses of commercial interests to the imposition of sanctions. In terms of how the sanctions affect their incentives to trade with the target, the venues they choose to do it from, and whether they use legal or illicit methods of carrying it out, firms—for the most part—determine what the ultimate effect of the sanctions upon the target will be. Third party commercial interests also play a large role in shaping their governments' responses to the sanctions. Martin's (1992) groundbreaking study of third party cooperation with states imposing sanctions presented an incomplete account of the factors that affect third party responses and was based upon questionable assumptions about firm preferences. This project seeks to build of her work—that to date had gone largely unchallenged—to create a comprehensive account of third party responses that the discipline has until now lacked.

By moving beyond a unitary conception of the state, my theory was able to predict and explain a number of substantively important phenomena. First, the triadic theory made the counter-intuitive prediction that the sender state's allies, in some circumstances, are more likely to sanctions-bust than other countries. This was based upon my conception of the interests of the commercial constituencies inhabiting third parties and the constraints placed upon senders by their alliance considerations. Most theories focusing solely on security or commercial interests would be unlikely to have made such prediction. In explaining the constraints that exist on the use of coercive cooperation, I was able to show why sender states so often fail to win the cooperation of the states they would most expect to receive the support of *and* the exploitive behaviors such states often demonstrate. This counter-intuitive prediction found substantial support within all four of my study's empirical analyses—making it one of the strongest findings to emerge from this project. In addition, my theory challenged the prevailing wisdom presented by Martin (1992) about why states seek to multilateralize their sanctions. As my analysis argued and revealed, American commercial interests have consistently argued for repeal of the U.S.

government sanctions or sought ways of circumventing them. Given their interests in exploiting third party venues, it would be counter-productive—in most cases—for them to invest the resources in lobbying for the multilateralization of sanctions.

My study has also revealed several new salient externalities involving the use of economic sanctions. First, sanctions can have the unintended consequence of motivating the sender's allies to increase their trade with the state its sanctions. By increasing their commercial interdependence with the state it is sanctioning, the sender may find it harder to rally its allies' support against the target in subsequent punitive efforts. Secondly, I find that sanctions create strong incentives for sanctioned states to cooperate more deeply with one another. As such, economic sanctions can facilitate in forging ties between fellow pariah states—creating perhaps new "axes of evil" or, at least, "axes of sanctions-busting" where previously none had existed. Third, my second quantitative study showed that the harsher the sanctions imposed against a target state are, the more likely it will be that extensive sanctions-busters will emerge on the target's behalf. This suggests that imposing harsh sanctions could be counterproductive because they will give third party states heightened incentives to forge strong commercial relationships with the target state—the kind of relationships that will be incredibly difficult for the sender state to disrupt.

Finally, my study has shown that the interdependence and conflict literatures have much more in common with the economic statecraft literature than many sanctions scholars have often recognized. While Drury and Cox's (2006) application of democratic peace theory to the study of sanctions constitutes one such application, there are a much broader host of insights about state and firm behavior that can offer salient insight into the study of economic sanctions. These literatures could help to better explain my findings regarding the complex role played by international organizations. My analysis also demonstrates that indirect political relationships have substantively significant effects on third party responses. In seeking to more fully account for these factors, the interdependence and conflict literatures can be an important source of insight.

In terms of the broader literature, my study makes a number of contributions. Foremost, it demonstrates the complex nature of the issues that meet at the intersection of international security and international political economy. Too often, the discipline drives scholars to do work in one subfield or the other—discouraging the study of issues that bridge the subfields. As my study has shown, states' commercial and security interests can interact in unexpected but substantively significant ways. Theories that neglect one to the detriment of the other potentially leave themselves open to significant omitted variable bias. My findings also suggest that state preferences can vary by issue area. While states' commercial interests do not always win out over their security interests, I have shown that, on a least one issue and in response to one particular type of stimuli, states' commercial interests play a dominant role in shaping their responses.

My findings also contribute the broader literature addressing the roles of coercion and cooperation in international politics. My finding that alliances can inhibit international cooperation challenges the prevailing wisdom about the role they play in international politics. Alliances constrain the sender's use of coercion by making the costs of its use outweigh the potential benefits of its employment. This leaves senders with the classic dilemma: is it worth it to swat a fly with a hammer? This suggests that tensions over "low politics" issues like trade never go away—even amongst the closest of allies. It also illustrates how opportunistic states can exploit their "high politics" relationships with other countries towards their own advantage on “low politics” issues. My findings were also striking in that third party countries’ interests in exploiting the commercial opportunities created by sanctions were sometimes so counterproductive to their foreign policy interests. This reveals an instance in which firms and domestic interest groups can play a major role in affecting intra-alliance politics and issues involving international cooperation. Finally, while I found that constraints on the use of coercion could inhibit cooperation in some issue areas, my study also revealed that the application of coercion can foster cooperation amongst its targets. This suggests that there are larger unintended consequences in the application of economic coercion that previously had been acknowledged.

My research also makes a number of interesting contributions to the literature on alliances and alliance management. As my findings reveal, allies manage issues arising from divergent interests in complex ways. In some cases, states may brazenly exploit their allies, which their partners may be forced to accept because doing so is better than the alternative. In some sense, this conclusion parallels the substantive implications about intra-alliance politics drawn by Drezner (1999). His argument asserts that states employing coercion against their allies are more likely to obtain favorable concessions than they could from non-allies because allies care less about relative gains in their relationships. My argument is that states exploit their allies’ inability to use harsh coercion against them because they care predominantly about absolute gains. In both arguments, strong incentives appear to exist for states to act exploitatively when dealing with their allies in commercial matters. This has two substantive implications. First, it suggests that it might be useful for scholars interested in alliance termination to focus on economic issues in considering why alliances collapse. Second, it suggests that while allies may trade more with one another—it does not mean that they get along any better on trade issues.

Policy Implications and Recommendations

This project offers a number of policy-salient revelations and insights about third party responses useful to both states that employ sanctions and those being targeted with them. The chief point that policymakers from sender and target states should take away from this study is that they need not be surprised by how third party states will respond to the imposition of sanctions. As I have shown, the third party countries most likely to increase their trade with the state being sanctioned have a very particular commercial and political profile: they have large and/or open economies, they have relatively strong commercial ties to the target state, they are geographically proximate to the target, and they may have alliances with the target, sender, or both states. Alternatively, they could also have strong ideological ties to the target. Unfortunately for sender states, these are all factors that they can do little to affect. Yet knowledge is power and, as I will discuss, my findings present several strategies for both sender and target states about how to influence, account for, and respond to third party behaviors.

Recommendations for States Employing Sanctions

For states employing sanctions, this analysis offers no silver bullets and or silver linings. Instead, my project's findings should provide sender states with a better sense of when economic sanctions are likely to fail in their objectives and should not be employed and, if imposed, why they may be failing and should be discontinued. Sender states should not be naïve in their expectations about the willingness of other countries and internationally-trading firms to cooperate with their sanctioning efforts. Even to the extent that some countries may be willing to restrict their trade with the target, there will always be others waiting in the wings to take advantage of the opportunities such cooperation creates. For example, senders can obtain the support of an international organization to increase the breadth of their sanctioning efforts, but this will, in turn, only increase the incentives for non-participants to engage in extensive sanctions-busting. In terms of concrete recommendations, I offer the following suggestions to the policymakers of sender states about how best to use the insights offered in this project.

> *1) Evaluate the Likelihood that Substantial Sanctions Busters Will Emerge Before Employing Sanctions.* Using the models I have developed, policymakers can profile whether or not any countries are likely to engage in extensive sanctions-busting on the target's behalf and which countries those will likely be. If it appears that one or more of such countries exist and they cannot be deterred from trading with the target, then it there is a substantial likelihood that the sanctions will not be effective. If so, it might not be worthwhile to employ them.
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> 2) *Employ Financial Sanctions.* Financial sanctions are shown to have consistently negative effects on their target states' trade relationships with third parties. If sanctions are going to be imposed, these appear to hurt their targets' trade with third parties the most. As the Cuban and Iran sanctions episodes showed, the availability of foreign financing or access to international financial networks can play a major role in target states' ability obtain substitutable trade.
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> 3) *Be Aware that Your Country's Best Friends Are Your Sanctions' Worst Enemies.* When it comes to sanctions, policymakers should not expect to obtain the enduring, complete cooperation of their allies. Some allied states may cooperate but they are more likely, when right financial incentives exist, to act the most exploitatively of third party states. Expect this and deal with it.
>
> 4) *Do Not "Turn the Screws".* Mirroring Hufbauer et al.'s (2007) conclusions, my study's results suggest that senders are better served by the rapid imposition of harsh sanctions than by slowly ratcheting up of their intensity. By going slow, senders make it easier for target states to resist their sanctions because they have

time to find new third party trading partners and incrementally adjust their trade flows. Senders are better off by trying to deal a devastating knock-out blow.

5) *Be Willing to Give Up!* Once a target states has established a cadre of third party trading partners capable of supplanting the trade disrupted by the sender's sanctions, the sender might as well rescind its sanctions. While further analysis on this topic is needed, the initial findings from my qualitative studies suggest that once third parties have established strong commercial connections to the target—the state will have little incentive to capitulate. At this point, the only certain end that the continuation of sanctions will achieve is to deny the sender's firms profitable business opportunities.

Recommendations for Target States

While most studies addressing issues of sanctions effectiveness offer advice on how to makes sanctions more effective (O'Sullivan, 2003; Hufbauer et al., 2007), a moral imperative for the use of sanctions does not exist that justifies why scholars have mainly focused on trying to make them more successful. On the other side of the equation, policymakers in target states may also be just as deserving of advice in how to resist sanctions. While the findings from the literature suggest that targets are already fairly effective at enduring economic sanctions, my analysis produces several insights that could potentially improve their strategies and help them in retaliating back against sender states.

1) *Try to Peel off the Sender State's Allies*. This is an effective strategy for both commercial and political reasons. As I have shown, sender state allies can be extremely profitable trading partners. Yet the political incentives of courting such states are also potentially as high. By courting the business of the sender's allies, a target can sow intra-alliance strife between the sender and its allies. By making those states more interdependent upon their commerce with it, the target can also diminish their incentives to help the sender in future disputes for which the sender may seek its allies support.

2) *Concentrate on Building a Small Number of Significant Trade Relationships*. The greater a third party's commercial ties with the target state are, the less likely

it will be to join the sender state's sanctions. In most cases, the significant cooperation of only a few third party states will be enough to undermine the effectiveness of the sanctions. Thus, the target should focus its diplomatic and commercial efforts on securing a small number of salient, secure trade relationships with third party states capable of substituting for the sender's trade.

3) *Hate the Sender's Government, Not Its Firms*. One way a target state can undermine the effectiveness of the sender's sanctions is by courting the sender's firms to do business with it anyway. In most cases, the sender firms' first preference is to continue doing business with the target. Anything a target government can do to make it easier for them to do so, the target should consider doing.

4) *Court the Support of Wealthy Patrons.* If available, targets should seek out the support of like-minded, sympathetic states with deep pockets. This strategy has worked very well for Cuba and, some would also suggest, Israel.

5) *Understand the Role Illicit Trade Can Play and Manage It Wisely.* For target states, smuggling can play an important role in their ability to withstand sanctions. As Andreas's (2005) study of the Balkans illustrates, however, sanctions can foster corruption and organized criminal networks within and around sanctioned states that leave enduring legacies. My findings also suggest that smuggling and illicit trade are most likely to occur in high levels between sanctioned states and their neighbors. I would advise target states to find ways of managing and regulating this type of trade in such a manner that its clandestine nature is maintained but its corrupting and criminalizing influences are mitigated.

Directions for Future Research

To conclude, I would like to discuss several avenues for future research that would be fruitful. My prognosis after conducting this study is that third party states constitute a big reason why economic sanctions are so infrequently effective. Yet, little has been done to explore this question empirically with variables that accurately reflect the nature of third party responses. Given the quantitative measure that I developed for identifying extensive sanctions-busters, a subsequent analysis could be conducted with that data to identify the effect it had on sanctions' success. Secondly, nothing has been to explore how the nature of third party states' responses affects their relationships with the target and the sender. Is sanctions-busting politically costly for a third party's relationship with the sender, but beneficial for its relationship with the target? Or vice-versa, does cooperating with the sender really improve a third party's relationship with the sender and hurt its relationship with the target? The answers to these questions could have significant implications for the incentives that third parties have to cooperate with one state or the other. Finally, there have been no studies to date that have examined the effects that sanctions have on third parties' willingness to invest in sanctioned states. It would be interesting to explore whether the findings and behaviors from this study also apply to foreign direct investment. As this all suggests that plenty remains to be done.

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APPENDIX A

SANCTIONS EPISODES INCLUDED IN THE CHAPTER 3 STUDY

Case ID	*Sanctions Episodes*	*Years*	*Obs.*
501	U.S. vs. North Korea	1950-2000	4332
511	U.S. vs. Iran	1951-1953	160
544	U.S. vs. North Vietnam	1954-1998	2588
561	U.S. vs. Israel	1956-1983	2909
562	U.S. vs. Egypt	1956-1956	80
563	U.S. vs. United Kingdom	1956-1956	82
564	U.S. vs. Laos	1956-1962	329
601	U.S. vs. Dominican Republic	1960-1962	240
603	U.S. vs. Cuba	1960-2000	4170
611	U.S. vs. Ceylon	1961-1965	552
613	U.S. vs. GDR	1961-1962	171
621	U.S. vs. Brazil	1962-1964	318
631	U.S. vs. United Arab Republic	1963-1965	340
633	U.S. vs. Indonesia	1963-1966	434
634	U.S. vs. South Vietnam	1963-1963	27
651	U.S. vs. Chile	1965-1966	192
652	U.S. vs. India	1965-1967	364
681	U.S. vs. Peru	1968-1968	121
682	U.S. vs. Peru	1968-1974	874
701	U.S. vs. Chile	1970-1973	412
711	U.S. vs. India	1971-1971	132*
711	U.S. vs. Pakistan	1971-1971	132*
721	U.S. vs. Uganda	1972-1979	750
732	U.S. vs. South Korea	1973-1977	692
741	U.S. vs. Turkey	1974-1978	676
751	U.S. vs. South Korea	1975-1976	282
752	U.S. vs. Soviet Union	1975-1994	2419
753	U.S. vs. South Africa	1975-1982	850
754	U.S. vs. Kampuchea	1975-1979	284
755	U.S. vs. Chile	1975-1990	1842
761	U.S. vs. Uruguay	1976-1981	664
762	U.S. vs. Taiwan	1976-1977	149
771	U.S. vs. Paraguay	1977-1981	421

772	U.S. vs. Guatemala	1977-2000	2737
773	U.S. vs. Argentina	1977-1983	293
775	U.S. vs. Nicaragua	1977-1979	283
776	U.S. vs. El Salvador	1977-1981	493
777	U.S. vs. Brazil	1977-1984	1097
778	U.S. vs. Ethiopia	1977-1992	1861
782	U.S. vs. Brazil	1978-1981	545
783	U.S. vs. Argentina	1978-1982	732
784	U.S. vs. India	1978-1982	745
785	U.S. vs. Soviet Union	19781980	310
788	U.S. vs. Libya	1978-2000	2980
791	U.S. vs. Iran	1979-1981	347
792	U.S. vs. Pakistan	1979-2000	3349
794	U.S. vs. Bolivia	1979-1982	367
801	U.S. vs. Soviet Union	1980-1981	224
802	U.S. vs. Iraq	1980-2000	2616
811	U.S. vs. Nicaragua	1981-1990	983
812	U.S. vs. Poland	1981-1987	995
813	U.S. vs. Soviet Union	1981-1982	248
832	U.S. vs. Soviet Union	1983-1983	124
833	U.S. vs. Zimbabwe	1983-1988	846
834	U.S. vs. Grenada	1983-1983	69
835	U.S. vs. Romania	1983-1993	1476
841	U.S. vs. Iran	1984-2000	2375
842	U.S. vs. Lebanon	1984-1997	2022
851	U.S. vs. South Africa	1985-1991	889
861	U.S. vs. Syria	1986-2000	1853
862	U.S. vs. Angola	1986-1992	720
871	U.S. vs. Panama	1987-1990	455
872	U.S. vs. Haiti	1987-1990	427
873	U.S. vs. El Salvador	1987-1988	206
881	U.S. vs. Burma	1988-2000	1502
882	U.S. vs. Somalia	1988-2000	1689
892	U.S. vs. China	1989-2000	2046
893	U.S. vs. Sudan	1989-2000	1560
901	U.S. vs. Iraq	1990-1991	243
902	U.S. vs. El Salvador	1990-1993	446
903	U.S. vs. Kenya	1990-1993	551
906	U.S. vs. Jordan	1990-1997	1179*
906	U.S. vs. Yemen	1990-1997	0
911	U.S. vs. Yugoslavia	1991-2000	675

912	U.S. vs. China	1991-2000	1733
913	U.S. vs. Thailand	1991-1992	307
914	U.S. vs. Indonesia	1991-1997	1120
915	U.S. vs. Haiti	1991-1994	444
916	U.S. vs. Soviet Union	1991-1991	128
918	U.S. vs. Peru	1991-1995	823
923	U.S. vs. Malawi	1992-1993	233
926	U.S. vs. Cameroon	1992-1998	1111
927	U.S. vs. Azerbaijan	1992-2000	916
928	U.S. vs. Cambodia	1992-2000	950
931	U.S. vs. North Korea	1993-1994	261
932	U.S. vs. Guatemala	1993-1993	115
934	U.S. vs. Nigeria	1993-1998	957
935	U.S. vs. Sudan	1993-2000	1074
943	U.S. vs. Rwanda	1994-1995	224
944	U.S. vs. Gambia	1994-1998	667
951	U.S. vs. Ecuador	1995-1998	698*
951	U.S. vs. Peru	1995-1998	698*
962	U.S. vs. Niger	1996-2000	698
963	U.S. vs. Zambia	1996-1998	452
964	U.S. vs. Colombia	1996-1998	520
965	U.S. vs. Paraguay	1996-1996	142
981	U.S. vs. India	1998-2000	524
982	U.S. vs. Yugoslavia	1998-2000	190
991	U.S. vs. Afghanistan	1999-2000	250
992	U.S. vs. Ivory Coast	1999-2000	335
993	U.S. vs. Pakistan	1999-2000	336
2001	U.S. vs. Ecuador	2000-2000	146
9211	U.S. vs. Nicaragua	1992-1995	469

Note: Case ID denotes the identification number assigned to specific cases by Hufbauer et al. (2008). * Indicates that multiple states were targeted as part of the same sanctions episode. Due to the overlap of some sanctions episodes, the sum of these observations is larger than the number of sanctions observation years in the dataset.

APPENDIX B

SANCTIONS EPISODES INCLUDED IN THE CHAPTER 5 STUDY

Case ID	*Sanctions Episodes*	*Years*	*Obs.*	*Identified Busters*	*Predicted Busters*
501	US & UN v. N. Korea	1950-1990	4165	102	114
511	US v. Iran	1951-1953	145	1	0
541	USSR v. Australia	1954-1955	152	6	0
542	India v. Portugal	1954-1961	648	29	1
543	Spain v. UK	1954-1984	3527	93	94
544	US v. N. Vietnam	1954-1990	4332	159	70
561	US v. Israel	1956-1960	392	6	3
563	US v. UK & France	1956-1957	305	10	4
564	US v. Laos	1956-1962	580	10	0
581	USSR v. Finland	1958-1959	159	4	0
601	US v. Dominican Republic	1960-1962	286	5	0
602	USSR v. China	1960-1970	1240	38	2
603	US v. Cuba	1960-1990	3853	53	28
612	USSR v. Albania	1961-1965	458	19	0
621	US v. Brazil	1962-1964	271	3	0
623	USSR v. Romania	1962-1963	180	0	0
631	US v. United Arab Republic	1963-1965	322	13	0
632	Indonesia v. Malaysia	1963-1966	437	8	2
633	US v. Indonesia	1963-1966	437	15	0
634	US v. S. Vietnam	1963-1964	213	3	0
641	France v. Tunisia	1964-1966	342	4	0
651	US v. Chile	1965-1966	220	9	0
652	US v. India	1965-1967	349	2	0
653	UK & UN v. Rhodesia	1965-1979	1326	46	18
681	US v. Peru	1968-1969	238	6	0
701	US v. Chile	1970-1973	505	14	0
711	US v. India and Pakistan	1971-1972	257	6	0
721	UK & US v. Uganda	1972-1979	909	16	5
732	US v. S. Korea	1973-1977	659	7	4
733	US v. Chile	1973-1990	2346	61	37
741	US v. Turkey	1974-1978	654	14	9

742	Canada v. India	1974-1976	398	15	5
743	Canada v. Pakistan	1974-1976	398	14	6
752	US v. USSR	1975-1990	2140	60	53
754	US v. S. Africa	1975-1982	1069	13	11
761	US v. Uruguay	1976-1981	786	18	9
762	US v. Taiwan	1976-1977	264	0	1
763	US v. Ethiopia	1976-1990	1979	52	31
771	US v. Paraguay	1977-1981	655	31	9
772	US v. Guatemala	1977-1986	1310	12	4
773	US v. Argentina	1977-1983	917	26	12
774	Canada v. Japan & EC	1977-1978	271	3	4
775	US v. Nicaragua	1977-1979	393	3	0
776	US v. El Salvador	1977-1981	655	17	0
777	US v. Brazil	1977-1984	1048	16	0
781	China v. Albania	1978-1983	786	29	9
782	US v. Brazil	1978-1981	524	15	0
783	US v. Argentina	1978-1982	655	18	5
784	US v. India	1978-1982	670	23	16
785	US v. USSR	1978-1980	393	14	12
787	China v. Vietnam	1978-1988	1475	25	15
788	US v. Libya	1978-1990	1741	32	34
791	US v. Iran	1979-1981	407	8	2
792	US v. Pakistan	1979-1990	1630	38	19
794	US v. Bolivia	1979-1982	539	12	9
801	US v. USSR	1980-1981	270	8	12
802	US v. Iraq	1980-1990	1495	30	23
811	US v. Nicaragua	1981-1990	1359	37	26
812	US v. Poland	1981-1987	952	9	7
813	US v. USSR	1981-1982	272	6	11
821	UK v. Argentina	1982-1983	272	4	3
823	S. Africa v. Lesotho	1982-1984	408	7	3
831	Australia v. France	1983-1986	544	16	15
832	US v. USSR	1983-1984	272	4	8
833	US v. Zimbabwe	1983-1988	817	0	1
841	US v. Iran	1984-1990	951	17	8
851	US v. S. Africa	1985-1990	815	26	14
861	US v. Syria	1986-1990	679	16	13
862	US v. Angola	1986-1990	679	16	7
871	US v. Panama	1987-1990	543	4	9
872	US v. Haiti	1987-1990	543	2	1
873	US v. El Salvador	1987-1988	273	6	1
881	Japan, W. Germany, & US v. Burma	1988-1990	407	8	3
882	US & UK v. Somalia	1988-1990	407	9	7

891	India v. Nepal	1989-1990	270	6	5
892	US v. China	1989-1990	270	2	2
893	US v. Sudan	1989-1990	270	6	5

Note: Case ID denotes the identification number assigned to specific cases by Hufbauer et al. (1990). Source data for these episodes was coded using Drury (1998). The predicted sanctions-busters use predictions from Model 5.