A SMARTER POLICY FOR "SMART" SANCTIONS

by

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(Under the Direction of Jeffrey Berejikian)

ABSTRACT

This work explores the concept of "smart" sanctions in relation to sanctions' effectiveness. First part of this thesis argues that financial sanctions are "smart" or "humane" way to conduct foreign policy since the losses directly affect the ruling elite of the target, while preventing harm and suffering of innocent population. The quantitative analysis addresses the question of effectiveness of trade and financial sanctions. The results indicate that financial sanctions when imposed alone and in combination with trade sanctions are effective in achieving policy objective. Since financial sanctions are both effective and humane, what is humane is also effective. Given that "financial combination" reported to be effective as well additional analysis was performed to examine their humanness. The analysis of the study suggests that despite their effectiveness, financial sanctions when used in combination with trade sanctions are not humane. Based on these findings, policy recommendations were proposed in the last chapter.

INDEX WORDS: economic sanctions, smart sanctions, international relations, foreign policy

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CHAPTER 1

INTRODUCTION

The world's major powers and institutions frequently employed the option of economic sanctions to achieve various foreign policy objectives. Recently, America's declared "war on terror" marked an era where economic sanctions received renewed attention from policy-making circles and scholarly community. In struggle with international terrorism the Bush administration utilized a mixture of economic "weapons" such as freezing individual and organizational assets, denial of aid and loans, preferential trade measures, travel restrictions and trade sanctions to combat the enemy. Moreover, characterizing Syria as an "unusual and extraordinary threat," less than a month ago, the administration leveled sanctions against the country, in the form of restrictions on exports, and finance. Consequently, Syria has joined the list with Cuba, Iran, Libya, Sudan and North Korea as one of numerous countries currently sanctioned by the United States. As noted by Richard Hass (1997) "What is noteworthy is… not just the frequency with which sanctions are used but their centrality; economic sanctions are increasingly at the core of the U.S. foreign policy."

Despite their popularity among political leaders, economic sanctions receive less enthusiastic assessment in academia. The issue of sanctions in scholarly circles has been a concern throughout the 20th century. Most of the sanctions literature suggests that sanctions are ineffective, creating more harm than good, for both the target and the sender states. However, a more recent approach emphasizes a distinction among types of sanctions. In addition, the

concept of "smart" or "designer" sanctions is becoming increasingly popular. Hence, financial sanctions are argued to be more "humane" since their effects are felt directly by target's ruling elite by restricting their access to foreign currency, instead of redistributing losses and suffering among general populace of the target (function generally associated with trade sanctions). By freezing the elite's accounts, reduction in loans and monetary aid, financial sanctions target the groups directly benefiting from target government's policies, while limiting the pain and suffering of general population. Nevertheless the puzzle yet remains if what's humane is necessarily effective. This question needs to be addressed in order to untangle a web of complex motivations driving each episode of sanctions. The answer could unveil new and valuable insights into dynamics of sanctions, and international relations on a theoretical level, as well as providing a guide to better-crafted foreign policy. Thus, this study will attempt to analyze this relationship between humanness and effectiveness of sanctions.

In chapter 2 of this inquiry I will recast the major arguments in sanctions debate. Drawing further on literature, I will argue that financial sanctions are more humane, as opposed to trade sanctions. In chapter 3, I will hypothesize that financial sanctions are also more effective. I will perform statistical analysis to determine empirically what type of sanctions is most effective. This part of study will be analyzed using ordinary logistic in STATA. Finally, in chapters 4 and 5, respectively, I will report the findings, and conclude with policy recommendations.

CHAPTER 2

LITERATURE REVIEW

There are three major issues in sanctions literature: definition of sanctions, effectiveness of sanctions and conceptualization of sanctions' success. First, the controversies in sanctions literature begin with definitions of sanctions. To set clear boundaries in international relations is always problematic, given the anarchic nature of the system. The issue of sanctions is not an exception. One approach is to distinguish sanctions from other types of economic pressure according to the sender's objectives, i.e.: political, economic or military. For example, economic sanctions aim to lower the aggregate economic welfare of the target by limiting trade and finance in order to compel the target to change its *political* behavior (Pape 1998). Trade wars differ that the goals of the sender's are *trade* oriented, i.e. the sender seeks more favorable trade conditions, and aim to alter target's economic policies. Economic warfare shaped by militaristic overtones seeks to weaken target's economic potential in order to deteriorate the war fighting ability of the target. The ultimate goal is not to impose economic pain but to reduce military arsenal of the target (Pape 1997). Since it is not clear what is purely economic and political the results are ambigious. Moreover, some argue that trade disputes are also politically motivated, which further complicates the distinction between categories (Elliott 1998).

Some scholars define sanctions very narrowly, "economic measures levied by a 'constitutionally authorized' international body seeking to compel the target nation to alter its policies in order that they no longer conflict with international norms" (Doxey 1980, 9). However, others employ a broader definition, "economic sanctions are economic measures directed at political objectives" (Barber 1979). In this study economic sanctions will be defined as means to alter political behavior of the target. Political behavior, as used here, will include episodes of trade disputes, but exclude instances of economic warfare (see chapter 3, and Appendix A and B).

Second controversy in sanctions literature addresses the question of sanctions effectiveness. A vast amount of literature on sanctions concludes that sanctions are not effective. (Galtung 1967; Hoffman 1967; Wallesteen 1968; Doxey 1971). For example,

> Haas (1998): "Sanctions are occasionally effective; … the record strongly suggests that sanctions often fail or make things worse. Sanctions alone are unlikely to achieve foreign policy objectives…"
> Baldwin (1985): "The two most salient characteristics of the literature on economic statecraft are scarcity and the nearly universal tendency to denigrate the utility of such tools of foreign policy."
> Wallensteen (1968): "The general picture is that economic sanctions have been unsuccessful as a means of influence in the international system."
> Doxey (1987): "The record of international sanctions of a non-military kind, even when applied within an organizational framework, suggests that on their own they will not succeed in drastically altering the foreign or domestic policy of the target."
> Galtung (1967) "In this article the conclusion about the probable effectiveness of economic sanctions is generally negative."
> Pape (1997): "At the end of the day, there is little empirical evidence that sanctions can achieve ambitious foreign policy goals."

In addition, Wallensteen analyzing ten cases where sanctions were imposed found only two successes (Wallensteen 1968, Nincic & Wallensteen 1983). Knorr (1975) in his study of over forty cases reported 75% rate of failure. In the most recent comprehensive study of sanctions analyzing 115 cases, Hufbauer et al, concluded that only one third of

cases were effective. (Hufbauer, Schott, and Elliot, 1990, hereafter HSE). However, even this partial success was debunked by Pape, who leveled various criticisms against HSE's methodology, sample selection and coding. Ultimately, Pape concluded that only five cases of HSE's successes qualified as instances of effective sanctions (Pape 1997).

Furthermore measuring success of sanctions is also controversial. Baldwin argues that sanctions are attributed a low rate of success due to poor conceptualization (Baldwin 1985). The goals of the sender might be vague such as "preventing spread of communism," or "decreasing territorial expansions." Thus it is difficult to measure the extent to which the target complied or failed to do so. Additionally, Baldwin, argues that any single episode of sanctions involve multiple objectives (Baldwin 1998). He and others emphasized that recognition of the objectives may influence effectiveness of sanctions, i.e. recognition of the single primary goal stated by a public official would set the level of success too high hence bias results toward failure. Contrary, identification of multiple minor goals would lower the benchmark of success, skewing the results toward success.

Parallel to the literature on the ffectiveness of sanctions, a set of arguments exists that sanctions could function as symbols (Gavin 1989, Fearon 1994, Smith 1995). States operating in the international system lack perfect information. Hence there is always an incentive to bluff. If the sender threatens forceful measures and the target complies, the sender has wins without actual use of force. The prospect of winning creates inducement to use "empty threats" (Drezner 1999). Since the threat of force must look credible to the target and the allies, it could be costly for the sender. Additionally, Martin (1992) argues that prospective allies need to perceive the sender's commitment, thus high cost to sender

signals the intent. However, some argue that cooperation is unlikely due to desire of countries to free ride, and allow illegal trade (in Drezner 1998). This argument aside, even here the effectiveness of sanctions as symbols could be questioned. Some point out that effective signaling is function of a looming military force than sanctions. "Sanctions therefore, are not true cause of concessions, but merely an observable signal of military power" (Knorr 1975, Pape 1997, Drezner 1999).

A different debate in the study of sanctions is on *when* they work, as opposed to *if* they work. Drezner calls this the "domestic politics" approach (Drezner 1999). The explanations here focus on the domestic politics of the target and the sender states. Margaret Doxey's work established the first cornerstone of conventional wisdom, concluding that economic sanctions succeed when they impose severe pressure on the target (Doxey 1980). The cost imposed by sanctions on the target, by inflicting harm on the civilian population, mobilizes opposition and create pressure on the leaders of the target to change their policies. In other words, the greater the economic pain inflicted on the target, the quicker the political gain to the sender will be. A few quantitative studies supported the positive link between the cost and the effectiveness of sanctions (Dashti-Gibson, Davis, and Radcliff 1997; Drury 1998, HSE 1990). Barber also agrees that pressure on the target is necessary, however he argues that it is not a determinative factor of success (Barber 1979).

Galtung (1967), on the contrary, criticizes the pain – gain principle as "naïve" and asserts that high cost to target decreases the effectiveness of sanctions. The core of his argument is that the economic pain inflicted on the target does not translate into political gain for the sender. He claims that even if the political regime in target has no support

from its population, the imposition of sanctions, creating extra cost and suffering, would lead to political integration and strengthening of the regime. The target's population would "rally around the flag" to display its loyalty to the regime. Thus, Galtung concludes the severity of sanctions is counterproductive to their success. In addition to political integration it has been argued that the possibility of a leak in international system decreases chances of success of sanctions (Green 1983). Cooperation is hard when multilateral sanctions are imposed, due to the desire of the states to cheat and free ride, reducing the effectiveness of sanctions. Hence Green concludes that sanctions will be effective if they are costly to the target and have no leaks from sender states (1983).

Finally, Olson makes a distinction among covert and public sanctions. He asserts that sanctions are more effective when they are covert. He defines covert sanctions as reduction in aid and loans. Olson draws on Gatlung's reasoning of political integration, claiming that covert action would be less public, thus avoid rallying in support of the target's leadership (Olson 1979).

Furthermore, Morgan and Schwebah (1996) trace the distribution of the costs of sanctions on different segments of population, relying on bargaining theory. They conclude that in order to be effective sanctions must not only be costly for the target, but these costs should harm the target's ruling elite (Morgan and Schwebah 1996). This reasoning led to a new approach in theory - "smart" sanctions.

Smart Sanctions

Prior to introducing the concept of "smart" sanctions, different types of sanctions must be distinguished. There are two types of sanctions: trade sanctions or sanctions on

exports and imports; and financial sanctions. Trade sanctions involve bans on target's exports and restriction of target's imports. The goal of trade sanctions is to reduce the target's benefits of trade, compelling target to change its political behavior. Financial sanctions, on the other hand, affect financial flows and seek to prevent the flow of resources to the target. Financial sanctions could take on many forms: reduction in aid, denial of loans, seizure and freezes of individual or organizational bank accounts, and restrictions on travel.

The comment that the economic pain does not transform into political gain led to a new approach in theory of economic statecraft – "smart" or "designer" sanctions. Smart sanctions comparable to "smart" bombs aim to concentrate the losses on selected part of population capable of changing political behavior of the target – the ruling elite (Hufbauer and Oegg 2000). Such sanctions are favored for following reasons: first, they protect the larger innocent groups of populations by exempting essential basic supplies such as medical and humanitarian aid from embargoes. Since they limit pain and suffering, smart sanctions are more humane. Second, they target political elites benefiting from the target's policies. Thus such "approach was designed to hit the real perpetrators harder and to spare potential innocent victims, leading to speedier change of sanctionee behavior" (Tostensen and Bull, 2002). It can be noted that trade sanctions can also be narrowly designed to diminish military capabilities of the target state, however, these instances of military embargoes are excluded from this study (see p. 13).

In addition to being ineffective, traditional trade sanctions have a poor record of being humane. Under the exports/imports sanctions the cost falls on poor and middle class of population, depriving them from such necessities as medical assistance and

sustenance. The wealthy ruling groups are not affected, since their critical resources are untouched, thus they have no incentive to concede to the demands' of the sender. Pape (1998) notes, that although sanctions are considered as a more humane substitute for force, they inflict "significant human cost" on the target's population, who have no influence on their political leaders. He notes that sanctions on Iraq led to the deaths of over five hundred thousand Iraqi children (Pape 1998). Moreover, the pain inflicted on the target's populace could play in favor of the target's government. It empowers sanctionee's elite to reflect the sanctioning regime as inhumane (Tostensen and Bull, 2002). Therefore, given that the trade sanctions target the wrong segment of population and inflict create more harm on the innocent, they are not only ineffective but also inhumane.

Financial sanctions, on the other hand, fit better in the category of "smart" sanctions. Since the goal of the financial sanctions is to impair financial flow, they reduce the inflow of foreign currency, causing economic stagnation and budget deficits, which creates difficulty for the ruling government. Moreover, individual assets such as bank accounts could be seized or frozen, and travel bans can be imposed on certain persons. Political elite therefore would be cut off from their off-shores accounts, and limited in traveling. Such measures places direct cost on the target's ruling regime, while reducing collateral damage to the general populace. Moreover, imposition of financial sanctions is a less public method than trade sanctions. This covertness could prevent "rally around the flag" effect (Olson 1979). Finally, financial sanctions are better in one other aspect. While targeting financial inflows the humanitarian and medical assistance – the critical essentials for vulnerable segment of populations - are unharmed.

In sum, since financial sanctions affect the political elite of the target directly, while limiting the harm on larger population, they are most humane.

Furthermore we need to explore further if what's if what is humane is necessarily more effective. If so, important implications for the use of economic sanctions in foreign policy could be discovered. Thus the goal for next chapter will be to analyze whether financial sanctions are more effective. Since the question of effectiveness is different from the question of humaneness, I will start with the literature review, which at times could be overlap with the current chapter.

CHAPTER 3

DATA AND MODELS

This part of the study will explore the question of effectiveness of type of sanctions. Analogous to the argument of humanness of financial sanctions, it is also believed that they are effective. The impact of cutting off an inflow of financial aid, denial of loans, freezing or seizure of the elite's assets, limiting the access to foreign currency are more direct and more pronounced on the target's ruling elites. (Dashti – Gibson, Davis and Radcliff 1997). Likewise, Kaempfer and Lowenberg (1992) concluded that sanctions are more effective when income losses are placed on entities directly benefiting from the target's government's policies. Moreover, export/import sanctions might have little effect on such entities given that they are more dependent on foreign currency. Thus, imposing financial sanctions directly restricts ruling elite's critical assets (Morgan and Schwebah 1993, Kirshner 1997). In addition, in the most comprehensive study of sanctions of 115 cases between 1914 and 1990, Hufbauer, Schott and Elliott (1990) found that financial sanctions succeed in 41% of cases, as opposed to the 25% success rate of trade sanctions; combinations of trade and financial sanctions were successful in 30% of the cases. Furthermore, Elliott (1999) provided additional arguments as to why financial sanctions are more effective: 1) given that government and financial institutions are most important guarantors of financial flows, it becomes easier to enforce and harder to avoid financial sanctions; 2) market forces are more likely

to reinforce rather than undermine the effects of these sanctions. Therefore sanctions should be effective for following reasons: financial sanctions target appropriate segment of the population. Since the pressure is placed on the segment, which is capable of influencing the policy and altering political behavior, financial sanctions should be more effective in achieving sender's policy objectives than trade sanctions. In addition it has been argued that trade sanctions, would lead to political integration and "rallying around the flag" effect, thus strengthening the ruling regime, since they impose large costs on target's populations. Contrary, financial sanctions are more discrete, thus their imposition would avoid "rally around the flag" and assist in weakening the power of the ruling elite. Since financial sanctions target political elite of the target and assist in weakening of their regime by avoiding "rally around the flag" effect, financial sanctions should be more effective.

There is a further distinction in the literature between private and public financial sanctions, such as freezing of assets of specific groups or individuals as opposed to denial of aid, or loans to the target state (Hufbauer and Oegg 2000). However given that private asset freezes is the recent trend, no quantifiable empirical data is available for systematical study. Thus no distinction between private or public financial sanction will be made here.

Since most of the episodes of sanctions include a combinations of type of sanctions two dummy variables will be created to capture the effect of the main independent variable: 1) "Financial pure," where 1 = if only financial sanctions were used, 0 = any other type of sanctions or combinations; 2) "Financial Combinations,"

where 1 = if financial sanctions were used in combination with exports or imports, 0= any other type of sanctions or combinations.

Hufbauer, Schott, and Elliott (HSE) events data, consisting of 115 cases will be used to test the hypothesis described above. Even though widely recognized as the most comprehensive study of sanctions, HSE data is not without its downfalls. Their data and operationalization have been criticized for biased sample selection, questionable coding and methodology (see Morgan and Schwebah 1997, Pape 1997, Drury 1998, Drezner 1999).

To alleviate some criticism against the sample bias, several categories of cases will be eliminated. HSE's dataset of 115 cases ranging from 1914 to 1990 includes cases of economic coercion, strategic embargoes and cases of economic warfare during armed conflict. The purpose of this study is to look at sanctions as economic pressure to coerce the target country to the sender's demands. The purpose of embargoes is to limit military capability of adversaries therefore cases of embargoes will be excluded (for detailed list of cases see Appendix). Also, sanctions imposed by institutions or regional blocks will be excluded for lack of data and difficulty in coding. Eliminating these categories of cases reduces the sample to 92 cases, a number still sufficient for statistical analysis.

Measuring effectiveness of sanctions is problematic. There are four major conceptualizations of "effectiveness" of sanctions throughout the sanctions literature. Two approaches are widely criticized for their poor operationalization. The other two approaches are considered to be a better reflection of reality, with both theoretical and statistical grounding. In this study I will present all four models in order to address the criticisms and make a valid comparison of the results produced by all models.

HSE define success of sanctions episode as "the extent to which the policy outcome sought by the sender country in fact was achieved, and the contribution made by the sanctions (as opposed to other factors, such as military action) to a positive outcome" (HSE 1990, 41). To operationalize "success" Hufbauer et al. (1990) create an index system scored from 1 to 4 for each element: 1) achievement of policy objective (1=failure, 2=unclear but possibly positive outcome, 3=somewhat successful outcome, 4 = successful outcome); 2) contribution the sanctions made toward achieving the objective (1=no contribution, 2= minor contribution, 3=modest contribution, 4 = significant contribution). Furthermore, they multiply these two values to create a "success" score, with values of 1, 2, 3, 4, 6, 8, 9, 12 and 16. Any episode of sanctions with the score of 9 and above is considered to be successful sanctions (HSE 1990, 51).

Such operationalization of "success" has been frequently criticized in sanctions literature. Since both of the scales are ordinal, the categorization of cases is highly subjective, raising questions of reliability. In addition, Drury (1998) arguing that inclusion of "contribution" measure is redundant and endogenous, runs his own analysis only against the policy result scale (1=failure to 4=success). Moreover, Dashti-Gibson, et al. (1997) assert that multiplication of two 4 point scales has "no theoretical, empirical, or statistical reason." In their own study, Dashti-Gibson, et al, also utilize only policy result scale, coding it as a dummy variable, where 1=clearly positive outcome, and 0 = failure.

Drezner (1999) further modifies HSE's scale, arguing that HSE's use a narrow definition of sanctions. He states that policy achievement is only a "partial measure of concession magnitude, because it omits the relative significance of the original demand" (Drezner 1999, 107). Drezner's measurement takes into account both the demand size

and the extent to which target complied with it. To determine demand size he uses yet another categorization of the HSE cases based on the sender's demand: modest changes in the target's foreign policy, a change in the target country's regime, disruption of military activity, and major changes in the target's foreign policy (HSE 1990, 38). The fifth category "impairment of military potential" was removed to avoid inclusion of embargo cases. Ranking categories in order of importance to the target, Drezner assigns a score of 1 to modest changes in the target's foreign policy; and a score of 2 to other categories. In cases of multiple goals, he assigns a larger value. Drezner's "concession size" variable is multiplication of demand size by HSE's policy result. By rescaling HSE's 4-point scale to range of 0 to 3, he codes a failed coercion attempt as zero regardless of the original demand. Since the concession size took a value of 4 only a few times, he combines categories 3 and 4. As a result, Drezner's concession size variable on a scale of 0 to 4, where 0 = no concession, 1 = minor concession to a minor demand, 2 = minor concession to a major demand or major concession to a minor demand, 3 = full concession to a minor demand or major concession to a major demand, 4 = full concession to a major demand.

To account for above mentioned criticisms as well as produce more reliable and strong results, this study will incorporate four measures of sanctions effectiveness: 1) 4 point policy objective scale; 2) 4 point sanction's contribution scale; 3) 16 point "success" scale and 4) Drezner's concession size scale; therefore four models will be reported. Since three of the dependent variables are ordinal measures ranging from 1 to 4; and one 16 point scale with missing values in the middle, this part of the empirical analysis will be performed using ordinal logistic in STATA.

To analyze the impact of financial type of sanctions on the success of sanctions episode, it is essential to review the existing literature in order to distinguish other variables associated with effectiveness of sanctions. Based on the literature review, there are ten control variables that should supplement the models: regime type for target and sender, durability for target, target/sender GNP ratio, relation between target and sender, target cost, national security, trade linkage, military force, and U.S. originated.

Regime type

The sanction literature suggests that the regime types of the target and the sender may have an impact on the effectiveness of sanctions. The argument is that democratic senders are better sanctioners (Hart 2000). He provides two reasons. First, political leaders in democratic countries are elected and easily punished for wrong choices. Thus, political leaders fearing loss of office are more cautious in choosing the sanctions option. Second, based on the literature on signaling and crisis bargaining models, Hart (2000) and Jervis (1970) argue that political leaders in democracies may fear domestic backlash if they make comments after making commitments and public statements and not act accordingly. Thus this fear of "domestic reprisal … gives the state the ability to use even public statements in a credible fashion" (Hart 2000). Therefore if statements can be used as signals, and if they are public and costly to the sender, democracies are better in using economic sanctions as signals of resolve. Likewise, democracies are easy targets since the cost of sanctions is borne by the populace, which elects political leaders (Hart 2000).

The variable regime type (polity) will be taken from Polity IV dataset, ranging from –10 = high autocracy to +10 = high democracy (Marshall and Jaggers 2000). For cases including multiple senders or targets, average polity scores will be taken.

Durability

This variable, also taken from Polity IV dataset, measures the number of years since the last regime transition, coded from the year of the first regime transition or independence (Marshall and Jaggers 2002). The idea is newer regimes are easier to coerce to demands of the sender since they are less stable and need to compromise. Thus when newer regimes are targeted, sanctions should be more effective. Alternatively, one could argue that newer regimes are less willing to compromise than established states because they need to establish reputation for toughness. For cases including multiple targets the average durability score will be taken also.

Target GNP ratio

It has been argued that the result of sanctions episode may be dependent on the relative size of sender and target states. HSE assert that "imposition of even minor sanctions carries the implicit threat of more drastic action. Whether that threat looms large or small depends very much on relative country size…"(HSE 1990, 48). They measure relative size of countries in GNP ratio.

Trade Linkage

The impact of trade on the effectiveness of sanctions seems to be relatively straightforward. Target states that are more dependent on trade with the sender more likely to concede to the sender's demands. HSE operationalize trade linkage between the target and the sender as percentage of pre-sanction target country's total trade (HSE 1990, 48).

Target Cost

Previous research in sanction literature suggests that the more costly the sanctions to the target the more likely they are to succeed. HSE reported that cases inflicting heavy costs on the target country are generally successful (HSE 1990, 101). Furthermore, Morgan and Schwebah confirmed this finding using bargaining model (Morgan and Schwebah, 1997). Target cost variable is borrowed from HSE's original work, and measured as the per capita cost of sanctions to the target (HSE 1990).

Relation

Hufbauer et al. (1990, 47) assert that prior relations between target and sender may play an important role on the outcome of sanctions. They state that it should be easier to impose sanctions on allies than non–friendly states. Stronger sanctions might be needed to coerce a non-friendly government into concession, especially if domestic consequences of backing down are harmful. Allies take into account the nature of friendly relations with the sender prior to imposing counter sanctions or any other action (HSE 1990, 47). Modified measure of HSE's variable would be borrowed from Drury's

dataset where 1 = sender and target are friends or allies, 0 = not friends or allies (Drury 1998).

National Security

The literature on sanctions suggests that if the sanctions issue is a matter of national security, sender state would impose stronger sanctions in order to prevail (Powell 1994, Drury 1998). Thus if issues of national security are involved, sanctions should be more successful. Drury (1998) codes this variable as a dummy with 1= threat to sender's security (military dispute between any involved nations, nuclear proliferation, threat to sender's macro-economy, threat to alliance, or threat of communist expansion); 0= no national security threat.

Military Force

In order to evaluate the success of sanction episode accurately, a control for military force is necessary to avoid a spurious relationship between variables. In their study HSE (1990) identifies cases where covert actions, quasi-military or regular military force are used. In addition, Pape (1997) recodes three more cases where he argues some sort of military force was used (U.K. & U.S. v. Uganda 72-1; U.S. v. Nicaragua 77-5; U.S. v. U.K. & FR 56-3). I will code cases 1= any force was used; 0 = no force was used. To account for Pape's criticism I will recode the above mentioned cases as instances of military force (see Appendix for more cases).

US Imposed

Since the United States is the imposer of sanctions in more than 67% of all episodes in the dataset, Drury (1998) suggests that it might influence the results of the sample. He claims if the U.S. is a better sanctioner than the rest of the world, the results could be biased toward success. Thus this control will account for bias in the results as well as determining whether U.S. is more or less effective at sanctioning relative to the rest of the world (Drury 1998). A dummy control where 1 = US is a sender, 0 = USA is not a sender will be created.

Duration

There are two competing arguments linking effectiveness of sanctions and their duration. The longer the duration of the sanction episode, the more effective the sanctions will be since they increase the cost to the target (Brady 1987, Daoudi and Dajani 1983). By implication this leads to the conclusion that sanctions might take time to become effective, and the longer they are in place, the more burdensome they are for the target.

On the other hand, scholars have argued that the longer the sanctions last, the less likely they are to succeed for several reasons. HSE argue that sanctions imposed over a longer range of time could strengthen the target's elite due to "rally around the flag" factor. In addition, the longer the sanctions last the more likely they are to be defied either by the sender's firms, other foreign rivals, or other major powers (HSE 1990, 100). Moreover, HSE's finding showed an association between the duration of sanctions and reduced chances of success (HSE 1990, 101). Other explanations for effectiveness of

sanctions with shorter durations have been advanced as well. For example, Paarlberg (1983) claimed that the more often a single state imposes sanctions, the less credible the sender's commitment seems to the target. Prolonged sanctions may also appear less successful because senders would not change their positions even after realizing that their action failed (Leyton-Brown 1987). Lastly, according to Nincic and Wallesteen (1983) longer sanctions are less effective "because sending states are not capable of maintaining indefinitely the necessary international solidarity" (in Dashti-Gibson, 1997). Overall, time allows target "to find alternative suppliers, to build new alliances, and to mobilize the domestic opinion in support of its policies" (HSE 1990, 101). This variable will be borrowed from HSE's study (HSE 1990) and will be measured in number of years since sanctions were imposed.

CHAPTER 4

FINDINGS

In general, the analysis confirms the hypothesis that financial sanctions are effective, when imposed alone or in combination with trade sanctions. It has been proposed and supported by the findings that financial sanctions are effective because they target appropriate segment of population capable of altering political behavior. Additionally, financial sanctions being a less public measure, are effective because their prevent "rally around the flag" effect, thus decreasing public support for the ruling regime. The analysis confirmed the hypothesis on the effectiveness of financial sanctions, however, the results varied based on which conceptualization of "effectiveness" was used. Better conceptualized, Drezner's "concession size" and "policy contribution" models produced the most optimistic results, while widely criticized HSE's 16-points "success" and "sanctions contributions" scales created a weaker support for the hypothesis (see Table 1).

Drezner's conceptualization of effectiveness of sanctions episode is more accurate since he distinguishes the demand size of the sender and concession size of the target (Drezner 1999). Major concessions to a small demand could be less valuable than small concessions to a large demand. Thus, this distinction between demand and concession size should be taken into account, in order to precisely capture the "effectiveness" of the

episode. In addition to the theoretical justification, "concession size" produced stronger statistical results in comparison to other models.

Table 1. Effectiveness of sanctions according to the type of sanctions.

	Concession Size	Policy Result	Contribution	Success
Pure (F) MIV	1.55**	1.33*	.513	.926
	(.715)	(.721)	(.692)	(.677)
Combination (F) MIV	1.45**	1.14*	.430	.726
	(.663)	(.655)	(.622)	(.633)
Duration	.055	.051	.006	.027
	(.047)	(.045)	(.047)	(.045)
Regime Type (S)	.18**	.176**	.11*	.14**
	(.064)	(.063)	(.057)	(.059)
Regime Type (T)	.034	.028	.055	.048
	(.031)	(.033)	(.034)	(.033)
Durability	.004	-.002	-.005	-.004
	(.011)	(.011)	(.011)	(.011)
Military Force	.812	.405	-.503	-.028
	(.537)	(.535)	(.512)	(.504)
Trade linkage	.011*	.011*	.015**	.013**
	(.006)	(.006)	(.006)	(.005)
Nat Security	.943*	.692	-.258	.125
	(.513)	(.514)	(.485)	(.482)
Relation	.551	.463	.083	.370
	(.516)	(.529)	(.526)	(.520)
GNP Ratio	-.00017	-.00019	.00007	-.00008
	(.0003)	(.0003)	(.0003)	(.0003)
Target Cost	.008**	.0007**	.0005*	.0006**
	(.0003)	(.0003)	(.0003)	(.0003)
US	-.923	-.762	-.281	-.574
	(.794)	(.775)	(.702)	(.720)
†Pseudo R^2	.098	.092	.077	.05
Predict Probabilities				
Fin (Pure)	.26	.28	NA	NA
Fin. (Combination)	.22	.22		

* significant at .10 level
** significant at .05 level
† Similar Pseudo R^2 were reported by others (see Drury 1998)

Drezner's model produced the highest Pseudo R^2 of .09 suggesting that it has a predictive capability of 9%. Slightly higher estimates were reported in other large-n studies of sanctions (for example, see Drury 1998). Main independent variables, "financial pure" and "financial combination" attained statistical significance in the hypothesized direction at $p < 0.05$. These findings suggest that when financial sanctions are used alone, financial sanctions are more effective, in comparison to trade sanctions. Likewise, when financial sanctions used in combination with trade sanctions, they are effective in comparison to non-financial sanctions. Thus the analysis supports prior conclusions reached by other scholars on the effectiveness of financial sanctions (see Dashti – Gibson, et al, 1997).

The coefficients of the main independent variables reveal an equal effect of "financial pure" and "financial combinations" on the effectiveness of the episode. To determine the magnitude of these results, predicted probabilities for both main independent variables were calculated. Accordingly, one unit change in "financial pure," holding other variables at their mean values, resulted in .26 increase in probabilities of full concession (concession = 4). In other terms, the effectiveness of sanctions increases by 26% when financial sanctions are used alone, as opposed to trade sanctions. Similarly, the estimates of predicted probabilities for financial combination produced a .22 increase the effectiveness of sanctions, or the effectiveness of the episode increases by 22% when financial sanctions are used in combination with non-financial sanctions, in comparison to trade sanctions. In addition, two control variables, "regime type sender", and "target cost" reached statistical significance at $p < 0.05$, confirming the expectations

of their influence on sanctions effectiveness. Two other controls, "trade linkage" and "national security" achieved significance at $p < 0.10$.

"Policy Result" model produced similar but less robust estimations. Pseudo R^2 virtually remained unchanged of .09, suggesting the predictive capability of the model of 9%. Statistical significance of main independent variables dropped a little, nevertheless "financial pure" and "financial combinations" remained statistically significant at $p < 0.10$. The results once again point to the effectiveness of financial sanctions when used alone or in combination, as opposed to trade sanctions. Predicted probabilities suggest, that effectiveness of sanctions episode increases by 28 % when financial sanctions are imposed alone. Similarly, the effectiveness of the sanctions increases by 22% when financial sanctions are used in combination with trade sanctions, as opposed to non-financial sanctions alone. The same controls remained statistically significant as in the "concession size" model, with the exception of "national security" variable.

Two remaining models, "contribution" and "success" produced weaker results, which could be attributed to the poor conceptualization of the "effectiveness." HSE's contribution scale is a subjective measure, which decreases the reliability of the results. For example, in the cases where military force was used, it is questionable whether sanctions or the use of force contributed to the success or failure of the episode. Thus it becomes highly subjective to assign a score of 0 – 4 in order to categorize sanctions' contribution. The results of this model produced a lower Pseudo R^2 of .077, suggesting that the predictability of the model has worsened. Both main independent variables remained statistically insignificant, indicating no effect of financial sanctions alone or in

combination. Only two control variables reported to be statistically significant: trade linkage at $p < 0.05$, and target cost at $p < 0.10$.

Finally, HSE's 16 point "success" scale produced the worst results among all. Operationalization of effectiveness of sanctions by 16 points success scale, consisting of two four-point scales, has been widely criticized by scholars in the field. It has been suggested that multiplication of two four- points scales has no substantive or statistical purpose, as well as produces redundant and endogenous estimates (Drury 1998, Dashti-Gibson et al, 1997). The results of the statistical analysis confirm poor conceptualization of the model. The Pseudo R^2 dropped to .05, suggesting low predictive capability of the model. Neither of the main independent variables achieved statistical significance, thus doubting their effectiveness. "Regime type sender," "trade linkage," and "target cost" achieved statistical significance at $p < 0.05$.

Assuming weak results of the last two models can be attributed to poor conceptualization, it could be concluded that financial sanctions in general are an effective approach. This conclusion is supported by other similar large-n studies on economic sanctions. The findings produced a strong case for the use of financial sanctions: financial sanctions, while being a "humane" approach are also an effective tool in achieving sender's policy objectives. Consequently, the results show that "humanness" and "effectiveness" of sanctions are positively related, i.e. what is humane is also effective for attaining sender's foreign policy goals.

Since the results also reveal that combination of financial and trade sanctions are more effective, the question is whether this combination a "humane" form of sanctions. Given that the literature suggests that trade sanctions alone impose costs and suffering on

population broadly, it could thus follow that "financial combination" is not "humane." "Financial combination" includes categories of "humane" and "inhumane" policies (i.e. financial and trade sanctions), however it could be possible that "financial combinations" still reduce duration of the episode. If in fact, the length of episode is shorter when a combination of financial and trade sanctions is used, the argument that they are humane regardless of the presence of non-financial sanctions could be made. Because it is argued that the longer the sanctions are in place, the more cost and suffering they create for the target's populations. On the contrary, if "financial combination" is lengthier than trade or financial sanctions alone, its "humanness" could be doubted.

Thus, in addition to four models described above, another model will be tested. The main independent variable, "financial sanction" will be operationalized the same way as in previous models, financial (pure) and financial (combination). Similar controls from the previous models will be incorporated as well, and operationalized in the same manner, however with slightly different expectations. Since "duration" is a continuous dependent variable, regular ordinary least square regression will be performed using SPSS.

Since my main dependent variable has changed, the effects of controls are modified as following: the more democratic senders are, the longer sanctions will last since backing down may cause domestic reprisal from electorate. Contrary to that, the more democratic the targets are the shorter the duration of sanction episode, since domestic constituency burdened by losses could lobby or change the government. Furthermore, newer regimes would have an impact on duration because newer regimes have less domestic and international support and resources to resist the sanctioner. One

could also argue that the relative size of countries could influence the length of sanctions episode. The smaller the target's economy is in comparison to the sender's, the less it could resist to the sender's demands, thus shortening the duration of the episode. It is necessary to control for previous relation between the target and the sender. The argument is that friendly states valuing each other's trade or security partnership are more likely to find a compromise, and stabilize the relationship, therefore ending the sanctions relatively quickly. On the contrary, based on the prospect theory literature, targets hostile to the sender while perceiving losses larger than gains unwilling to change their status quo, may be unlikely to concede to sender's demands quickly. A similar argument could be made for countries dependent on each other for trade. States that rely more on each other for would resolve the sanctioning issue faster trade in order to minimize their losses, while non-trading partners with less to lose would prolong the episode. Related to the same idea, is the argument that the more cost the sanctions impose on the target the faster the resolve should be in order to reduce and make up for damage done.

Contrary, it is reasonable to expect extended sanctions if national security issues are involved for the sender. The sender should be less likely to compromise and be more persistent and patient until the target complies with the demands. Long lasted sanctions against North Korea and Iraq could be an example. Alternatively, it is possible that senders be more aggressive when issues of national security are involved and be more likely to use military force to coerce the target to comply. Hence, leading to the conclusion that military force, shortens the duration of sanctions. If political leaders revert to military force, it reflects the unwillingness of sender's state to extend the period of sanctions. Finally, given the frequency the U.S. imposes sanctions, and the resulting

loss of credibility, it is more likely that the US originated episodes should be longer in duration. Alternatively, it is possible to argue that US imposed sanctions will be shorter, since frequent lengthy episodes would damage US trade and economy.

The results of the analysis suggest that "financial combination" is not shorter in duration, thus not humane. (The results of OLS model is reported in Table 2 below). During preliminary analysis, the scatter plot of the dependent variable, "duration," revealed that data was highly skewed to the left. To avoid this problem log of "duration" was taken.

The results of F tests indicated that the model was statistically significant at $p < 0.05$, with an adjusted R^2 of .18, suggesting that 18% of variance in the dependent variable, duration, was explained by all the variables. While an adjusted R^2 is not large, distribution of errors gives confidence that model was properly specified, thus low R^2 is not due to model misspecification. Errors were normally distributed, with no cases above three standard deviations, and only few cases above two standard deviations. Main independent variable, "financial pure," attained statistical significance at $p < 0.10$, however in the unanticipated direction. The results suggest that financial sanctions alone prolong the duration of the episode, contrary to the "smart" sanctions literature. It has been asserted that financial sanctions are more humane than trade sanctions, thus impose less pain and suffering on populace. However, it is also acknowledged that when sanctions are used longer they impose more suffering. The results of statistical analysis indicate that the duration of the episode is prolonged when financial sanctions are used, thus doubting the "humanness" of financial sanctions. Thus the dilemma arises: while qualitative studies argue that financial sanctions are humane, quantitative analysis

suggests that financial sanctions prolong the duration of the episode, suggesting they are not "humane." The "duration" variable in this model is used as proxy to "humanness" of economic sanctions. While sanctions literature provides variety of qualitative studies on "humanness" of financial sanctions, no attempts has been made to conceptualize "humanness" for large-n studies. Arguing that the longer the sanctions last, the more pain they cause is the first attempt to capture "humanness" of economic sanctions for quantitative analysis. In addition, financial sanctions albeit being humane could vary in duration, therefore financial sanctions could be more or less humane depending on the duration. Thus, analyzing the duration of sanctions unveils another dimension of humanness of economic sanctions. The results of this study are far from conclusive since the distinction between private and public financial sanctions was not made. More systematic large-n studies of financial sanctions are needed to test the "humanness" of financial sanctions in detail, and perhaps a better operationalization of "humanness" could lead to different conclusions. As of now, the theoretical justification drawn from the qualitative studies of economic sanctions remains that financial sanctions are humane.

"Financial combination" achieved statistical significance at $p < 0.05$, suggesting also when financial sanctions used in combination they prolong the duration of the episode, thus they are not "humane." Here in addition to lack of detailed information of financial sanctions, it could be argued that the effects of "inhumane" trade sanctions could increase the duration of sanctioning episode. The coefficient of "financial combination" suggests a higher effect on duration than "financial pure." Furthermore, beta coefficients of "financial combination" ranked third in impact among controls in the model.

Table 2. Financial Sanctions and Duration.

Log Duration					
	B	Std. Error	Beta	t	Sig.
Fin. Pure	.506*	.289	.262	1.749	.084
Fin. Combination	.616**	.257	.336	2.401	.019
Regime type (S)	-.063**	.021	-.440	-3.080	.003
Regime type (T)	-.028**	.014	-.213	-2.000	.049
Durability	-.002	.005	-.051	-.395	.694
Military Force	-.044	.220	-.023	-.198	.843
Trade linkage	.000	003	-.019	-.172	.864
Nat Security	-.042	-.023	-.018	-.155	.877
Relation	-.679**	.211	-.355	-3.221	.002
GNP ratio	4.550E-05	.000	.032	.308	.759
Target cost	.000*	.000	-.189	-1.770	.081
U.S.	.297	.291	.146	1.018	.312
Adj. R^2	.18				
F test (sign)	.003**				

* significance at .10 level
** significance at .05 level

Thus the results reveal that there is no statistically significant difference between type of sanctions and their effect on "duration" of the episode. "Financial combinations" do not reduce the length of the episode, on the contrary they only prolong the duration. Therefore, the analysis confirms that financial sanctions combined with trade sanctions are not humane.

Hence, two major implications were discovered throughout this study. First, financial pure is arguably both humane and effective. Thus what is humane is also effective. Second, a combination of financial and trade sanctions are not humane but an effective way to impose sanctions. Given these insights, next chapter will generate policy recommendations.

CHAPTER 5

POLICY RECOMMENDATIONS

The results suggest that humanness and effectiveness of sanctions are related. The literature suggest that financial sanctions are "smart" or "humane" in two ways: 1) financial sanctions target directly the group responsible for target's policies and are capable of changing them. Thus the distribution of losses are on the target government's elite; 2) they limit pain and suffering of the general population by exempting essential needs such as food and medicine, thus do less indiscriminate harm. The statistical analysis also identified financial sanctions as effective in terms of achieving foreign policy objectives. Financial sanctions are effective because they target the most appropriate segment of population capable of changing policy, and they reduce "rally around the flag" effect, thus decreasing public support for the ruling regime. Therefore, there is a strong case for the use of financial sanctions as an effective measure of foreign policy, since they achieve the desired policy outcome while inflicting the least harm done to the general population of the target.

A different picture emerges when financial sanctions are used in combination with trade sanctions. The results indicate that financial sanctions when used in combination are also effective, however they prolong the duration of the episode. This prolongation in the duration makes the "financial combinations" less humane. In addition, trade sanctions create higher costs for the sender. Sanctions on imports and

exports reduce trade benefits for the sender, diminish profits and create large opportunity costs for domestic businesses. Since trade sanctions do not discriminate in harm they are also costly to the target, and impose pain and suffering on general populace, while political elites are less affected since they are not dependent on foreign trade for their survival. Given that financial sanctions in combination with trade sanctions are costly to the sender and less humane, it becomes more efficient to impose financial sanctions alone since they are both effective and more humane.

Overall the results of the study provide various implications for crafting a better foreign policy. First, economic sanctions can be an effective instrument of achieving policy objectives when right type of sanctions is utilized. Thus, in choosing the option of economic sanctions, policy makers should opt for financial sanctions when possible. Despite being a liberal alternative to war, sanctions still are costly foreign policy measures. Economic sanctions impose obvious costs to the target, but they could also harm the sender. As discussed above, policy makers should not only the quantifiable loss into account, but also human pain and suffering. Therefore, policy makers should approach the decision of imposing sanctions cautiously. A quick solution in favor of imposition of trade sanctions may strengthen the target's ruling regime while increasing hostile sentiments against the sender in both the target state and it is surrounding region. Thus policy makers should analyze possible gains and losses carefully, prior to the decision to use sanctions.

The results suggest that trade sanctions should not be imposed, since such sanctions are not effective, they do more harm than good, and creating unnecessary suffering for the innocents. The goal of the sender is to achieve in alteration of political

behavior, thus punishing groups that have no say in the decision-making would not bring the desired change. On the other hand, sanctions could be more effective when they directed at the ruling target's government. Similarly, policy makers should avoid sanctioning commodities vital to basic survival such as medicine and food. As mentioned above, the costs of sanctions should not fall on middle and low-income classes of society unable to influence the political elite. Since smart financial sanctions are an effective tool in achieving policy objective, by targeting the appropriate political group and limiting suffering of general populace, a more productive policy is to impose smart financial sanctions.

Finally, better methods of communication between policy makers and academia are needed to accommodate policy maker's needs, and provide researchers with vital flow of information. Thus for example, the role of international institutions should be evaluated as well and governments' and institutional ability to freeze accounts, trace and seize funds, identify certain groups and individuals as initiators of the target's policies. In addition, current international, and domestic legal and financial structures should be evaluated to determine whether they are conducive to effective functioning of private financial sanctions.

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Appendix A

EXCLUDED CASES:

Category 1 – Embargoes designed to impair adversaries' military ability: (7) *

United Kingdom v. Germany (14-1) World War I;
Alliance Powers v. Germany and Japan (39-1) World War II;
Arab League v. Israel (46-1) Palestine;
US and COCOM v. USSR and COMECON (48-5); Technology Controls;
US and CHINCOM v. China (49-1) Control of China;
UN and UN v. North Korea (50-1) Korean War;
US and South Vietnam v. North Vietnam (544) Vietnam War;

* Drezner (1999, 104)

Category 2 – Institutions, no clear sender/target: (11)**

League of Nations v. Yugoslavia (21-1) Border Dispute;
League of Nations v. Greece (25-1) Border Skirmish;
League of Nations v. Paraguay and Bolivia (32-1) Chaco War;
UK and League of Nations v. Italy (35-1) Abyssinia;
United Nations v. South Africa (62-2) Apartheid;
UK and UN v. Rhodesia (65-4) Black Majority Rule;
United States v. Arab League (65-4) Antiboycott Measures;
Arab League v. Egypt (78-6) Peace Treaty with Israel;
Arab League v. Canada (79-3) Embassy Move;
UN and Organization of African Unity v. Portugal (63-5);
US and OECS v. Grenada (83-4) Restore Democracy;
US and UN v. Iraq (90-1) Invasion of Kuwait;

** Arab League v. United States (73-1) is **included,** since Saudi Arabia is the clear sender, Drezner (1990, 104).

Category 3 – Missing Data: (5) ***

EC v. Turkey (81-4) Restore Democracy;
Netherlands and US v. Suriname (82-2) Human Rights, Cuban Influence;
India v. Hyderabad (48-2) Political Integration;
Canada v. Japan and EC (77-4) Nuclear Safeguards;

*** US v. Iran (79-1) Hostage crisis; this case is excluded since Iran pressured US to concede to its demands.

APPENDIX B

CASES WITH USE OF MILITARY FORCE:

UK v. Russia (18-1)
India v. Hyderabad (48-2)
USSR v. US, UK and France (48-3)
USSR v. Yugoslavia (48-4)
UK and US v. Iran (51-1)
India v. Portugal (54-2)
US, UK, France v. Egypt (56-2)
US v. UK and France (56-3)
US v. Laos (56-4)
Indonesia v. Netherlands (57 –1)
France v. Tunisia (57-2)
US v. Dominican Republic (60-1)
USSR v. China (60-2)
US v. Cuba (60-3)
USSR v. Albania (61-2)
Western Allies v. German Democratic Republic (61-3)
US v. Brazil (62-1)
Indonesia v. Malaysia (63-2)
US v. South Vietnam (63-4)
Nigeria v. Biafra (67-1)
US v. Chile (70-1)
US v. India and Pakistan (71-1)
UK and US v. Uganda (72-1)
US v. Nicaragua (77-5)
China v. Vietnam (78-7)
US v. Lybia (78-8)
US v. USSR (80-1)
US v. Nicaragua (81-1)
US v. Argentina (82-1)
Netherlands v. Suriname (82-2)
South Africa v. Lesotho (82-3)
US v. Iran (84-1)
US v. Angola (86-2)
US v. Panama (87-1)