1 Introduction

A tale of two cases

On August 6, 1990, the United Nations Security Council voted to impose multilateral economic sanctions against Iraq in response to Saddam Hussein's invasion of Kuwait. By any conventional measure, these sanctions achieved the greatest degree of international cooperation in modern history. Iraq suffered damages equal to roughly half its pre-war gross national product, a cost far outweighing any other sanctions attempt in this century. Despite the severe economic dislocations suffered by the Iraqi regime, it refused to surrender any Kuwaiti territory. Ignoring claims that the sanctions would have worked with time, the US-led coalition decided to retake Kuwait through military force. On April 3, 1991, the Security Council voted to extend the sanctions regime until Iraq complied with additional demands to reveal its weapons of mass destruction program, recognize the border with Kuwait, and pay reparations. An unstated but desired demand was the removal of Saddam Hussein from power. Iraq has labored under the UN sanctions regime for eight years. As a result, infant mortality rates have increased sevenfold, annual inflation rose to over 4,000 percent, and per capita income has fallen to less than half pre-war levels. In the face of continued economic losses and bellicose US rhetoric, the Iraqi regime has only acquiesced to UN demands when additional military threats have been made. On every issue area, when the only pressure is economic sanctions, Iraq has not budged. Domestically, Saddam's regime shows no signs of falling; if anything, the sanctions regime has strengthened it. Despite the most potent sanctions in history, economic coercion has failed to produce any significant Iraqi concessions.[1]

In late August 1991, the United States was trying to cajole all the relevant players in the Middle East into a multilateral peace conference in Madrid. A blocking point was the Israeli construction of new housing in the occupied territories of the West Bank and Gaza. The Israeli government of Yitzhak Shamir sought to acquire US-ensured financing to cover additional expenses. The Bush administration responded by delaying and then refusing to grant $10 billion in loan guarantees until the Israelis froze the building of all new settlements in the territories. Shamir agreed to the delay before the Madrid peace conference, but refused to concede on the issue of new housing. US Secretary of State James Baker told the Israeli government that the loan guarantees were conditional on the freeze in housing construction in the occupied territories. With Shamir reluctant to yield, Washington used economic pressure to force a change in government. US and Israeli authorities agree that Shamir's refusal to concede cost him and his Likud party the June 1992 elections. In August of 1992, the new Labor government, led by Yitzhak Rabin, acquiesced to the US terms and agreed to freeze the building of all new settlements in return for the loan guarantees. Shamir's Defense Minister and campaign manager later described the episode as an unprecedented example of US interference in Israeli domestic politics.[2] Nevertheless, the Israeli government acquiesced to US economic pressure, paving the way for the historic 1993 accord between Israel and the Palestine Liberation Organization.

Although the Iraqi case has been the focus of more attention, both episodes are examples of economic coercion. I define economic coercion as the threat or act by a nation-state or coalition of nation-states, called the *sender*, to disrupt economic exchange with another nation-state, called the *target*, unless the targeted country acquiesces to an articulated political demand. The disrupted exchange could include

[1] See Hufbauer, Schott, and Elliott (1990a), pp. 283–98 on the pre-war UN sanctions. On the postwar sanctions regime and its effect on Iraq's population, see Reuther (1995) and the *Economist*, "Iraq: more medicine please," March 7, 1998. On how the sanctions have strengthened Hussein's grip on power, see "CIA says Saddam Hussein emerged stronger," *Boston Globe*, September 20, 1996, p. A2, and Robert Wright and John Daniszewski, "Hussein may be main beneficiary of UN aid effort," *Los Angeles Times*, March 4, 1998, p. A1.

[2] See Arens (1995), pp. 1, 301. See Baker (1995), pp. 540–57, for the US take on the episode.

trade sanctions, boycotts, aid suspensions, freezing of financial assets, or the manipulation of tariff rates.[3]

The two cases suggest several puzzles that need to be addressed. First, why did unilateral US pressure on Israel succeed where multilateral UN pressure on Iraq failed? The existing explanations about economic coercion are of little use. Experts predicted that the sanctions against Iraq would be successful.[4] The case had all the attributes traditionally associated with successful sanctions: the target incurred significant economic damage; the sanctions effort was backed by an international institution; all major trading partners cooperated with the UN resolutions; and the threat of military force behind the sanctions effort was clearly signaled. Yet the coalition leaders believed that economic statecraft would not be enough to extract the desired concessions; sanctions failed to achieve their goals without the additional use of force. By contrast, the Israeli case involved unilateral sanctions that imposed smaller though still significant costs on the target and no threat of military force. Unlike the Iraqi case, Congress was reluctant to threaten economic coercion, and in taking action President Bush incurred the wrath of the American–Israeli Public Affairs Committee, one of the most powerful foreign policy lobbies in the United States. Despite all this, coercion was still successful. What accounts for the extent of the target country's concessions?

A second, less obvious, question is what prompts the initial attempt at economic coercion? In both cases, the target governments had taken actions that conflicted with the policy preferences of the United States. While that is clearly part of the answer, it fails to explain why the United States chose to use economic coercion as its preferred policy option. It could have done nothing; it could have tried traditional diplomacy; it could have offered economic inducements; it could have responded with immediate military intervention. Indeed, in the Iraqi case, the United States eventually showed a preference to use force

[3] I will use the terms economic coercion, economic statecraft, and economic sanctions interchangeably in the interest of style, but they are technically different. Economic statecraft includes the use of inducements as well as sanctions. In the public perception, economic sanctions are associated with trade-disrupting measures. The definition of economic coercion includes cases of economic sanctions such as those against Iraq, but it also includes episodes such as the Israeli one, which is not commonly thought of as a sanctions case.

[4] Gary Hufbauer and Jeffrey Schott testified before Congress in December 1990 that sanctions would compel Iraq to withdraw from Kuwait, although it could take more than a year. See Pape (1997), n. 3.

instead of relying on economic coercion. In the Israeli case, it could have offered a carrot, as it had done in the past. How do senders choose among their policy options in an international crisis? Under what conditions will a sender attempt economic coercion?

The argument

This book is about the role of economic coercion in international relations. It creates a model to explain the behavior of senders and targets by taking into account their opportunity costs of deadlock and expectation of future conflict with each other. Coercion alters the allocation of benefits by imposing costs on both the sender and target countries. The short-run costs of sanctions imposition are important to the target and sender, but they are not the only factor. Conceding in the face of economic coercion implies a redistribution of political assets between the target and sender. Nation-states care about this redistribution if they think it will harm their bargaining position in future conflicts. This expectation of future conflict is translated into a short-run concern for relative gains and reputation that varies with the expectation of future threats or conflicts in the bilateral relationship between the sender and target.

The expectation of future conflict has a contradictory effect on economic coercion. On the one hand, it makes senders more willing to threaten economic sanctions. The greater the concern for relative gains and reputation, the more likely the sender will prefer a ''stalemate'' or ''deadlock'' outcome of disrupted economic exchange and attempt to coerce. *Ceteris paribus*, senders will be eager to coerce adversaries, and reluctant to coerce allies.

The sender's enthusiasm does not translate into greater concessions. The second effect of conflict expectations is paradoxical and surprising. While a robust anticipation of future disputes might make the sender prefer a coercive strategy, it also reduces its ability to obtain concessions. The target's conflict expectations determine the magnitude of concessions. Facing an adversarial sender, the target will be worried about the long-run implications of acquiescing. Because it expects frequent conflicts, the target will be concerned about any concessions in the present undercutting its bargaining position in future interactions. The sender might exploit the material or reputation effects from these concessions in later conflicts. When relative-gains concern is prominent, a concession represents a gain for the coercer

Table 1.1. *The predicted pattern of economic coercion*

	Minimal conflict expectations	Heightened conflict expectations
Large gap in costs	Significant concessions	Moderate concessions
Small gap in costs	No coercion attempt	Minor concessions

and a loss for the coerced. When reputation is important, acquiescence bolsters the sender's credibility as a tough negotiator while weakening the target's reputation. With allies, this concern is less prominent, because the target anticipates fewer zero-sum conflicts. *Ceteris paribus*, targets will concede more to allies than adversaries. Ironically, a sender will obtain the most favorable distribution of payoffs when it cares the least about the relative distribution of gains.

Table 1.1 summarizes the predictions of a conflict expectations model. Between adversaries, senders will be more willing to sanction, even if a target's costs of deadlock are only slightly greater than the sender's own costs. Despite these preferences, it will not be able to extract significant concessions from the coercion attempt. Because the target is also concerned with the future implications of backing down, any concession is a double blow; not only does it lose in the short run, it grants the sender greater leverage in future disputes. While the presence of conflict expectations might make the sanctioner prefer deadlock, it also makes acquiescence less palatable to the sanctioned. Thus, between adversaries, I expect to see sanctions that are frequently costly to the sender and produce only marginal concessions.

Between allies, the sender will be unwilling to threaten economic coercion unless the gap in the costs of sanctions imposition is large. The target's costs of deadlock must be significant and the sender's own costs must be small for the sender to prefer a coercion attempt. Once this threshold is met, however, economic sanctions will be fruitful. Because the target does not anticipate many future conflicts, it will care less about the material and reputational implications of conceding, and more about the immediate costs and benefits. It will concede more to avoid the costs of deadlock. Thus, between allies, I expect to see sanctions that are less costly to the sender, with more productive results.

A conflict expectations model can explain the dynamics of economic coercion with more accuracy and parsimony than any existing explanation. A problem with the existing literature is that it has focused too much on the most publicized cases of economic sanctions, which usually involve adversaries. Because of this sample bias, alternative explanations overlook less contentious but more successful coercion attempts between allies. In focusing on a limited subset of coercion cases, these writings have painted a distorted picture of economic sanctions. These arguments are not necessarily wrong, but their effects are much smaller than their proponents claim. In contrast to a conflict expectations model, they explain fewer cases, and less of the variation in outcomes.

Why economic coercion matters

Why should anyone care about economic statecraft? Two reasons, one for the pragmatist and one for the theorist. The practical reason is that the incidence of economic sanctions has multiplied since the end of the cold war, without a similar increase in policy analysis. The esoteric reason is that an examination of economic statecraft can illuminate the nature of power in international relations.

The use of economic statecraft in international relations has a long pedigree. The Athenian boycott of Megara helped to trigger the Peloponnesian war. The trading empires of Venice, Portugal, and the Netherlands used economic warfare to limit the power of their rivals. Early Anglo-American relations were consumed with issues of economic diplomacy; a chief complaint in the Declaration of Independence is the ''Cutting off our Trade with all Parts of the World.'' Woodrow Wilson believed that the ''economic, peaceful, silent deadly remedy'' of economic sanctions could be used by the League of Nations to police international society. Nazi Germany was particularly aggressive at cultivating economic dependency from its eastern European neighbors. The US embargo of Japan in the late 1930s contributed to the Japanese attack on Pearl Harbor.[5]

[5] On the Athenian boycott, see Thucydides, *History of the Peloponnesian War*, p. 73; Ellings (1985), pp. 17–18, and HSE (1990a), pp. 4–5. On the uses of economic coercion

The end of the cold war has sparked a renaissance in the use of economic statecraft. The United States has been the most prominent and prolific actor to employ economic coercion. The National Association of Manufacturers asserts that between 1992 and 1996 the United States imposed or threatened economic sanctions sixty times against thirty-five different countries, affecting 42 percent of the world's population.[6] These sanctions are estimated to exact an annual cost of close to $20 billion in lost exports.[7] Richard Haass, writing in *Foreign Affairs*, goes further, observing: "What is noteworthy . . . is not just the frequency with which sanctions are used but their centrality; economic sanctions are increasingly at the core of US foreign policy."[8]

The United States is the most noticeable actor employing economic statecraft; it is hardly the only one. The United Nations Security Council implemented sanctions seven times in 1994 alone, as opposed to mandating sanctions only twice in its first forty-five years.[9] The Russian Federation has employed economic coercion as a way of extracting political concessions from the Baltic republics and the Commonwealth of Independent States. Lesser powers such as Greece, Turkey, and Nigeria have used economic coercion as an element of their regional foreign policies. Even non-state actors are employing this tool. In December 1996, De Beers threatened to boycott all purchases of Russian diamonds unless the government acquiesced to granting the South African company monopoly control over its raw diamond exports.[10]

There is every reason to believe that the prominence of economic coercion will increase in the future. Over the course of the past century, major powers have been increasingly reluctant to use or threaten force, while at the same time demonstrating a growing eagerness to employ economic coercion.[11] Bosnia, Chechnya, and Somalia have highlighted the costs of military intervention for the

between 1400 and 1800, see Ellings (1985), pp. 18–21 and Irwin (1991). On the Anglo-American economic warfare, see Renwick (1981), chapter 1. For Wilson's belief in the power of economic sanctions, see Daoudi and Dajani (1983), p. 26; for cases of League of Nations sanctions, see Doxey (1980), chapter 4. Hirschman (1945) provides the best account of Nazi economic statecraft in the 1930s. The US embargo of Japan is discussed in HSE (1990b), pp. 53–61.

6 Schlesinger (1997), p. 8.

7 Hufbauer, Elliott, Cyrus, and Winston (1997).

8 Haass (1997), p. 74. 9 Pape (1997).

10 *OMRI Daily Digest*, "De Beers issues ultimatum to Russia," December 19, 1996.

11 Pollins (1994).

great powers. Unless the use of force is quick and successful, militarized disputes sap a nation's resources and create a domestic political backlash against the sender government. As public resistance to military interventions increases, and as foreign aid budgets are slashed, policy-makers are turning more and more to economic coercion as an attractive substitute to advance the national interest.[12]

With the increased popularity of this policy tool comes the need for a better understanding of how it works. Analyzing foreign policy is like honing a knife. A sharper knife makes a cleaner cut; a well-understood policy option makes for well-executed policies. However, as the next section will show, the existing literature is of limited use to policy-makers. Most of the scholarly and policy discussions of economic sanctions consist of debates about high-profile cases. Policy-makers have a disturbing tendency to ignore explicit theory but to use analogies to celebrated cases as a poor substitute. A clear model of coercion can provide statesmen with a strategic knowledge that, combined with their knowledge of the specific dispute, allows them to bridge the gap between theory and policy.[13]

The second reason for studying economic coercion is to address the relationship between power and interdependence. Power is the currency of world politics. International relations theorists have always appreciated the power of the sword, but disagree about the importance, utility, and definition of economic power. Modern realism developed in reaction to the Wilsonian faith in economic power to regulate international politics. Not surprisingly, realists tend to denigrate the utility of economic statecraft. Neoliberal institutionalism developed in reaction to the realist paradigm; neoliberals believe that economic interdependence can affect the behavior of nation-states for the better.[14]

This debate is not trivial. If economic sanctions are a potent tool of diplomacy, then world politics can be much less violent than it was in the past.[15] Neoliberals argue that increased interdependence in the modern world will cause states to act in a more cooperative fashion, because it increases the costs of defection. The prisoner's dilemma shows the importance of sanctions to neoliberals. In a world full of

12 Rogers (1996). 13 George (1993).
14 Keohane and Nye (1978).
15 This is not meant to imply that economic coercion has no human costs. The UN sanctions imposed against Iraq have had a serious humanitarian impact on that nation's citizenry. See Lopez and Cortright (1997) and Buck, Gallant, and Nossal (1998).

prisoner's dilemmas, states will go it alone unless they expect to be punished for defecting. Increased levels of economic interdependence, it is argued, make punitive but peaceful strategies possible in a number of different arenas. Joseph Nye notes, ''Interdependence does not mean harmony. Rather, it often means unevenly balanced mutual dependence. Just as the less enamored of the two lovers may manipulate the other, the less vulnerable of two states may use subtle threats to their relationship as a source of power.''[16] For cooperation to be a stable outcome, countries must believe that it is best to avoid being the target of sanctions.[17] Robert Axelrod and Robert Keohane note: ''When sanctioning problems are severe, cooperation is in danger of collapse ... To explain the incidence and severity of sanctioning problems, we need to focus on the conditions that determine whether defection can be prevented through decentralized retaliation.''[18] Axelrod and Keohane use the term ''sanctions'' to mean a variety of punitive measures, but economic coercion would certainly be a prominent example.

Neoliberals assume that potent economic sanctions provide an incentive for cooperation. That assumption cannot go unexamined. If neoliberals are correct, then it is possible for the power of the sword to be trumped by the power of gold. If they are not correct, then states may blunder into war because their faith in economic statecraft is misplaced, and the description of the world as a manageable prisoner's dilemma is inaccurate. The better we understand the dynamics of economic coercion, the better we can evaluate the effect of interdependence on international interactions.

The literature

In 1945, Albert Hirschman argued in *National Power and the Structure of Foreign Trade* that great powers could use economic coercion to extract concessions from weaker states. Hirschman's analysis capped two decades of writings that thought of economic coercion as a potent diplomatic tool.[19] That belief faded quickly with the onset of the cold

[16] Nye (1990), p. 158. See also Crawford (1994).
[17] See Oye (1986), Axelrod (1984), Rosecrance (1986), and Buzan (1984).
[18] Axelrod and Keohane (1986), p. 236.
[19] Hirschman (1945); Daoudi and Dajani (1983). See Wagner (1988) for a sophisticated evaluation of Hirschman's approach.

war. Since then, pundits and policy-makers have disparaged the use of sanctions in foreign policy:[20]

> George Kennan: "There have been suggestions that we should withhold m.f.n. treatment, and indeed discourage trade itself, as a means of extorting political concessions generally . . . This idea seems to me to be quite unsound; it is in any case impracticable."
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> Richard Nixon: "Some people think of economic leverage as the punitive use of economic sanctions, with highly publicized conditions set for their removal. This is highly ineffective, and sometimes counterproductive."
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> George Shultz: "As a general proposition, I think the use of trade sanctions as an instrument of diplomacy is a bad idea . . . Our using it here, there and elsewhere to try to affect some other country's behavior . . . basically has not worked."
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> Milton Friedman: "All in all, economic sanctions are not an effective weapon of political warfare."
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> *Time*: "Economic sanctions have rarely been successful."
>
> *US News and World Report*: "The problem with sanctions is that, more often than not, they fail to achieve results."
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> *Far Eastern Economic Review*: "Of the many arguments against economic sanctions, we have always found the most persuasive is the simplest: they don't work."[21]

This disdain mirrors the scholarly community's consensus about sanctions. David Baldwin, who provides the most authoritative survey of prior work, observes, "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."[22] A first cut of this literature would seem to confirm this assessment. Consider the following statements:

> Johan Galtung: "In this article the conclusion about the probable effectiveness of economic sanctions is, generally, negative."

[20] Even Hollywood is derisive; in the 1997 movie *Air Force One*, Harrison Ford, playing the President, denounces a policy of applying economic sanctions to terrorist states as "cowardly."

[21] Nixon, Shultz, Friedman, and *Time* quotations from Daoudi and Dajani (1983), pp. 47, 184–7; Kennan (1977), p. 220; *US News and World Report*, "Sanctions: the pluses and minuses," October 31, 1994, p. 58; *Far Eastern Economic Review*, "Sanctioning Burma," May 8, 1997, p. 5.

[22] Baldwin (1985), p. 51.