1 Introduction

Why Busted Sanctions Lead to Broken Sanctions Policies

THE ISLAMIC REPUBLIC OF IRAN HAS BEEN SUBJECT TO U.S. economic sanctions since 1979, but only in recent years has the U.S. government been really successful in obtaining multilateral support for its efforts to economically isolate Iran. Most notably, in the spring of 2012, the European Union (EU) blocked Iran from employing the Belgium-based SWIFT (Society for Worldwide Interbank Financial Telecommunication) network used by most financial institutions for their international financial transactions. This move, made in concert with aggressive U.S. efforts to isolate Iran's financial system, was designed to make it more difficult for Iran to repatriate the payments for its fossil fuel exports.[1] Denied access to the international financial system, Iran turned to using a commodity that had universal value and did not require accessing the international financial system to convert: gold. In the case of Turkey, Iran began selling its natural gas to the country in return for Turkish lira that it kept in local bank accounts. Iranians then used these funds to buy gold bullion, the trade of which was not subject to international sanctions. Turkish gold exports to Iran subsequently ballooned in the summer of 2012 and reached $1.8 billion in July. In response to the negative publicity these overt transactions garnered, a less obvious method for delivering the gold to Iran was sought. Dubai, in the United Arab Emirates (UAE), was the perfect middleman through which to launder such transactions. Dubai had already served as the locus for sanctions-busting activities on Iran's behalf for the better part of thirty years and had the connections in place to immediately start facilitating the transactions. There was no better venue in the world to carry out such a scheme.

From July to August, Turkish gold exports to the UAE exploded from $7 million to $1.9 billion. The thirty-six tons of gold that Turkey shipped to the UAE in August comprised over 82 percent of Turkish total gold exports that month.[2] Yet how that gold was shipped to the UAE is even more remarkable. Under UAE customs rules, individuals can legally import up to fifty kilograms of gold into the country in a single visit. And so a plan was hatched in which individual couriers—acting on behalf of firms registered in Turkey—would transport small shipments of Turkish gold to the UAE in perfect accordance with the country's laws. Transporting that amount of gold and in shipments that small required couriers to take hundreds of individual trips to Dubai. According to Reuters, most couriers traveled with their gold simply stowed away in their carry-on luggage. As further proof, the story cites the fact that $1.45 billion of Turkey's August gold exports "were shipped through the customs office at Ataturk airport's passenger lounge."[3] Once in the UAE, the gold effectively vanished. With over 8,000 Iranian-owned businesses operating out of Dubai and over 200 ships leaving daily for Iran, almost anything that can be brought into Dubai can be clandestinely shipped out again to Iran. These transactions continued throughout the fall of 2012 and the beginning of 2013—motivating the U.S. government to adopt new sanctions policies targeting entities that trade in precious metals with Iran. Although this legislation curbed Turkey's participation in this "gas for gold" scheme, it certainly won't stop Iran from finding new ways to circumvent the sanctions imposed against it.[4]

This case is fascinating for a number of reasons. First, it is illustrative of the cat-and-mouse game that has evolved between the United States and Iran with respect to the former's sanctions. Iranians have become world-class experts at devising ways of circumventing or undercutting the U.S. and international economic sanctions imposed against it.[5] These skills have significantly contributed to the country's ability to survive U.S. sanctions for the past thirty-plus years. Second, the transactions highlight the critical role that third parties to sanctions disputes can play in undercutting sanctioning efforts. Via their policies, both Turkey and the UAE undercut the effectiveness of the U.S. and EU financial sanctions against Iran. And, finally, the identities of the third parties involved in conducting the sanctions-busting transactions are also intriguing. The UAE has been a close military ally of the United States since 1994, and Turkey is a NATO ally of the United States and most of the EU's members. Their involvement in deliberately undermining their allies' sanctioning efforts against Iran represents an intriguing puzzle in need of an explanation.

The UAE gained international attention for its illicit trade relationship with Iran when it was revealed that the infamous A. Q. Khan proliferation network used Dubai as a central hub for proliferating sensitive nuclear technologies to Iran in the early 2000s.[6] In delving more deeply into the UAE's commercial relationship with Iran, it is clear that the Khan network's activities were not an isolated exception. The UAE had been a leading venue for conducting sanctions-busting trade with Iran since the U.S. government had first sanctioned it. In many ways, Dubai's explosive growth as the Persian Gulf's leading trade hub was linked to its role as Iran's primary entrepôt for circumventing the sanctions imposed against it. When the UAE formally forged a military alliance with the United States in 1994, the UAE's sanctions-busting activities only accelerated further. All the U.S. efforts at making its sanctions against Iran more stringent during the 1990s appeared only to increase the profits reaped by the Emiratis and added little to the pressure felt by the Iranian regime. During this period, American and Iranian firms flocked to Dubai to continue doing business with one another. All this background information became very real for me when I visited Dubai in 2005 and strolled by the scores of dhows docked alongside Dubai's Persian Sea inlet that were stacked high with American products destined for Iran.

There has been surprisingly little research focusing on the causes and consequences of sanctions-busting behavior, especially given its intuitive links to the failure of sanctioning efforts. In observing the states involved in various sanctions-busting cases, there appear to be two distinct profiles for the types of sanctions-busting activities taking place. The first type, as in the UAE–Iran case, appears driven by profit-seeking behavior and relies primarily on the use of international trade. In contrast, the second type of sanctions-busting relationship appears motivated mainly by politics and employs foreign aid. The massive aid packages that the Soviet Union provided to Cuba to undercut the U.S. sanctioning effort against the country during the Cold War exemplify this type of sanctions busting. Although the motives and methods associated with the two types of sanctions busting are different, both appear capable of undercutting the effectiveness of U.S. sanctioning efforts. This book offers the first comprehensive explanation of why both types of sanctions busters emerge and demonstrates the corrosive consequences each one has on the effectiveness of sanctioning efforts.

A clear need exists for a better understanding of how third-party states contribute to the failure of U.S. sanctions policies. The findings of this book should be of interest to students of foreign policy and economic statecraft but also to policy makers charged with the responsibilities of overseeing U.S. economic sanctions policies. Unfortunately, there are no easy solutions to the challenges posed by sanctions busting. Yet the findings from this book and recent reforms in U.S. sanctions policies suggest that U.S. policy makers can become much more effective at addressing the challenges it poses.

U.S. Foreign Policy and Economic Sanctions: A Fatal Attraction?

Since World War II, the United States has played an active leading role in international politics. The United States' enduring foreign policy interests have been in enhancing the country's national security, while advancing U.S. interests abroad and promoting economic prosperity at home.[7] The United States' leadership role in the West during the Cold War, its emergence as the lone superpower following the Cold War's conclusion, and its seat on the UN Security Council have meant that the United States has been politically engaged all over the world. Its foreign policy interests also extend across a range of policy areas, such as economic, environmental, human rights, and international security issues. In the post-WWII era, the United States has been one of only a handful of countries that has possessed both foreign policy interests that extend globally and the capacity to act on them.

With the United States' preponderance of military and economic power, its policy makers have a wide range of policy options available to them with which to pursue American foreign policy interests. U.S. policy makers can pursue policies within the diplomatic, military, or economic realms and employ coercive or incentives-based strategies.[8] In the diplomatic realm, for example, U.S. policy makers can extend foreign governments praise and legitimacy, or, alternatively, they can use public admonishment to tarnish other governments' international reputations. Militarily, U.S. policy makers can offer security guarantees or sell weapons to foreign governments as part of incentives-based strategies, or they can leverage U.S. military power to compel countries into altering their behaviors as part of coercive ones. The final class of policies comprises what David Baldwin refers to as economic statecraft.[9] Such policies seek to influence a target's economic well-being as a means of affecting its behavior. The provision of foreign aid constitutes an incentives-based approach toward using economic statecraft, whereas economic sanctions represent a coercive approach. Although a number of these policy options can often be employed in response to a given foreign policy dilemma, the attendant costs and benefits of each approach affect which option policy makers select.[10]

More than in any other country in the world, economic sanctions have served as the policy instrument of choice for U.S. policy makers. Economic sanctions specifically refer to restrictions that policy makers place on their countries' commerce with foreign states, firms, or individuals to compel a change in their behavior. They tend to be used in response to objectionable foreign behaviors that require a more assertive response than diplomacy alone but in which the use of military force is undesirable. Both of the leading databases that track the global use of economic sanctions indicate that the United States has employed economic sanctions more than any other country in the world—and by a large margin.[11]

A number of reasons exist for why the United States relies so heavily on economic sanctions despite their poor performance. It has long been known in academic and policy circles that economic sanctions have a relatively poor track record of success—achieving their goals only around 23 to 34 percent of the time.[12] Given its preponderance of economic power, though, the United States can more easily afford to absorb the costs of imposing sanctions and can better leverage sanctions in exploiting other countries' dependence on U.S. markets, U.S. capital, and the U.S. financial system. The United States is thus advantaged in using sanctions over most other countries with smaller economies. The United States' active involvement in global politics and its preponderance of power also creates more opportunities for U.S. policy makers to employ the policy. Economic sanctions can serve as an alternative, antecedent, or auxiliary to the use of military force. The high costs associated with using military force abroad can cause sanctions to appear as a low-cost alternative, leading economic sanctions to be used as a frequent substitute for military force when coercive responses are deemed necessary. U.S. policy makers are also thought to rely on economic sanctions for symbolic purposes in response to domestic and international pressure to take action against objectionable behaviors by foreign actors.[13] In such cases, policy makers may deem diplomatic approaches as insufficient, incentives-based approaches as inappropriate, and military approaches as too costly—leaving only sanctions on the table. It also helps that both the president and Congress can impose economic sanctions, and they can do so relatively quickly and with few *up-front* costs. Even with their poor overarching track record of success, U.S. policy makers thus often view economic sanctions as the most expedient, preferable policy option available to them in comparison to the range of alternative options they could employ.[14] Yet, much as the vast bulk of an iceberg sits out of sight below the waterline, many of the costs associated with using economic sanctions are not immediately observable to U.S. policy makers when they decide to employ them. The real costs associated with the use of sanctions tend to be overlooked or ignored.[15]

Not only does the U.S. government frequently employ economic sanctions when they have little chance of succeeding, but U.S. policy makers also remain committed to failed sanctioning efforts for far too long. When the United States has imposed economic sanctions to achieve a political objective, they have failed to achieve their objectives almost 66 percent of the time. On average, failed U.S. sanctioning efforts last almost nine years—with some lingering on for over fifty years.[16] In the case of the U.S. sanctions against Cuba, U.S. policy makers have been trying to use sanctions to bring about the collapse of the Castro regime since 1960. Rather than abandoning their obviously failing strategy, U.S. policy makers have repeatedly doubled down on their sanctioning efforts over the years. Yet whereas the advocates of those policies have long since left office, the Castro regime still rules in Cuba. This is despite the claims by the Cuban government that the U.S. sanctions have cost it roughly $975 billion since they were imposed.[17] Although experts argue that those estimates are inflated, the cost of the U.S. sanctions to its own economy is likely a nontrivial portion of that figure—and that's only with respect to one country.

Failed sanctions costs come at a high price for U.S. businesses and U.S. workers. It was estimated that during the 1990s the U.S. government's sanctions policies cost American businesses approximately $12 to $18 billion a year in lost exports.[18] In one of the only studies of its type, Gary Hufbauer and his coauthors estimated that the U.S. government's sanctions cost the U.S. economy roughly 200,000 jobs in 1995 due to lost export opportunities.[19] By denying American companies the ability to compete with foreign competitors in some markets, the U.S. government's sanctions can hurt their overall competitiveness. Restrictive export control policies on the export of U.S. satellite technology to countries like China, for example, have harmed the U.S. space industry.[20] These policies also can encourage U.S. firms to relocate their business operations abroad to countries that impose far fewer sanctions. For example, Halliburton's decision to move its corporate headquarters to the United Arab Emirates after it endured congressional investigations into its subsidiary's business dealings with Iran appears consistent with these motives.[21] U.S. sanctions can also encourage generally law-abiding companies to engage in smuggling, fraud, and/or money laundering in order to circumvent U.S. sanctions in pursuit of otherwise legitimate, profitable commerce. And whereas a lot of sanctions-busting trade does not technically break any laws, it often requires business enterprises to violate the spirit in which they were imposed. This forces various federal agencies, like the Department of Treasury and the U.S. Bureau of Industry and Security, to engage in costly cat-and-mouse games in enforcing U.S. sanctions policies against the firms whose businesses the sanctions are hurting.[22] If the political objectives for which sanctions are imposed are valid and achievable, these costs may be justifiable; however, at least two-thirds of the time these costs are incurred for naught.

The United States does not bear the costs for its failed sanctions policies alone. A rising body of scholarship has detailed the harsh and often unintended consequences of economic sanctions on their targets. In the case of Iraq, it is estimated that the sanctions imposed against the country after the first Gulf War (1991–2003) contributed to the deaths of hundreds of thousands of innocent civilians within the country.[23] The civilian costs the sanctions inflicted in this case were extreme but otherwise not anomalous. Leaders of sanctioned states, and especially authoritarian ones, have proven adept at insulating themselves from economic sanctions and passing along their burdens to politically disenfranchised communities within their countries.[24] The declines in public health experienced by sanctioned states are a powerful indicator of these effects. Recent studies have also shown that sanctioned governments increase their repressiveness, and their human rights records worsen. These findings suggest that economic sanctions can have devastating impacts on the civilian populations of the countries they target.[25] The human costs of sanctioning efforts can still be high even when they fail to achieve their intended goals.

Economic sanctions' negative effects are not solely limited to their senders and targets but spill over to involve other countries as well. For example, economic sanctions often prove disruptive to their targets' broader network of trade relationships with third-party states. As an unintended consequence, sanctions can thus do a great deal of harm to their targets' trading partners.[26] By encouraging the development of illicit trade and smuggling networks, sanctions can also empower organized criminal enterprises within sanctioned states and their neighbors.[27] These externalities may generate resentment among third-party states that they direct back toward the United States. Yet economic sanctions also create lucrative opportunities for some third-party states to profit from exploiting the sanctions imposed against target states. As such, U.S. sanctions can encourage third-party states to forge closer commercial relationships with its sanctioned adversaries. This can be particularly problematic for the United States when those third-party states are also U.S. allies.[28] Because the primary means the U.S. government has to dissuade countries from exploiting its sanctions are coercive in nature,[29] attempts to make sanctions against a target state more effective often involve angering or even alienating third-party governments. All these factors add to the costs of imposing economic sanctions.

In sum, economic sanctions should not be viewed as a low-cost substitute for the use of military force. In the United States' case, its government's sanctions cost Americans billions of dollars and hundreds of thousands of jobs. Economic sanctions impoverish and often inflict misery on the citizens living in the states against which they are imposed. Sanctioning efforts can also estrange the United States from the countries whose cooperation it needs to make its sanctions successful and drive them to form closer relationships with the state it's sanctioning. These costs accrue irrespective of whether sanctioning efforts succeed or fail. After being told international sanctioning efforts against Iraq (1990–2003) had been linked to the deaths of hundreds of thousands of Iraqi children, then-U.S. Secretary of State Madeline Albright replied that maintaining the sanctions "is a very hard choice, but we think the price is worth it."[30] Although much of Iraq suffered due to the international sanctions imposed against it, Saddam Hussein remained firmly entrenched in power—supported by an extensive sanctions-busting network that his regime had cultivated.[31] Whereas using economic sanctions often involves hard choices, U.S. policy makers have not always made those choices with an accurate understanding of their true costs and the factors that determine their chances of success. Improving U.S. sanctions policies requires not only increasing their success rate but also facilitating better choices concerning when sanctioning efforts are appropriate or should be abandoned.

Explaining the Failure of U.S. Economic Sanctions

Why do economic sanctions fail so frequently? Although a number of different explanations exist for sanctions' poor success rate, the role played by external spoiler states constitutes a significant and still largely unexplained factor responsible for sanctions' failure. By engaging in sanctions-busting behaviors, countries that are not primarily responsible for imposing sanctions against a target state (a.k.a. third-party states) can undermine their effectiveness. Sanctions busters tend to come in two varieties. The first type of sanctions buster engages in extensive commerce on behalf of sanctioned states to exploit the profitable opportunities that U.S. sanctions create—namely through trade. Private, profit-seeking businesses and traders are the principle agents that cultivate these trade-based sanctions-busting relationships, though their governments can adopt policies that protect and encourage such trade. The second type of sanctions buster is driven primarily by politics, comprising governments that seek to undermine the sanctions' effectiveness through providing target states with foreign aid. This type of sanctions busting differs from the trade-based variety in that supporting sanctioned states via foreign aid can be quite costly. As such, aid-based sanctions busters tend to be much rarer. Both types of sanctions busting are driven by different motivations, occur under differing circumstances, and undermine the effectiveness of sanctions in different ways. States targeted with U.S. sanctions can leverage both types of sanctions-busting assistance to hold out against and, ultimately, defeat the U.S. sanctioning efforts imposed against them.

This book offers the first comprehensive explanation of how both aid-based and trade-based sanctions busting influence the effectiveness of sanctioning efforts and why third-party states engage in such behaviors. The sanctions-busting theory developed in the book combines the liberal paradigm's approach toward understanding the role nonstate actors play in shaping their states' foreign policy and international trade behaviors with the more nuanced insights on leader behavior advanced by the literature on political survival.[32] It emphasizes that economic sanctions differently affect and, in turn, can be differently affected by governments' leaders and their constituents. In some cases, the interests of leaders and their constituents may align in favor of supporting sanctions-busting efforts on behalf of a target state, but in other cases they may diverge. These interactions can have surprising results. For example, the sanctions-busting theory developed in this book counterintuitively predicts that the United States' closest military allies will be in one of the best positions to exploit its sanctions for commercial profits. By offering a joint account of why states engage in extensive sanctions busting and how it affects the success of sanctioning efforts, sanctions-busting theory can explain one of the root causes of why U.S. sanctioning efforts so often fail.

Countries sanctioned by the United States can leverage trade-based and aid-based sanctions busting in different ways to defeat sanctioning efforts. Extensive trade-based sanctions busting can help mitigate the adverse economic impact that sanctions have on their targets' economies and constituents. Although trade-based sanctions busters will seek to profitably exploit the commercial opportunities created by U.S. sanctions, they can make adjusting to the sanctions much more affordable for target states than it would otherwise be. Sanctioned states that have extensive trade-based sanctions-busting relationships with third-party states are thus under far less pressure to capitulate to U.S. sanctioning efforts than those without them. The amount of foreign aid made available to the governments of sanctioned states can also influence their ability to resist U.S. sanctioning efforts. Foreign aid surpluses can help target leaders mitigate the economic hardships caused by sanctions and preserve the loyalty of their politically important constituents. Conversely, reductions in the amount of foreign aid provided to sanctioned states can exacerbate the political and economic damages the sanctions inflict and diminish the ability of governments to respond to those grievances. Third-party governments that provide sanctioned states with extensive amounts of foreign assistance can thus undermine the effectiveness of U.S. sanctioning efforts, but states sanctioned by the United States may also be vulnerable to sudden withdrawals of external aid.

For third-party states, the key difference between trade-based and aid-based sanctions busting is that the former can be profitable whereas the latter is necessarily costly. This distinction shapes the factors affecting third-party states' willingness to engage in either type of sanctions busting. Trade-based sanctions busting can benefit a third-party country's commercial constituents and, in some cases, advance its political interests as well. For the most part, though, commercial motivations explain the lion's share of the trade-based sanctions busting that takes place on behalf of target states. By virtue of their preexisting political, commercial, and geographic relationships with target and sender states, engaging in sanctions-busting trade on behalf of target states may be especially lucrative for firms in particular third-party states. In those instances, third-party governments have strong incentives to protect and foster their constituents' trade with targets states even in the absence of foreign policy reasons to do so. Especially when the potential profits from sanctions busting are significant, the commercial interests of third-party states' constituents can readily overwhelm their leaders' foreign policy interests in supporting U.S. sanctioning efforts. The lucrative profits provided by sanctions busting, for example, explain why the governments of some U.S. allies exploit the political cover provided by their alliances to protect their constituents' sanctions-busting activities instead of supporting their ally's sanctioning efforts. Target states, in turn, have significant incentives to focus their sanctions adjustment strategies on forging extensive sanctions-busting relationships with the handful of countries that they can trade with the most profitably. Only the countries that can provide target states with the most cost-effective means of adjusting to the sanctions are thus likely to emerge as extensive trade-based sanctions busters in a given sanctions episode.

Alternatively, third-party states should engage in extensive aid-based sanctions busting in only a relatively narrow set of circumstances. For third-party governments to take on the expense of extensively aiding sanctioned states, they need to have both the resources and the salient political interests, such as an ideological stake in the sanctions dispute's outcome, to make such significant investments in defeating U.S. sanctioning efforts. Due to the costs associated with aid-based sanctions busting, even third-party governments that meet these qualifications should prefer to use a trade-based sanctions-busting approach if that approach is feasible. The presence of a salient political motive, the availability of disposable resources, and the infeasibility of a market-driven, trade-based option should all be jointly necessary for third-party states to engage in extensive aid-based sanctions busting. Even when all three factors are present, though, that may not be enough to cause a third-party government to offer its patronage to a target state. As such, forging aid-based sanctions-busting relationships often require the leaders of target states to actively court the support of potential benefactors. All this suggests that extensive aid-based sanctions busters should be much rarer than trade-based sanctions busters.

My dual accounts of both the causes and consequences of sanctions busting offer new insights into how third-party states influence the success of U.S. economic sanctions. Because the success or failure of the U.S. sanctioning efforts often depends on whether the target can obtain sufficient support from third-party sanctions busters, this extends the breadth of sanctions conflicts far beyond the United States and the immediate target of its sanctions. Third-party states serve as one of the primary battlegrounds on which sanctioning efforts are won or lost, with target leaders actively seeking to form strong sanctions-busting relationships with third-party states and U.S. policy makers seeking to prevent or disrupt such relationships if they can. Despite the United States' preponderance of power, competition for third-party support often tips heavily in favor of target states—as only a handful of sanctions busters can completely undermine a sanctioning effort, and the costs associated with disrupting third-party sanctions busting tend to be disproportionate to the benefits it yields. For even if the United States can sever one third-party state's sanctions-busting support for a target, the target may have many other alternative third parties in line to take that state's place. These insights suggest that it is imperative for U.S. policy makers to understand which third parties are most likely to sanctions-bust, which approach they are likely to use, and what impact their efforts will have on the sanctions' likelihoods of success. Even if U.S. policy makers cannot always stop sanctions busting from taking place, they can better account for its corrosive effects in their decisions to impose and maintain sanctions.

Analyzing Sanctions Busting's Causes and Consequences

To evaluate the sanctions-busting theory's ability to explain the role sanctions busting has played in undercutting U.S. sanctions efforts, the book examines U.S. sanctions policies from 1950 to present times.[33] The book employs a balanced mixture of quantitative and qualitative analyses. This approach offers insights at both the micro- and macrolevels as to the causes of sanctions busting and the consequences it has on the success of sanctioning efforts.[34] The empirical portions of the book are divided into two sections. The first section seeks to ascertain the impact that aid-based and trade-based sanctions busting have on the efficacy of U.S. sanctioning efforts via a statistical analysis of ninety-six historical cases of U.S. sanctions from 1950 through 2002. The analysis introduces several novel operational measures capable of capturing how much aid-based and trade-based sanctions-busting support a target receives over the course of sanctions episodes. Whereas previous work has relied on a static, dichotomous measure of whether sanctioned states received any external support over the course of a sanctions episode,[35] these new measures are capable of evaluating the distinct and dynamic impacts that trade-based sanctions busting and foreign aid flows have on the success of U.S. sanctioning efforts. This analysis reveals the extent to which sanctions busting actually undercuts U.S. sanctions.

The second, more expansive empirical portion of the book examines why third-party states engage in extensive trade-based and aid-based sanctions busting. The first empirical chapter in this section explores why and how the UAE grew to become Iran's most important trade-based sanctions buster. As the UAE and United States formed a defensive alliance in 1994, this case is particularly useful in exploring why U.S. allies are more likely to become extensive trade-based sanctions busters. The next chapter conducts a statistical analysis of which countries became extensive trade-based sanctions busters in the same ninety-six cases of U.S.-imposed sanctions from the previous paragraph. This analysis broadly tests a number of hypotheses regarding the economic, political, and geographic factors that make third-party states more likely to engage in trade-based sanctions-busting. The last empirical chapter conducts a comparative analysis of the cases in which third-party governments provided extensive sanctions-busting aid to Cuba. Specifically, it examines the patronage that the Soviet Union and China offered to Cuba during the Cold War and the assistance that Venezuela under Hugo Chávez and China have provided it in the post–Cold War era. This chapter also explores the Castro regime's strategies for obtaining sanctions-busting support and why the U.S. government's efforts to prevent third-party sanctions busting were largely ineffective. These chapters draw on the combined strengths of three different methods of analysis to comprehensively analyze why sanctions busting occurs and what form it takes. They also offer policy-relevant insights at multiple levels of analysis.

The Findings in Brief and Their Implications

The findings from the empirical analyses provide strong support for the theory of sanctions busting developed in the book and offer a number of important insights relevant to U.S. sanctions policies. The results from the first statistical analysis demonstrate that sanctions busting has a major detrimental impact on the effectiveness of U.S. sanctions. When target states have the support of trade-based sanctions busters and/or experience surpluses in their foreign aid flows, U.S. sanctioning efforts are far less likely to succeed in their objectives. Even the emergence of a single trade-based sanctions buster can dramatically reduce the likelihood of sanctions being successful. It is important to note that the analysis demonstrates that both aid-based and trade-based sanctions busting exercise strong, independent effects on sanctions outcomes. It also reveals that sanctioning efforts are more likely to succeed when target states experience sharp, sudden reductions in their foreign aid flows. This indicates that the overarching foreign aid flows target states receive can both positively and negatively affect economic sanctions' likelihood of success. Both U.S. and target policy makers can thus manipulate the effectiveness of the U.S. sanctioning efforts by influencing the trade and aid flows that third-party states provide to target states.

Evidence from the UAE–Iran case study and second statistical analysis offer strong support for the sanctions-busting theory's account of why third-party states engage in extensive trade-based sanctions busting. There is overwhelming evidence that the trade-based sanctions-busting relationship that the UAE developed with Iran was driven by commercially motivated actors seeking to profit from the U.S. sanctions against Iran. Sanctions-busting firms and traders took advantage of the UAE's close geographic relationship to Iran, the historically strong commercial ties between Dubai and Iran, and the commercially open, laissez-faire business environment fostered by Dubai. They also exploited the political cover offered by the alliance the UAE government formed with the U.S. government in 1994. These findings illustrate the theory's descriptive account of how and why trade-based sanctions busting takes place. The subsequent statistical chapter further demonstrates that the sanctions-busting theory's predictions about the types of states most likely to become trade-based sanctions busters proved to be remarkably accurate. The analysis indicates that the factors that affect the profitability of sanctions busting are the leading determinants of which third-party states become extensive trade-based sanctions busters. It also provides compelling evidence that U.S. allies are far more likely to become trade-based sanctions busters than are other countries.

The comparative analysis of the Cuban sanctions-busting cases is generally supportive of the sanctions-busting theory's predictions regarding the emergence of aid-based sanctions busters but suggest that a minor revision to the theory is in order. In the cases of the aid-based sanctions busting provided by Cold War China, the Soviet Union, and Venezuela, all three of the necessary conditions identified by the sanctions-busting theory are present. Each country had a salient political motive to defeat the U.S. sanctions and the discretionary resources to invest in the effort, and each lacked a viable trade-based sanctions-busting alternative. The case of post–Cold War China met those first two conditions but deviated in the latter. Instead, it adopted a hybrid strategy of using extensive foreign aid as an augment to its sanctions-busting trade with the country. This suggests that sometimes third-party states may employ sanctions-busting aid in addition to sanctions-busting trade to accomplish their goal of undercutting U.S. sanctioning efforts. The narratives of all four cases also illustrate the active political role Fidel Castro played in recruiting the patronage of the states that aided his country and how he balanced the assistance offered by these states with the use of trade-based sanctions busting as well. Many more states were willing to engage in trade-based sanctions busting on Cuba's behalf than were willing to aid it, but the latter states' support proved essential to Cuba's long-term resistance of the U.S. sanctions.

Together, these findings reveal distinctive profiles for the types of states likely to bust U.S. sanctions using either approach. The United States' democratic, commercially competitive allies with large economies (for example, Great Britain, Canada, and Japan) appear most likely to engage in trade-based sanctions busting, while its wealthy, ideologically motivated adversaries (such as the Soviet Union, China, and Venezuela) appear most likely to become aid-based sanctions busters. U.S. sanctioning efforts are thus commonly besieged on all sides, undercut by friends and foes alike. Yet although the adverse effects of aid-based sanctions busters can be mitigated, the deleterious impact of trade-based sanctions busters rarely can be. As such, it is unfortunate *in this regard* that the United States has so many more friends in the world than adversaries because its closest allies appear to be its sanctions' worst enemies. Overall, the findings indicate that sanctions busting is an endemic and often intractable problem associated with the use of sanctions.

The findings from the analysis offer an array of important insights for policy makers concerning how to better use economic sanctions as an effective tool of economic statecraft. Diagnostically, policy makers can use the empirical models in this book to understand the effects of sanctions-busting trade and foreign aid on their sanctions' likelihood of success. Equipped with this knowledge, policy makers can make more informed decisions about when sanctions can be used most effectively and when it may be best to give up on heavily busted sanctioning efforts. The book's findings can also be used to develop profiles of the types of states that are likely to become extensive sanctions busters. Policy makers can use this knowledge to identify the greatest sanctions-busting threats and focus their efforts at dissuasion accordingly. Lastly, the findings on how the foreign aid flows received by targets affect their ability to resist sanctions provide policy makers with new knowledge on an additional tool they can leverage to improve their sanctions' chances of success. Although many of the challenges posed by sanctions busting may be intractable, policy makers armed with better knowledge about how sanctions busting works and the effects it has should be able to wield economic sanctions far more effectively than those lacking it.

Plan of the Book

The rest of the book proceeds as follows. Chapter 2 provides more in-depth descriptions of sanctions-busting behavior and the profiles of aid-based and trade-based sanctions busters. Chapter 3 presents the sanctions-busting theory's account of how trade-based sanctions busters and foreign aid affect the success of sanctioning efforts and tests it via a statistical analysis. Chapter 4 presents the sanctions-busting theory's explanation of why third-party states choose to engage in trade-based and aid-based sanctions busting. Chapter 5 tests the descriptive accuracy of the theory's explanation of trade-based sanction busting via a process-tracing analysis of how the UAE became Iran's leading trade-based sanctions buster. Employing another statistical analysis, Chapter 6 evaluates the sanctions-busting theory's general ability to explain which states are most likely to become trade-based sanctions busters. Chapter 7 conducts the comparative analysis of the third-party states that became aid-based sanctions busters on Cuba's behalf both during and after the Cold War. The concluding chapter summarizes the combined findings from the analyses and explores their broader theoretical and policy implications.

2 What Are Sanctions Busters?

This chapter provides an introduction to the existing literature on sanctions busting and describes the two leading types of sanctions-busting activities that third-party states engage in. It begins by discussing how economic sanctions create a demand for third-party sanctions busting among target states and how existing accounts have sought to explain its causes and consequences. It then offers a new, more broad-reaching definition of what constitutes extensive sanctions-busting behaviors and describes the two archetypical types of sanctions busters that fit that definition: trade-based and aid-based sanctions busters. The chapter discusses the distinct characteristics associated with both types of sanctions busting and provides example profiles of states that exemplify the trade-based sanctions-buster and aid-based sanctions-buster archetypes. As the chapter illustrates, the characteristics associated with trade-based and aid-based sanctions busting mark them as two distinct phenomena that appear to be driven by different causal motivations and should have differing impacts on the outcomes of sanctioning efforts.

The Impact of Economic Sanctions and Demand for Sanctions Busting

Even when the United States imposes unilateral economic sanctions on a target state, they can have far-reaching political and economic effects that influence other countries. In conceptualizing sanctions disputes, states fall into one of three categories: the sender state(s) primarily responsible for imposing the sanctions, the target of the sanctions, and the third-party states comprising the rest of the countries in the world.[1] Sanctioning efforts succeed when their targets capitulate to their senders' accompanying demands, and they fail when senders lift the sanctions without fulfilling their objectives. Third-party states can support the senders' sanctioning efforts, offer sanctions-busting support to target states, or respond neutrally. Even third-party states with no preferences as to the sanctions' outcome can be affected by the sanctions' spillover effects or be drawn into the dispute by sender and target governments seeking their support. In theory, the varying ways in which sanctions affect third-party states and how the states respond to them can significantly influence the outcome of sanctions disputes.

When economic sanctions are imposed against a target state, they can have disruptive effects on its firms' network of commercial relationships, weaken their terms of trade, and increase their costs of doing business with foreign trade partners. Adjusting to sanctions tends to be costly for firms in sanctioned states. Sanctions sever otherwise profitable trade relationships and can increase the costs of doing business with other trade partners such that it may no longer be profitable to maintain those business relationships. This inflicts deadweight losses on affected firms and requires them to find ways of circumventing the sanctions, form new business relationships with replacement trade partners, or increase the amount of business they conduct with existing ones. These arrangements are inevitably less profitable than the ones enjoyed by target firms prior to the sanctions. For target governments, the economic pain inflicted on their commercial constituencies is translated into political pressure to either provide compensation for or protection from the sanctions' ill effects or have the sanctions removed. Finding ways of mitigating the damages done by sanctions is thus a common goal that unites governments and most of their commercial constituents.[2]

The extent to which sanctioned states can efficiently and affordably adjust to sanctions by developing alternative trade relationships with third parties heavily influences their ability to resist the sanctions.[3] The immediate, disruptive effects caused by the imposition of sanctions are the most difficult to overcome. Firms are forced to find replacements for their lost trade, respond to new risks and transaction costs involved in doing business, and operate in a new business environment clouded by uncertainty. Third-party firms can take advantage of the target firms' weakened terms of trade, forcing them to pay more for the sanctioned goods they import and paying them less for the sanctioned goods they export.[4] Third-party firms can also profit from helping target and sender firms circumvent sanctions by serving as brokers and/or middlemen in sanctions-busting transactions. So, whereas target states can often replace the trade lost or disrupted by sanctions, that trade is inevitably more costly. Most theories that seriously address this issue assume that the more costly that replacement trade for a target is, the more damage the sanctions will end up inflicting.[5] Target states that are effective at developing less costly replacement trade relationships face fewer economic incentives to capitulate to sanctions than those that are not.

In contrast to sanctions-busting trade, the foreign aid given to sanctioned states tends to be much more subject to governmental control and use. It can come in the form of developmental assistance, concessional loans or trade subsidies, grants, or military assistance. Because foreign aid is not profit driven and is often fungible with other forms of government spending, it can significantly enhance the resources available to governments for responding to the damages sanctions inflict. Although analyses of the Berlin Airlift or the extensive aid the Soviet Union provided to Cuba address how foreign aid can help sustain target states, they do not develop generalizable theories of the phenomenon.[6] And whereas much has been written on the general political and economic effects of foreign aid, no studies appear to have explicitly examined how foreign aid flows affect the success of sanctioning efforts.[7] The foreign aid literature thus suggests that sanctions-busting aid should influence sanctions outcomes in different ways than sanctions-busting trade, but existing accounts have yet to enumerate them.

To the extent that existing works have sought to study the effects of third-party spoiler behavior, they have done so using fairly blunt and conceptually ambiguous means of studying the phenomenon. In their book *Economic Sanctions Reconsidered*, Gary Hufbauer and his coauthors theorized that sanctions imposed against target states that receive significant assistance from a third party should be less effective.[8] They labeled the providers of such assistance as "black knights" and ascribed their motivations as being primarily political. The archetypical case of black knight behavior according to Hufbauer and his colleagues was the massive package of assistance that the Soviet Union provided to Cuba after the United States sanctioned it in 1960. Despite the analogical linkages they drew to such a prominent case, much about their conceptualization of black knight behavior remained ambiguous. For example, Hufbauer and his coauthors did not clarify the specific channels through which black knight assistance flowed.[9] Additionally, the variable they coded to capture the effects of black knight behavior only denoted whether any state provided the target with significant assistance at any point during a sanctions episode. It also did not capture how much assistance was provided, when it was provided, or how many states provided it. Most of the subsequent studies that have used the black knight variable coded by Hufbauer and his coauthors have been unable to find that such assistance actually undermines the success of sanctions.[10] A more recent study by Elena McLean and Taehee Whang analyzes the impact of whether target states' leading presanctions trade partners increase or decrease their trade with the target state over the course of a sanctions regime.[11] They found that if those trade partners decreased their trade with the target, the sanctions were more likely to be successful. Yet they also found no link between the emergence of new leading trade partners during the sanctions (that is, trade-based sanctions busters) and sanctions outcomes. As in the other cases discussed earlier, their study employs fixed measures of trade with sanctioned states that do not vary over time. Given that target states' aid and trade flows can vary significantly over the course of a sanctions episode, there are strong reasons to think these phenomena need to be conceptualized and measured dynamically to capture their true effects.

Slaying the Black Knight? Reconceptualizing Sanctions Busters

Although most of the initial efforts to capture sanctions busting's impact have failed to yield substantive findings, this does not mean that the intuitions of scholars like Hufbauer and his coauthors are incorrect. In a large number of anecdotal cases, third-party states have clearly undercut U.S. sanctioning efforts and contributed to their failure. Rather, the ambivalent empirical track record produced by existing research suggests that more nuanced approaches of identifying sanctions busters and evaluating how their assistance affects sanctions outcomes is necessary. Although the logic of black knight assistance appears to capture the aid-based assistance that third-party governments can provide to target states, it fails to address the role that commercially motivated sanctions busters can play in undermining sanctioning efforts. To accurately capture the role that third-party spoilers can play in undermining sanctioning efforts, a theory of sanctions busting must be able to account for the causes and consequences of both variants.

As a broader alternative to the black knight concept, this book defines sanctions busters as third-party states that respond to the imposition of sanctions by increasing their economic engagement with target states in ways that ameliorate the sanctions' adverse consequences. This definition captures the full spectrum of economic channels between target and third-party states that undermine the effectiveness of economic sanctions, including foreign aid, foreign trade, foreign direct investment (FDI), and foreign remittances. Although new research suggests that FDI and foreign remittances can influence sanctions outcomes,[12] foreign aid and foreign trade appear to be the predominant channels third-party states use to engage in extensive sanctions busting. As such, this book focuses on exploring the causes and consequences of the aid- and trade-based sanctions-buster archetypes. The insights developed with respect to aid-based and trade-based sanctions busting, though, may also cross-apply to the broader range of economic channels that can be used to undercut sanctioning efforts.

The two archetypical forms of sanctions busters that fall under this broad definition employ differing economic channels, are driven by different motivations, and involve differing degrees of active government involvement in their provision. Trade-based sanctions busters are third-party states whose constituents have significantly increased their commerce with sanctioned states to profit from the lucrative commercial opportunities the sanctions have created. Third-party governments can encourage these sanctions-busting relationships by adopting policies that enhance the profitability of trading with target states and by shielding their constituents from sender states' efforts to sever their trade relationships with target partners. Aid-based sanctions busters are governments that have political interests in seeing the sanctioning efforts against a target state defeated, and they use government-sponsored foreign assistance as the primary vehicle for undercutting the sanctions' effectiveness. Nonstate commercial actors are thus the primary agents of trade-based sanctions busting, whereas governments are the primary agents of aid-based sanctions busting. And although the latter type of sanctions busting can be quite costly, the former type can be quite economically profitable for third-party states. Distinct profiles can thus be developed for both types of sanctions buster that can be used to identify when a third party is engaging in such activities.

Profiling Extensive Trade-Based Sanctions Busters

Third-party states that engage in extensive trade-based sanctions busting are primarily defined by the commercial relationships they have with sanctioned states. Trade-based sanctions busters are third-party states that dramatically increase their trade with target states after they have been sanctioned and at high enough levels to mitigate the damages inflicted by the sanctions. Market-based transactions, executed by firms or individuals, should be the primary channel by which trade-based sanctions busting occurs, as opposed to government-negotiated and -executed transactions. Profits are the primary motive for trade-based sanctions busting. The profit-seeking motives of third-party firms will attract them to do business within the third-party states that offer the most profitable venues for trading with target states, whereas the profit-seeking motives of target firms will lead them to seek out the least costly options for adjusting to the sanctions. Although third-party governments may adopt policies that support their constituents' sanctions-busting efforts, they do not play an active role in underwriting or financing the trade with target states in this archetype. Extensive trade-based sanctions busters are thus the third-party states that offer the most profitable business venues for particular sanctioned states, allowing third-party firms to exploit the commercial rents created by the sanctions and providing target firms with a comparatively less costly option for adjusting to the sanctions.

Trade-based sanctions busters can be identified by how their trade flows with target states change during sanctions and their overarching importance to target states as trading partners. For a third party's sanctions busting to have a significant effect, it needs to be a major trading partner of the target state. Preserving status quo trade relationships is not sufficient, though; major trading partners of the target must also significantly increase their trade with target states to ameliorate the sanctions' adverse effects. These two characteristics create a readily observable profile for trade-based sanctions busters that can be tracked via international trade data—at least when such trade does not occur illicitly.

In the case of the U.S. antiapartheid sanctions against South Africa (1985–1991), numerous third-party states appeared to respond by exploiting the commercial opportunities they presented. Figures 2.1 through 2.4 illustrate how the trade flows of Great Britain, Italy, Japan, and West Germany with South Africa, and their proportional shares of South Africa's total trade,

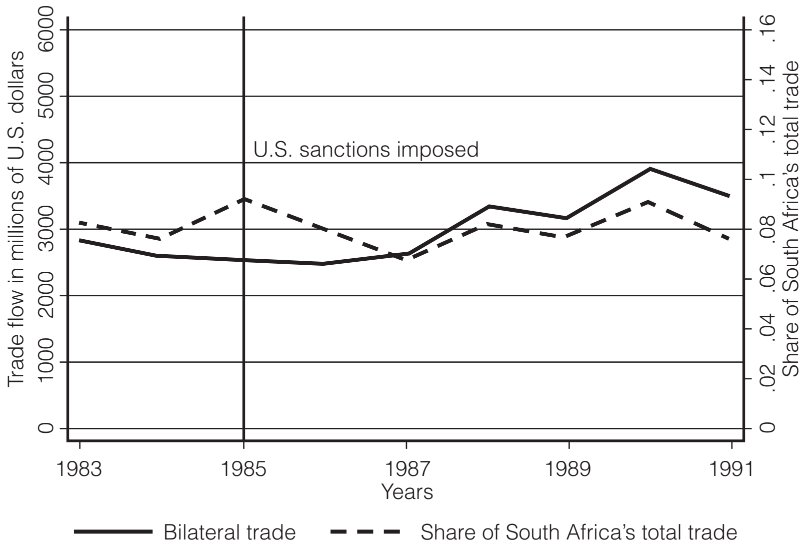

FIGURE 2.1. Great Britain's trade-based sanctions busting on South Africa's behalf.
SOURCE: Barbieri, Keshk, and Pollins 2009.

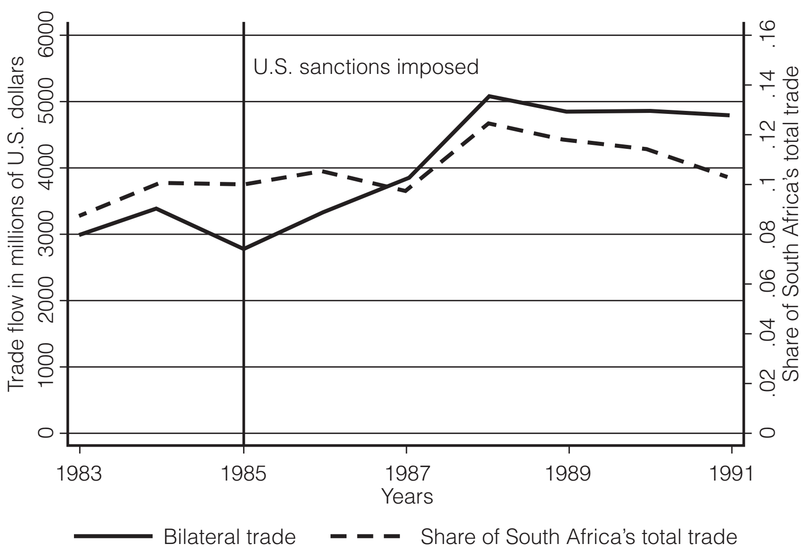

FIGURE 2.2. West Germany's trade-based sanctions busting on South Africa's behalf.
SOURCE: Barbieri et al. 2009.

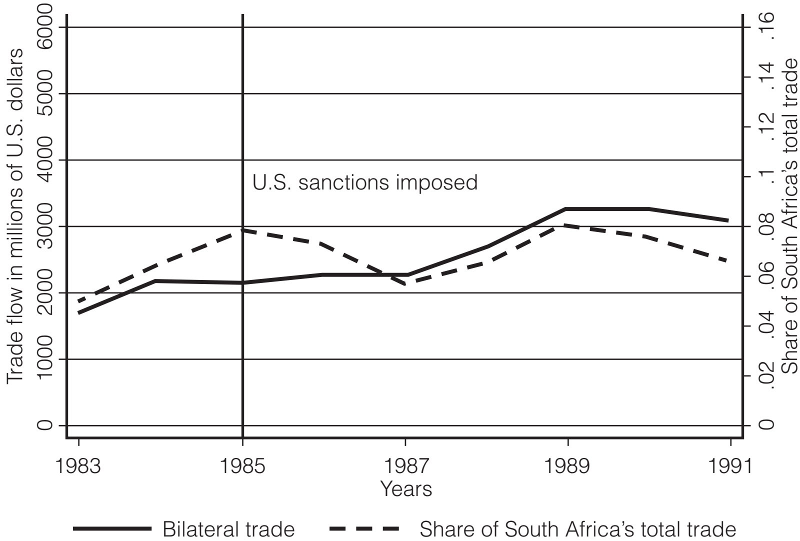

FIGURE 2.3. Italy's trade-based sanctions busting on South Africa's behalf.
SOURCE: Barbieri et al. 2009.

FIGURE 2.4. Japan's trade-based sanctions busting on South Africa's behalf.
SOURCE: Barbieri et al. 2009.

changed following the U.S. sanctions. Each of these countries was flagged as engaging in at least several years of active trade-based sanctions busting on South Africa's behalf by the measure used in the book's subsequent statistical chapters to identify such behavior. The solid lines represent the countries' bilateral trade with South Africa in millions of U.S. dollars, while the dashed lines depict the share of South Africa's total trade they accounted for. As the figures illustrate, all four states constituted major South African trading partners—accounting for at least 5 percent of the country's total trade in each case. Each country experienced significant growth in its bilateral trade with South Africa as well. As the graphs illustrate, West Germany and Japan's trade with South Africa both increased significantly in the immediate aftermath of the U.S. sanctions. British and Italian trade with South Africa significantly picked up only several years after the sanctions had been in place. The increases in the trade they conducted corresponded with declines in the still substantial amounts of trade that West Germany and Japan conducted with South Africa. Interestingly, all four countries also had limited forms of sanctions in place during this period that corresponded with the harsher U.S. sanctions.[13] All of this reinforces the notion that trade-based sanctions busting constitutes a dynamic phenomenon and that the incentives of businesses to capitalize on profitable opportunities do not necessarily align with their home governments' foreign policy prerogatives. Overall, these graphs provide at least suggestive evidence that the U.S. economic sanctions were correlated with increased trade flows between each country and South Africa.

The U.S. and the broader international community's sanctioning efforts are generally thought to have effectively contributed to the South African government's decision to end apartheid.[14] Yet, despite the sanctions' apparent positive contributions, it remains unclear how much more quickly and effectively the sanctioning efforts could have worked absent the sanctions busting that took place on South Africa's behalf. Although target states that receive the support of trade-based sanctions busters may still eventually capitulate to sanctioning efforts, such assistance may aid them in holding out far longer than they otherwise could have. Beyond the issue of success and failure, the impact of sanctions busting on how long sanctions last also represents an important area of inquiry. The next chapter explores the impact the presence of trade-based sanctions busters like the ones flagged in the South African case has on the efficacy of U.S. sanctioning efforts.

Profiling Aid-Based Sanctions Busters

Third-party states that engage in extensive aid-based sanctions busting are countries that employ foreign aid to help a target state resist the sanctions imposed against it. This type of sanctions buster most closely resembles Hufbauer and his coauthors' depiction of third-party states that provide sanctioned countries with black knight assistance. Sanctions-busting foreign aid can be sent through a myriad of channels, including development and/or technical assistance programs, military aid, trade or financial subsidies, or direct grants. Not all third-party states that provide foreign aid to sanctioned countries do so for sanctions-related purposes, but much of the foreign aid given to sanctioned states can potentially contribute to their abilities to hold out against sanctions. As such, the overarching external aid flows that targets receive are what influence their ability to resist sanctioning efforts, not just the singular contributions of extensive aid-based sanctions busters. For third-party states to provide extensive sanctions-busting aid, they must have a significant pool of disposable resources available to task toward that purpose. Contrary to trade-based sanctions busting, aid-based sanctions busting is disbursed primarily through governmental channels or through government-negotiated agreements. Third-party states can primarily be identified as extensive aid-based sanctions busters if their governments dramatically increase the amount of foreign aid they provide to target states during the period they have been sanctioned. The governments of such countries tend to publically acknowledge their patronage of target states and sometimes even publicize the spoiler role they are playing to gain international recognition for it.[15]

In the case of the U.S. sanctioning effort against North Korea (from 1950 up through the present), North Korea has been the beneficiary of extensive aid from both the Soviet Union and the People's Republic of China over the course of the sanctions. By the late 1980s, North Korea had grown extremely dependent on Soviet support, and the Soviet Union's collapse had a devastating impact on North Korea's economy and basic ability to even feed its own citizens. After the Soviet Union's collapse, China emerged as North Korea's primary patron. Although China's trade relationship with North Korea has fluctuated significantly over the past two decades, it has consistently been a leading source of food aid and broader foreign assistance for the North Korean regime.[16] China's patronage has been crucial to sustaining North Korea's economically isolated regime. According to Jaewoo Choo, "If Chinese aid did not make up the majority of [North Korea's economic] deficiencies, given that there is no other consistent and willing provider of aid, the North Korean economy and perhaps the life of the nation, would have earlier come to an end."[17] From 1996 to 2005, China is estimated to have provided North Korea with anywhere between 40,000 and 510,00 tons of food aid per year—averaging 195,000 tons per year over that period and often stepping in to fill food shortages that no other countries were willing to fill.[18] Absent China's critical support, the North Korean regime would likely have collapsed during the economic crisis and deadly famine it experienced during the latter part of the 1990s.

The assistance that China has provided to North Korea has not just been limited to food aid. The Chinese government has also been a critical source of fuel and fertilizer for North Korea and is estimated to have provided it with over 70 percent of its oil imports in some years.[19] More broadly, the Chinese government has subsidized the significant trade deficits that North Korea has run with China.[20] During North Korea's economic crisis in the latter part of the 1990s, for example, the Chinese government extended North Korea special "friendship prices" in its trade with the country.[21] Since 2000, North Korea's reliance on trade with China has grown significantly—with China emerging as its largest trading partner by a large margin. Although a significant portion of that upswing in Chinese trade with North Korea has been conducted on a for-profit basis, the Chinese government is still thought to subsidize some part of those transactions. China has also offered North Korea assistance through funding the construction of factories and other infrastructure within North Korea, which coincided with other direct investments that China began making in North Korea.[22] Economists Stephen Haggard and Marcus Noland estimate that, from 1990 through 2005, China provided North Korea with overarching aid flows that fluctuated between $100 and $200 million a year. Given the lack of transparency surrounding Chinese aid, however, their analysis suggests that those aid flows could actually run much higher.[23]

The overarching economic dependence of North Korea on China has only grown stronger in recent years. From 2005 through 2008, China accounted for approximately 31 to 40 percent of North Korea's total trade. The string of nuclear and rocket tests North Korea conducted starting in 2008 and the militarized disputes it had with South Korea in 2010 served to further isolate the country, as it was subjected to more international sanctions and lost a significant degree of its support from Western donors. Thus, in 2012, China accounted for a staggering 84 percent of North Korea's external trade.[24] China also dramatically increased the food aid it was offering to North Korea, continuing its long-standing approach of stepping in with additional aid to stave off significant domestic instability within the country.[25]

The motivations of China's support for North Korea have largely been political, even if commercial considerations became more salient as North Korea became increasingly dependent on China for its external trade. The Chinese government shares an ideological affinity with North Korea, given their shared commitment to communist-oriented ideologies. It also has an abiding interest in preserving the stability of North Korea's regime. China's leaders want to avoid a disastrous collapse of the country that could cause substantial humanitarian and refugee crises and lead to a potentially unified, pro-Western Korean Peninsula. It also does not want to be dragged into a potential war if North Korea's escalatory saber rattling leads to a full-blown conflict with South Korea, Japan, and/or the United States. Although Chinese leaders have shown signs of increasing frustration at North Korea's nuclear policies and bellicose diplomacy, China has not indicated a public willingness to withdraw its patronage of the country.[26] The political costs of letting North Korea succumb to the U.S. and international sanctioning efforts imposed against it thus outweigh the considerable economic costs of continuing to sustain North Korea. Since the end of the Cold War, China has served as North Korea's indispensable patron, and it is difficult to imagine how its regime could continue to endure U.S. and international sanctions in the absence of China's sanctions-busting support.

As this vignette of aid-based sanctions busting illustrates, the costs of offering substantial assistance to a sanctioned state can be considerable and mount over time. Very few third-party states, even those that are sympathetic, can often afford to offer target states substantial support and sustain those flows over time. North Korea's utter dependence on China makes it an extreme example of how sanctions busting can undercut the effectiveness of sanctioning efforts. That level of dependence is rare and often unsustainable for third-party patrons over the long run. Yet this extreme case perfectly illustrates the critical role that aid-based sanctions busters can play in undermining sanctioning efforts that would otherwise likely be successful. Explaining what motivates aid-based sanctions busting and the role that foreign aid plays in undercutting sanctioning efforts are thus of critical importance.

Conclusion

Past works on sanctions busters' causes and effects have tended to overlook the important distinctions between third-party states that undercut sanctioning primarily with their trade versus those that do so via foreign aid. Both types of sanctions busters have distinct profiles, though, suggesting that the reasons why third-party states engage in either type of extensive sanctions busting and the impact of those activities are quite different from one another. The profiles for aid-based and trade-based sanctions busters described in this chapter represent idealized archetypes, and not all third-party states will perfectly fit into one category or the other. Foreign aid and foreign trade can serve as substitutes for one another but can also enhance each other's effectiveness. As such, there is no a priori reason to think that third-party states must make a mutually exclusive choice between extensive aid-based versus trade-based sanctions busting. Yet I argue that, most of the time, extensive sanctions busters will tend to be associated with one archetypical behavior or the other in sanctions busting on a target state's behalf. The distinct profiles of aid-based and trade-based sanctions busters also suggest that the assistance they provide to target states will have differing effects on their ability to resist and defeat sanctioning efforts. In developing an explanation for both the causes and consequences of aid-based and trade-based sanctions busting, the next section begins by seeking to explain their consequences in order to obtain additional insights as to why third-party states would want to engage in either behavior.

Notes

Chapter 1

1. Lister 2012.
2. These gold export statistics and those above were obtained from Pamuk 2012.
3. Pamuk 2012.
4. Kandemir 2013.
5. For example, see Dubowitz and Ottolenghi 2013.
6. For more on the A. Q. Khan proliferation network and the role Dubai played, see Albright and Hinderstein 2005, 120 and Corera 2006.
7. Stolberg 2010.
8. Baldwin 2002.
9. Baldwin 1985.
10. See Baldwin (1985, 1999/2000) and also Most and Starr (1989) for more on the substitutability of these foreign policies.
11. Hufbauer et al. 2007 and Morgan et al. 2009.
12. See the sanctions data sets created by Hufbauer et al. (2007) and Bapat and Morgan 2009, 1082. Pape (1997) argues that the success rate of economic sanctions is more likely in the single digits. Nincic (2005) further argues that economic sanctions are poor policy instruments for compelling rogues states into reforming.
13. For example, see Whang 2011.
14. For an excellent discussion of why policy makers employ sanctions, even knowing their poor track record of success, see Baldwin 1999/2000.
15. Richard Haas (1997), for example, has been especially critical of the U.S. overreliance on economic sanctions.
16. These figures are calculated via the ninety-six episodes of U.S.-imposed sanctions from 1950 through 2002 using Hufbauer et al.'s (2007) data set.

17. Galeano 2012.

18. Askari et al. 2003b, 167–169.

19. Hufbauer et al. 1997.

20. Johnson-Freese 2007.

21. Krauss 2007.

22. For example, see U.S. Department of Commerce, Bureau of Industry and Security Export Enforcement 2010.

23. Mueller and Mueller 1999.

24. Kaempfer et al. 2004.

25. For more on the various negative effects that sanctions have on their targets, see Wood 2008; Peksen 2009, 2011; Peksen and Drury 2010; Peterson and Drury 2011; and Allen and Lektzian 2013.

26. Van Bergeijk 1994, Caruso 2003, and Slovov 2007.

27. Andreas 2005.

28. Early 2012.

29. In her seminal book, Lisa Martin (1992) argues that powerful states must coerce much of the cooperation they seek in imposing multilateral economic sanctions against a target country.

30. Pilger 2000.

31. For more on the impact of the sanctions against Iraq, see Alnasrawi 2001, Katzman 2003, and Iraq Survey Group 2005.

32. See Bueno de Mesquita et al. (2004) for the former and Moravcsik (1997) for the latter.

33. As such, the analysis does not include the use of sanctions imposed for purely commercial purposes, such as trade sanctions imposed by the U.S. Trade Representative under Section 301 of the Trade Act of 1974.

34. This approach mirrors the one taken by Lisa Martin in *Coercive Cooperation* (1992).

35. See Hufbauer et al. 1990, Drury 1998, Drezner 2000, Nooruddin 2002, and Lektzian and Souva 2007.

Chapter 2

1. Previous studies, such as Curovic 1997 and Askari et al. 2003a, have similarly employed this type of triadic model.

2. Some economic sectors within sanctioned states can benefit from sanctions. If sanctions reduce the foreign competition faced by import-competing sectors, they might actually improve their business prospects. In general, though, economic sanctions are viewed as inflicting far more aggregate costs on their targets' economies than they provide compensatory gains.

3. Askari et al. 2003a, Kaempfer and Lowenberg 1999, and Drezner 2000.

4. For an excellent discussion of this dynamic, see Kaempfer and Lowenberg 1999.

5. Once again, see Askari et al. 2003a, Kaempfer and Lowenberg 1999, and Drezner 2000.

6. For example, see Parrish 1998, Kaplowitz 1998, and Sutherland and Canwell 2007.

7. For more on the economic and political impact of foreign aid, see Dalgaard and Olsson 2008, Hansen and Headey 2010, Licht 2010, and Selaya and Thiele 2010.

8. Hufbauer et al. 1990, 2007.

9. See Hufbauer et al. 1990. More detail on what types of aid count as "black knight" assistance was provided in Hufbauer et al. 2007, but the actual coding of the variable remained identical.

10. For examples of studies that could not find a direct link between the black knight variable and sanctions success, see Drury 1998; Drezner 1998, 2000; and Hufbauer et al. 2007. Lektzian and Souva 2007 had one of the studies that found the expected negative effect of the black knight variable on sanctions success.

11. McLean and Whang 2010.

12. For example, see Spadoni 2010 and Lektzian and Biglaiser 2014.

13. For an effort to explain these countries' sanctions policies toward South Africa and the factors affecting trade with South Africa during the sanctions, see Kaempfer and Lowenberg 1989 and Kaempfer and Ross 2004.

14. Hufbauer et al. 2007, for example, code the U.S. sanctioning efforts as a success. For a contrary view, see Levy 1999.

15. For example, Venezuela President Hugo Chávez broadly publicized the assistance his government provided to Cuba.

16. Finding hard numbers on China's foreign assistance to North Korea is exceptionally difficult, as both governments have tended to keep those figures confidential.

17. Choo 2008, 345.

18. Ibid., 352.

19. Ibid., 349.

20. Haggard and Noland 2007, 13, and Manyin and Nikitin 2011, 22.

21. Choo 2008, 348.

22. Ibid., 363–367, and Manyin and Nikitin 2011, 22.

23. Manyin and Nikitin 2011, 22, and Haggard and Noland 2007, 28.

24. Gill 2011, 4, and Lee 2013.

25. Institute for Far Eastern Studies 2012.

26. Nanto and Chanlett-Avery 2010, 55–58.

Chapter 3

1. Portions of this chapter draw on arguments originally developed in Early 2011.

2. For examples, see Martin 1992; Drury 1998, 2005; Drezner 1999, 2000; Kaempfer et al. 2004; Allen 2005; Cox and Drury 2006; Hufbauer et al. 2007; Ang and Peksen