

Opening New Doors: Coerciveness, Third-party States and Sanction Imposition

Pei-Yu Wei

Duke University

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Who are the sanction-busters?

- Sanctions provide lucrative economic opportunities for sanction-busters (Early, 2012; Barry and Kleinberg, 2015, etc.).
- Sanction-busters tend to be driven by economic motivations, rather than geopolitical ones (Early, 2012).
 - Empirically, fewer cases of sanction-busting occur for geopolitical reasons than economic ones.
- *Cases where geopolitically-motivated sanction busters exist are unlikely to proceed to sanctions.*

What role do strategic third-party states play in the sanction-sender's decision to implement and enforce economic sanctions?

The Role of Strategic Third-Party States

- Sanction busting happens *after* sanctions have been implemented.
 - However, the existence of potential sanction-busters may have an impact on whether sanctions were ever implemented in the first place or enforced stringently afterwards.
- Potential sanction-busters are also strategic decision-makers.
 - Establishing or deepening ties is not costless for third-party states – not all potential third parties end up sanction busting.
 - This cost-benefit analysis determines the actions of the sanction-busters, and in turn the initial decisions of the sanctioning state.

Third-party states have their own strategic considerations. Sometimes, it is not worth it for them to sanction-bust. This in turn affects the sanction-sender's initial decision to impose sanctions.

Sanction-Busting: Third-Party State's Decision-Making

- A third-party state that engages in sanction-busting bases its decisions on:
 - Sanction-specific policy preference (i.e. how aligned its preference are with the sender's).
 - The expected utility from this is dependent on the coerciveness of economic sanctions (i.e. expected prob. of success).
 - Benefits from sanction busting (economic and geopolitical).
 - Cost from potential punishment by the sender.

Sanction-Busting, Third-Party State, and Sanction Sender

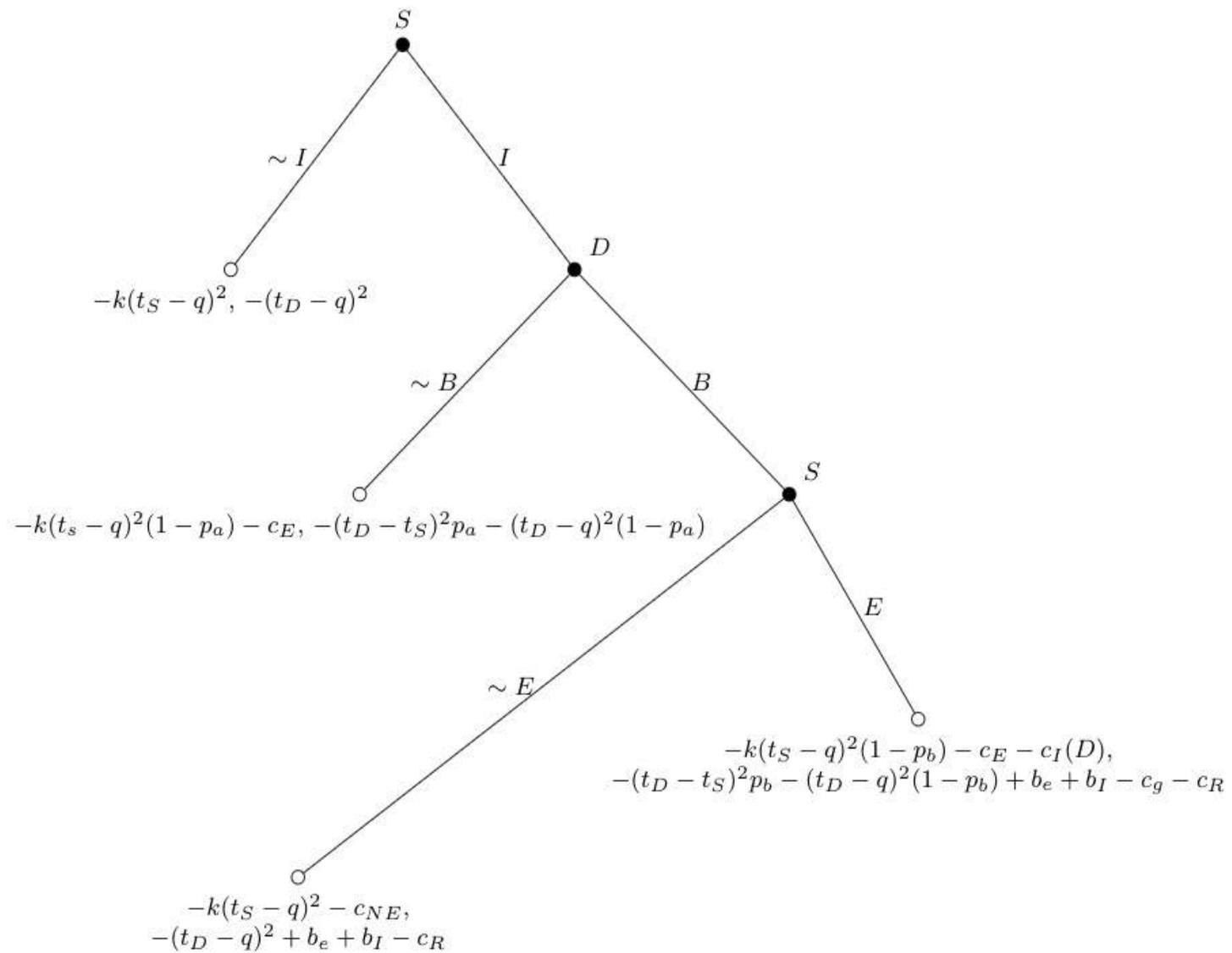
- A sanction sender's initial decisions is dependent on:
 - Sanction-specific policy preference (i.e. how distant is the preference of the sender is from the status quo).
 - The expected utility from this is dependent on the coerciveness of economic sanctions (i.e. expected prob. of success) and issue saliency.
 - Associated costs of implementing and enforcing sanctions

Model Set-up

- Two players: $N = \{S, D\}$
- The game starts at s.q. q , S and D each have their preferred policy points (t_S, t_D) . All three lie on a one-dimensional policy space $T \subset R$
- Other parameters (exogenously given):
 - k (saliency)
 - Probabilities of success: $p_a, p_b, p_a > p_b$
 - Cost terms: $c_E, c_{NE}, c_R, c_I(D), c_g$
 - Benefit terms: b_e, b_I

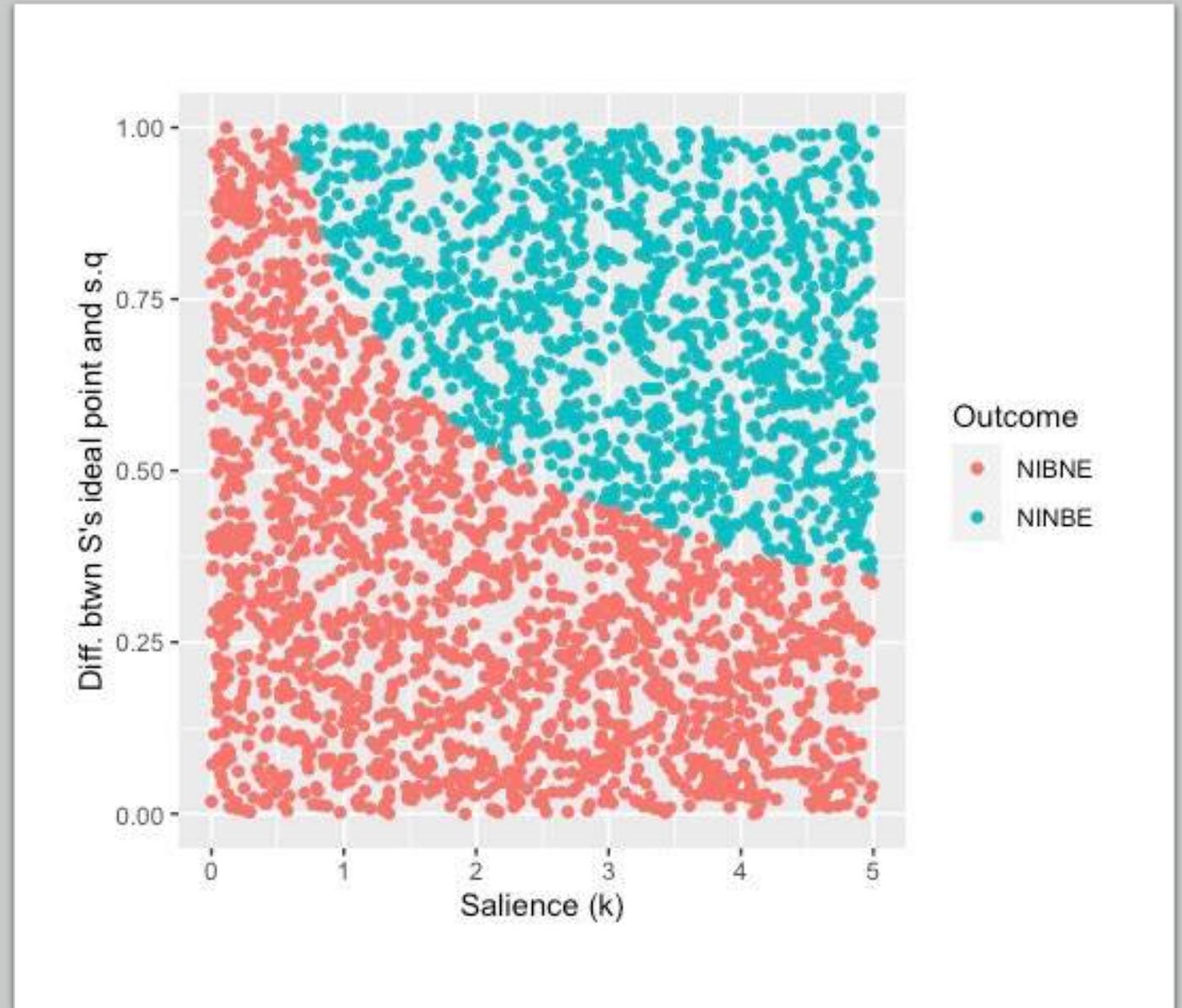
Model Set-Up

- Sequential game of complete information.
- Sequence of play:
 - Sender decides between implementing sanctions and not implementing sanctions
 - If the sender decides to implement sanctions, the third party then decides between busting and not busting sanctions
 - If the third party decides to bust sanctions, the sender then decides between enforcing and not enforcing sanctions
- Assumption: Target state would always try to establish new or deepen existing ties with third-party states when faced with sanctions.



Implications

- *Implication 1: When the third-party state (D) sanction-busts (B) for geopolitical reasons, S is less likely to impose economic sanctions.*
- *Implication 2: When the issue under sanction is more salient or important to the sender state (S), the third-party state (D) is less likely to engage in sanction-busting.*





Case Study: Japan, China, India (1998) vs Myanmar (2021)

- India carried out a series of nuclear tests in May 1998 (Pokhran-II) that drew widespread condemnation.
- Japan imposed aid sanctions on India, alongside the U.S., Germany, etc.
- Sino-Japanese tensions were high at the time, however, China was extremely unlikely to bust Japan's sanctions and deepen ties with India (~B).
 - China's ideal point was also likely to have been closer to Japan's at the time of the incident.

Case Study: Japan, China, India (1998) vs Myanmar (2021)



- Myanmar underwent a coup in February 2021. It saw the overthrow of the democratically-elected government.
- Japan did not impose sanctions, despite pressure to do so.
- While China was dissatisfied with the coup, it made clear its intentions to oppose international interference.

Extending the Baseline Model

- Three key assumptions for the model to hold:
 - Sanctions are not symbolic.
 - Sanctions are oftentimes performative or symbolic and are meant to appeal to domestic audiences rather than achieve tangible results.
 - Sanction-busting activity is under the control of third-party AND sender states. I.e., the third-party state also has to be the sanction-busting principal.
 - Sanction-busting could be carried out by non-state actors
 - Sanctioned products or services are substitutable.
 - Not all sanctioned products are substitutable due to rarity(minerals, oil, etc.) or lack of technological capacity, etc.

Scope of Model Applicability

- To meet the three key assumptions, the sanction tool must be:
 - Non-symbolic sanctions. Sanctions have to be designed to coerce.
 - State actors are in control of sanction-busting activities.
 - Products and services sanctioned have to be substitutable.

Military and state aid

Third-Party State and Control

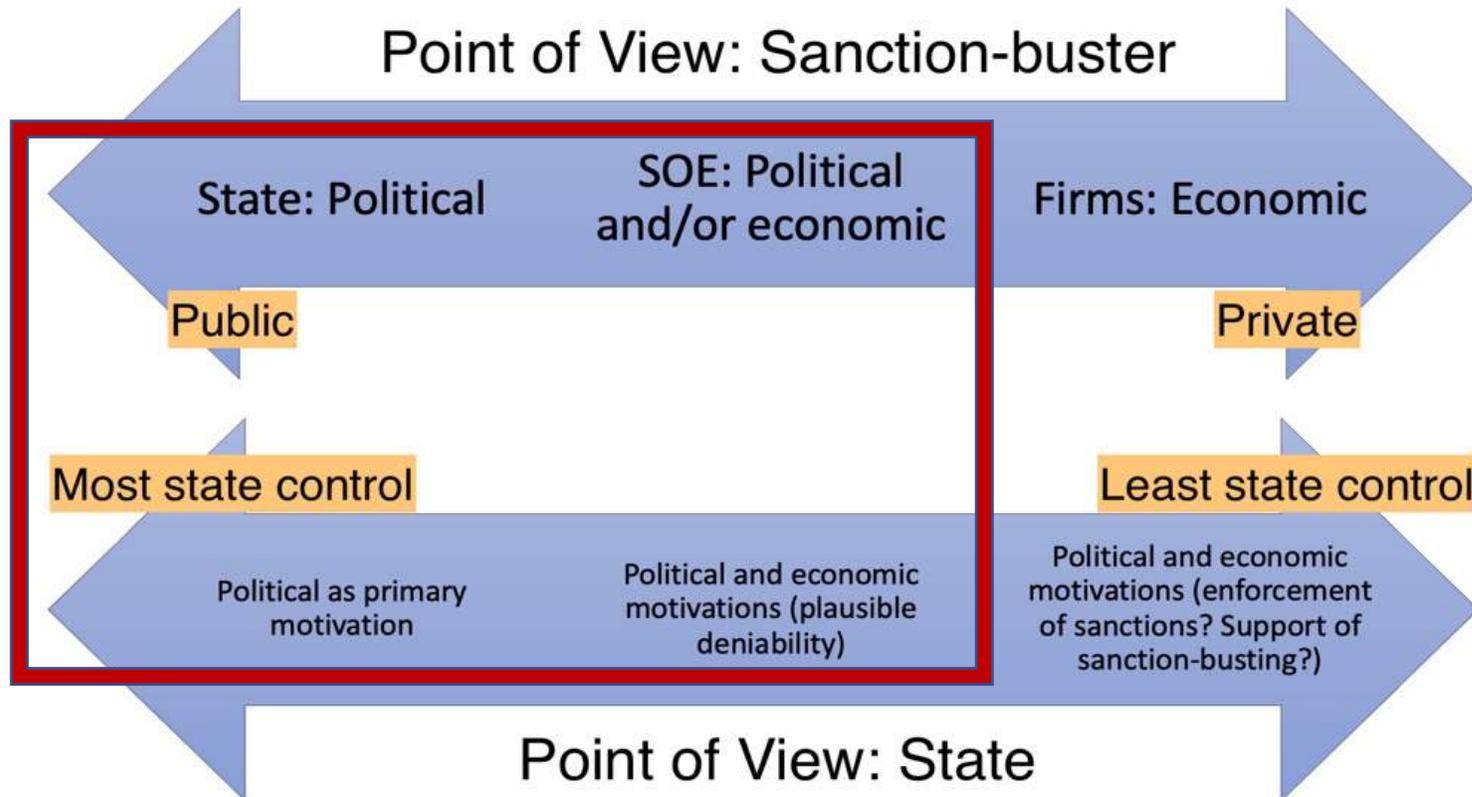
- The first step towards a more general model of third-party sanction-busters is to loosen the assumption of viable enforcement.
 - States don't have absolute control over sanction-busting activity.
- An intermediate step between looking at how private firms could impact the decision of the sanction-sender is to look at the effects of SOEs.
- In terms of state's ability to control sanction-busting behavior/other stakeholders:

State → SOEs → Private Companies

SOEs and Sanction-Busting

- When the SOE is the principal sanction-buster, its motivation for busting may vary:
 - Economic
 - E.g. India allowed its state refineries to keep importing oil from Iran in spite of U.S sanctions on Tehran.
 - Geopolitical
 - Chinese SOE subsidiary Panda International helped Huawei to export software and hardware to Iran.

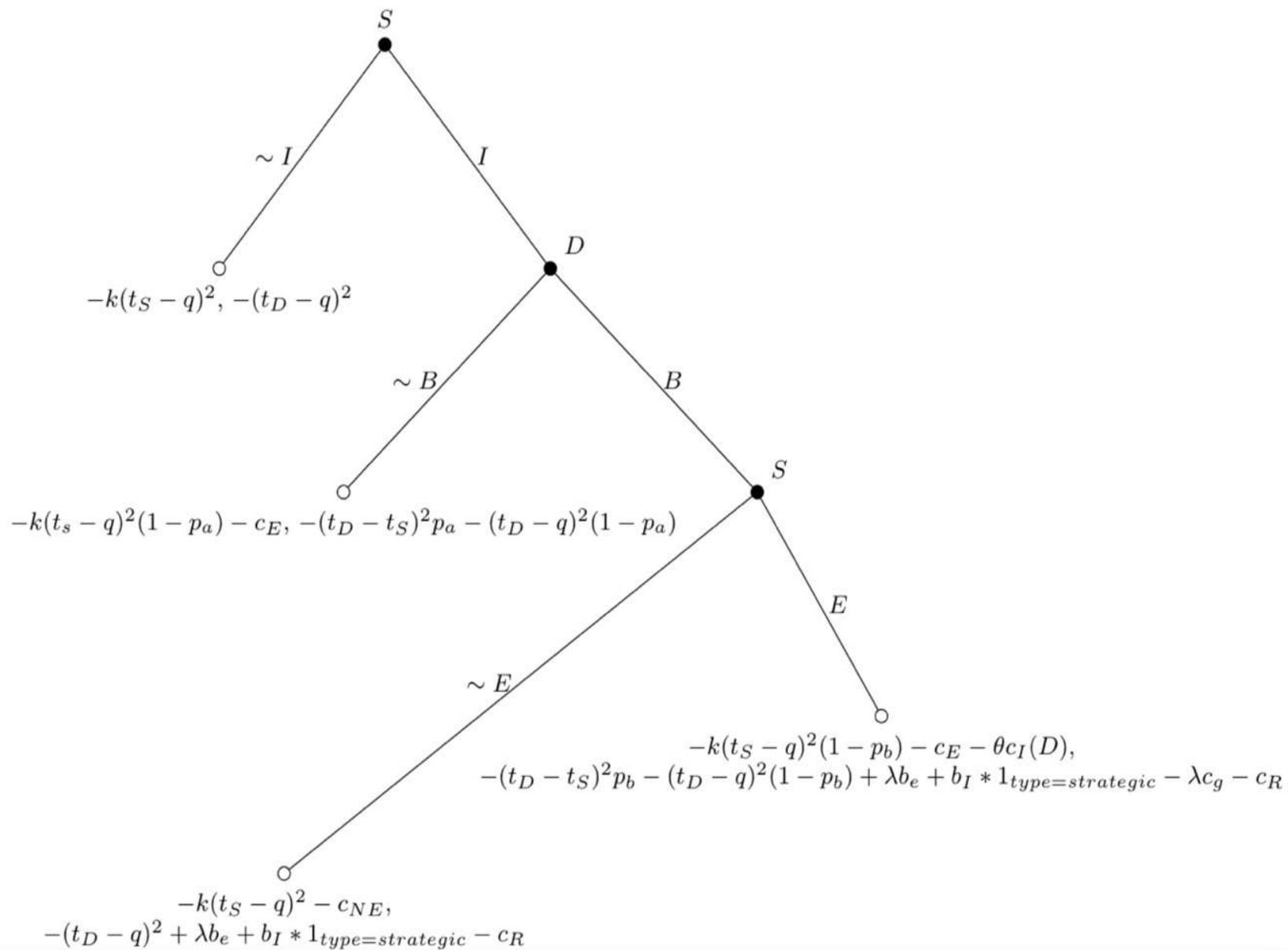
Sanction-Busting Principal vs. Third-Party State



- The role of the third-party state is not so much about whether it chooses to sanction-bust, but whether it chooses to allow sanction-busting

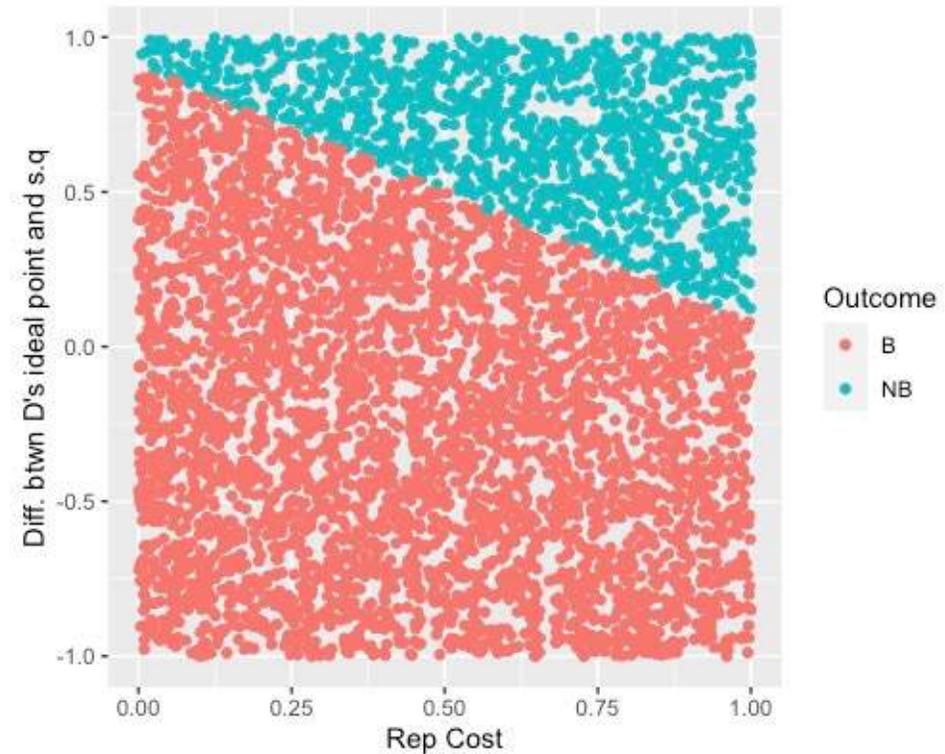
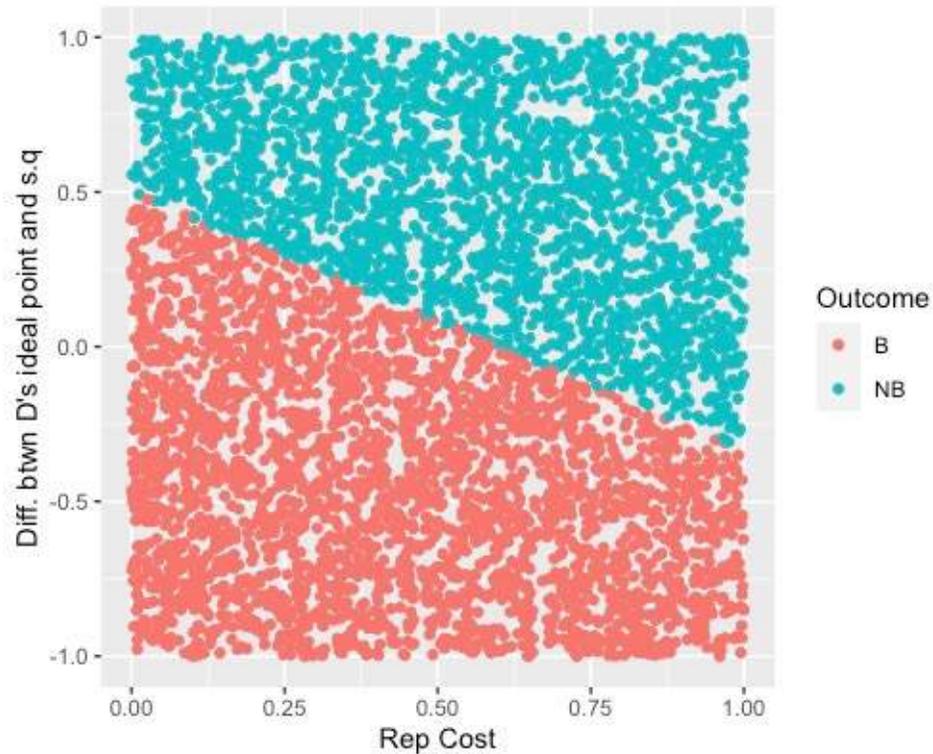
Extended Model Set-up

- Additional parameters:
 - State ownership (third-party) is SOE: λ
 - Sender's uncertainty of third-party state/SOE type (or, probability that third-party/SOE is of the geopolitically-motivated type): θ
- In the extended game, $c_I(D)$ is only incurred when the third-party/SOE is busting due to geopolitical motivations.



Implications

- *When the third-party SOE sanction-busts for geopolitical reasons, S is less likely to impose economic sanctions.*



Implications

- *When a third-party state owns a higher percentage of the sanction-busting SOE, it is more likely to allow or utilize its SOEs to engage in sanction-busting activities when the economic benefits from sanction-busting are greater than the costs of punishment. Conversely, the third-party state is less likely to allow or utilize its SOEs to engage in sanction-busting activities when the economic benefits from sanction-busting are smaller than the costs of punishment.*

Takeaways

- Enforcement, but most importantly, the imposition of economic sanctions is impacted by the presence of strategic third-party state.
 - Sanction-senders are selecting out of sanction impositions when there is a third-party state that may be motivated by geopolitical reasons.
- There is a need to distinguish the sanction-busting actor from the third-party state actor when looking at sanction-busting and the effects that it may have on sanction enforcement, compliance and imposition.

Next Steps and Related Projects

- Next steps:
 - Empirical test of the second implication of the extended model.
- Related projects:
 - Sender's decision between multilateral vs. unilateral sanctions (third-party cooperation).
 - Third-party state, private enterprises and enforcement (principal-agent problem).
 - Modeling SOE's and companies' decisions to engage in sanction-busting.
 - When do/what type(s) of companies engage in sanction-busting? (Those with a history of violation? Industry? Geographic location?)
 - From the companies' POV: When does enforcement happen? Saliency? Issue? Size of company? Industry? Whale-hunting vs. fishing (Early and Preble, 2020)

Thank you!

pei.yu.wei@duke.edu