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

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Prepared for: IPES 2021
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.
\[ S \]

\[ \sim I \]

\[ -k(t_S - q)^2, -(t_D - q)^2 \]

\[ I \]

\[ \sim D \]

\[ -k(t_s - q)^2(1 - p_a) - c_E, -(t_D - t_S)^2p_a - (t_D - q)^2(1 - p_a) \]

\[ D \]

\[ \sim B \]

\[ -k(t_s - q)^2(1 - p_b) - c_E - c_I(D), -(t_D - t_S)^2p_b - (t_D - q)^2(1 - p_b) + b_a + b_I - c_S - c_R \]

\[ B \]

\[ \sim E \]

\[ -k(t_S - q)^2 - c_{NE}, -(t_D - q)^2 + b_a + b_I - c_R \]

\[ E \]

\[ S \]
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.
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: $\lambda$
  • Sender’s uncertainty of third-party state/SOE type (or, probability that third-party/SOE is of the geopolitically-motivated type): $\theta$

• 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?)
Thank you!

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