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Sanctions, inducements, and market power: political economy of international influence

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Introduction

In the international system, states have preferences over the policies other states pursue. Sometimes those preferences are about their foreign and security policies, as when the United States opposed Japanese expansion in the Western Pacific in the 1930s, when it opposed Soviet intervention in Afghanistan in 1979, and currently as the United States opposes Iran's pursuit of a nuclear weapons capability. Sometimes those preferences are about the internal policies of other countries, as when the United States and other countries opposed the internal South African policy of apartheid and as they currently object to Sudan's policy in Darfur.

Governments have an array of policy instruments with which to influence, that is change, the policies of others. Most basically they can threaten adverse consequences or they can promise benefits. They can actually punish or reward. Scholars thus talk of both positive and negative inducements, and positive and negative sanctions.

Moreover, they can use an array of influence steps, from rhetorical to material, from political to economic to military. Searching for measures that fall short of using military force but that go beyond mere diplomacy, they adopt economic measures to induce policy change by others. These measures have material consequences and are thus more than the verbal expression of disapproval. But they simultaneously are less costly than using military power.

Economic sanctions and inducements have long been recognized as such halfway instruments of national power – between war and peace (Davis and Engerman 2003), between war and commerce (Lenway 1988), between words and wars (Wallensteen and Staibano 2005).[1]

[1] Sanctions can be differentiated on the basis of objectives. Førland (1991) argues that although sanctions and economic warfare pursue the same means, the former aims at a policy change whereas the latter is intended to weaken an adversary. Yet, distinguishing sanctions by type of objective is problematic (Baldwin 2003).

They are one of an array of policies with which to coerce or induce or influence other countries.[2] They are expressive and thus constitute a signal, both as what has been done and what may still lie ahead, and since they have material consequences and thus function as costly signals, as threats and punishments, but also as promises and rewards.[3]

Sanctions are as old as antiquity. The most famous economic sanction in the ancient world is the Megarian decree, in which Athens prohibited merchants from Megara from trading in Athenian markets or stopping in the port of any member of the Athenian-led Delian League. Notwithstanding the debate about the importance of this decree in causing the Peloponnesian War, it is the case that Megara complained to Sparta, which told Athens that a failure to rescind the decree would mean war. Two hundred years later, Rome imposed a trade embargo on the Gauls and applied it to non-Roman citizens. In short, sanctions predate international institutions and the industrial revolution.[4]

Sanctions are more prevalent than ever. Their use has exploded in the last half century, and especially the last two decades, coinciding with the emergence of a global economy and the end of the Cold War.[5] Whereas during the four and a half decades of the Cold War the UN Security Council only adopted sanctions in two cases, in less than the following decade and half it imposed sanctions in more than a dozen cases.[6] Similarly, the use of unilateral sanctions by the United States also exploded. In the four years 1993–1996, the United States adopted new sanctions measures against thirty-five countries, and between 2002 and 2006 new unilateral sanctions were adopted against forty-seven countries.[7]

This chapter develops a political economy of material sanctions and inducements, one that reflects the strategic interaction of sanctioners and sanctioned and that also emphasizes the centrality of domestic politics for both. The following sections focus on sanctioning states,

[2] For the first discussion of the use of sanctions and rewards as regards arms control, see Bornstein (1968).
[3] For the relationship between threats and promises, see Schelling (1960) and Baldwin (1971a and 1971b).
[4] Førland (1993).
[5] Ironically, the United States, the largest employer of economic sanctions, was a late- comer to their use. On the late US adoption of economic sanctions, see Williams (1943).
[6] Targeted Financial Sanctions Project (2004: 2).
[7] National Association of Manufacturers (1997) and Malloy (2006). The Reynolds and Wan chapter (Chapter 3) beautifully demonstrates that unilateral sanctions dominate multilateral ones (302 to 149 in the four cases they study), and that the United States is ahead of other states and international institutions, especially as regards negative sanctions.

and develop the argument that sanctions constitute attempts to wield market power, that this requires the growth of state power to create monopoly or monopsony power, entails distributional consequences, requires monitoring and enforcement, and typically the construction of a multilateral cartel. The sections that then follow focus on sanctioned states and the distributional consequences of sanctions in them and the growth of state power in these countries as their rulers attempt to create countervailing market power. This is followed by a discussion of the similarity of material inducements to material sanctions, and then a conclusion.

Sanctions, inducements, and market power

Sanctions, whether positive or negative, are economic measures adopted to obtain political changes in some target country. As such, they are intended to change the price for some market exchange by including a political price in addition.

Yet such changes in price cannot be achieved in a competitive market, which by definition contains competing buyers and sellers, competing investors and traders. There are always other buyers and sellers in a competitive market and the price cannot be affected by any individual consumer's or producer's choice. In a competitive market, no one wields economic power. No consumer or producer can dictate a price different from the market price. Each is a price taker, not a price maker. There are too many substitutes.

Market power depends on the absence of alternatives. The wielding of market power is then about the creation of monopsony or monopoly and entails the concentration of consumption or production. Market power depends on the desirability for an exchange in the absence of alternatives. Market power is thus an exercise in exploitation and not coercion, it still presumes a voluntaristic exchange. No consumer has to purchase from a monopoly producer, it is simply that there is no alternative. An exorbitant price, one that a consumer would rather not pay, is extracted for the good in question. Nevertheless, the consumer accedes to the exchange.

Economic rewards and punishments can achieve political change in the absence of a competitive market. Sanctions aim to withhold selling goods to specific consumers and/or to preclude purchasing from them, and are thus about creating monopoly and/or monopsony. On the one hand, a monopoly is created that sets a price for selling goods to a country that includes policy changes. For example, an export embargo is an attempt to charge a monopolist's price for a good, a price which

includes a political component. Sanctions also aim at creating monopsony power. Thus, sanctions on Iraq that prevented its sale of oil on global markets meant the creation of a monopsonist purchaser dictating a price for purchase that included policy changes by the Iraqi government.

Creating a sanctions regime then is inherently about interfering with market processes for the purpose of exercising market power by changing the price for an exchange. Sanctions are classic examples of market power in which the price under negotiation includes nonmonetary components, namely policy change by the sanctioned country.[8]

Government and market power

Governments are mechanisms for arriving at policies that will bind all constituent members. Government policies that affect prices and competition are inherently exercises in the construction or destruction of market power. Government policies effectively take large numbers of producers and consumers and weld them into a cartel. The workings of economic sanctions and inducements must perforce begin with an explication of a government's role in market power.

Many government policies are about the construction and destruction of market power. Government policies to ensure a competitive marketplace are about the destruction and prevention of private market power. Anti-trust policy consists of breaking up monopoly producers or preventing mergers that would create monopolies.

But government policy also prevents competition. Government regulations forbidding the use of child labor, requiring minimum workplace standards, and so on, all prevent competition. In a competitive market, individual producers might engage in practices of which they disapprove and which they would prefer not to engage in, such as hiring children, but feel compelled to by the pressure of other producers. Government policy channels their competition, delimiting the ways in which they may compete with one another.

Government policy also creates monopsony. When a government welds together individuals in a health plan (e.g., Medicare) it creates monopsony power which can negotiate lower prices with hospitals and consumers.

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[8] Because the price includes non-monetary terms, scholars have talked about sanctions as an example of linkage politics (Lacy and Niou 2004). For my delineation of linkage situations, see Stein (1980).

Foreign economic policy and market power

Although not often appreciated, foreign economic policy is all about the construction of market power. A tariff, in effect, transforms many individual consumers of an imported good into a single collective actor imposing a tax at the border. Some consumers might want such a tax imposed (especially if they work in import competing industries) but others might not want to pay higher prices for imported goods. But government policy transforms them into a single consumer imposing a tariff on all transactions. Similarly, an import ban transforms all of a country's citizens into boycotters.

Similarly, state policy transforms many smaller scale producers into conglomerates. Agriculture consists of many small producers. Globally, there is probably no sector with more individual producers than agriculture. Yet, in many agricultural products, the global market resembles an oligopoly. There are millions of wheat growers in the world, and there are thousands in any one country, but the combination of only a few countries that produce enough to export and the government policies of those countries effectively transform the global wheat market into an oligopoly. The big wheat exporting nations then negotiate agricultural trade policy.

Government regulatory policies, whether they prohibit child labor or the exportation of computer software and hardware, preclude actions that might be taken by private actors engaged in market exchanges. In some cases they level the playing eld by limiting allowable forms of competition. But in regard to the regulated behavior, state policy effectively creates an integrated market entity acting in common.[9]

State and society

A government's ability to construct market power is a function of its relative power vis--vis private actors. And this relationship between state and society varies across countries. Some governments control whole industries, whereas others are barely involved in production. Governments also vary in the extent of the GNP they consume. Nevertheless, in most societies, production and consumption are largely in private hands. The economic and financial power of most

[9] This differs from the case in which market competition leads to the diffusion of practices and thus sameness. In this case, sameness is forced by state power and precludes competition as regards the regulated behavior.

states is dwarfed by that of private actors.[10] Thus a government's ability to undertake foreign inducements or sanctions depends upon its ability to control the activities of private actors.

Economic sanctions and inducements thus implicate the relative power of state and society. Although states have some ability to compel compliance by their ability to control cross-border flows, the foreign economic policies of sanctions and inducements typically depend on the ability of states to coerce, cajole, or induce private actors to do something (invest in a particular country) or not do something (buy from or sell to a particular country).

Table 2.1 provides a simple depiction of policies of inducements and sanctions governments can pursue as regards the movement of goods and capital. All but foreign aid and government lending are in the hands of private actors, especially in advanced industrial societies. When a country directly owns and controls state corporations (parastatals), then the government has direct control over the foreign sale of goods.[11] Only when the government controls state trading companies can it directly control the purchase of imports. Otherwise trade is in private hands. And as regards capital movements, states control the levels of direct aid and government loans they provide, and they have different voting shares in international financial institutions such as the IMF, but these resources are overwhelmingly dwarfed by those of private capital. Thus, for most exercises of foreign economic power, and most especially in open democratic societies, the state critically depends on statutory authority to control cross-border flows. In the case of the United States, for example, the government has the ability to control exports, but has much less latitude to control imports.[12]

Although not often noted, sanctions entail the growth of state power, and are thus more difficult for capitalist economies and representative governments.[13] The less the state controls the economy and the less coercive power it has, the greater its difficulty in imposing sanctions.

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[10] Note the image of a US government able to provide some level of disaster relief to Haiti, but in which the first lady and the president (as well as former presidents) go on television asking individuals to contribute.

[11] An interesting example is provided by military industries. When governments own and run the production of military hardware, the sale of equipment is solely in government hands. Where private manufacturers produce military equipment on order from the government, there are private actors with an interest in exporting. In such cases, as discussed below, governments need the authority to control exports and must monitor compliance.

[12] Carter (1987, 1988).

[13] Knorr (1977) and Krasner (1977a).

Table 1: Sanctions, Inducements, and Policy Domains

	Policy Domain		
	Goods	**Capital**	**Transport and Communication**
Sanctions	export control, import control (tariffs, quotas, prohibitions)	capital controls, credit suspension, freeze or seize financial assets	restrict transportation and communication
Inducements	trade concessions (higher quotas, lower tariffs, MFN, *etc.*)	aid, loans, grants, allow FDI, technology transfer	

Exercising market power: winners and losers, supporters and critics

Government policies intended to exercise market power by the construction of monopoly and monopsony inherently have distributional consequences. Those prevented from selling their products to sanctioned countries pay a price for national policy. They bear the brunt of a foreign policy aimed at making another country pay a price for, and hoping to induce a change in, its foreign policy.[14]

Even foreign economic policies that do not succeed in creating market power can generate winners and losers in the short term. Ironically, economic sanctions are sometimes characterized as only creating costs for the country that imposes them, but the market distortions created by sanctions that hurt some also typically benefit others.

A number of implications flow from the reality that there are winners and losers from a state's attempt to create market power.[15] First, at the policy development stage, there is political opposition to economic sanctions from adversely affected groups and sectors. The resort to economic sanctions, especially unilateral ones, has generated sustained opposition by corporate interests. Concerned about the growing resort to economic sanctions in the post-Cold War world, "a coalition of small

[14] For the costs to the sanctioning country, or sender as it is called in the literature, see Farmer (1999, 2000).

[15] Solingen's introductory chapter signals the importance of distributional issues in this volume.

and large businesses, agriculture groups and trade associations working to seek alternatives to the proliferation of unilateral US foreign policy sanctions and to promote the benefits of US engagement abroad," established USA*Engage in 1997. The new organization "leads a campaign to inform policy-makers, opinion-leaders, and the public about the counterproductive nature of unilateral sanctions."[16]

Given the opposition to sanctions, some have even argued that political competition among domestic interest groups determines the nature of sanctions.[17] Based on such a perspective, some argue that democracies adopt sanctions when and where they hurt the sanctioning state the least, and are adopted and implemented in a form which makes them designed to fail.[18]

In short, the weaker the state relative to society, the greater the power of special interest groups, the more difficult it will be for a government to adopt and sustain a sanctions regime. This is especially the case if the costs are concentrated and the benefits diffuse.

Monitoring domestic compliance

Another implication of the distributional consequences of government policies that create market power is that private actors have incentives to circumvent government policy (after having opposed it unsuccessfully). Governments adopt anti-trust policies but large firms have incentives to collude. Governments impose sanctions and individual firms have incentives to circumvent them. At the national level, there will be firms interested in making sales from which they are precluded and which will be all too willing to evade and circumvent sanctions.

The adoption of economic sanctions or inducements is about appropriating power for the state at the expense of some forces in civil society. Firms that prefer to sell to sanctioned countries will be prevented from doing do. In the case of inducements, for example, banks that prefer to lend on commercial grounds will be pressed to lend to politically important locations, and firms will be encouraged to target their foreign investments in a particular direction.

Sanctioning countries have to be willing and able to rein in important business interests and will have to monitor their own societies for

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[16] Cummings (2006).

[17] Kaempfer and Lowenberg (1988, 1992); for a contrary empirical assessment in the case of the United States, see Drury (2001).

[18] There is a disconnect between the sanctions literature that argues that trade disruption does not generate acquiescence, but that the existence of economic exchange predicts cooperation between states (Stein 2003).

compliance. Adopting economic sanctions thus implies institutionalizing some mechanism for monitoring compliance and entails a realization that there will be cheating.[19] Indeed, the greater the distributional costs, the greater the incentives to cheat and the more the system must be monitored. Moreover, the punishments for non-compliance must exceed the gains to be realized from cheating.

Although not often emphasized, a sanctioning government, in effect, is not only punishing another country and groups in it, it is also punishing firms and individuals in its own society. It is making some actors bear the burden of national interests. And it must be prepared to punish domestic interests who run afoul of its foreign economic policy.[20]

Multilateral monopsony and the creation of cartels

Of course, international economic sanctions and inducements typically require the construction of a multilateral cartel. For most products and sectors in the world economy, market power can only be wielded by groupings of states. Sanctions that are readily circumvented because of the existence of alternative buyers and sellers are not going to be materially effective.[21]

Multilateral economic sanctions thus attempt to accomplish at the supranational level what the state must achieve at the national level – welding together producers and consumers in order to wield market power. At the international level, therefore, constructing market power implicates all the requisites of interstate cooperation, including issue linkage, credible commitments, and the like.[22]

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[19] The Bush administration, for example, was aware of illegal oil purchases from Iraq prior to the 2003 US invasion and attendant kickbacks to the Saddam regime which was at the same time being sanctioned by the United States. The administration chose to look the other way. Indeed, US purchases were responsible for more than half of the kickbacks received by the regime for selling oil (Julian Borger and Jamie Wilson, "US 'Backed Illegal Iraqi Oil Deals,"' *Guardian*, May 17, 2005).

[20] It is possible to run afoul of sanctions without even knowing it. In 2006, the United States imposed a ban on doing business with Chinese firms that had allegedly sold missile technology to Iran. Despite the ban, a brisk business continued until exposed through an analysis of shipping records by the Wisconsin Project on Nuclear Arms Control. An assessment by the *Wall Street Journal* concluded "that the US firms likely were unaware they were doing business with banned entities" (Peter Fritsch, "Chinese Evade US Sanctions on Iran," *Wall Street Journal*, January 4, 2010).

[21] They may still matter for other non-material reasons. Kaempfer and Lowenberg (1999) argue that unilateral sanctions can have signaling value when undertaken by a state with close ties to the sanctioned state even as their economic irrelevance minimizes the opportunity for the sanctioned state to accrue rents.

[22] Martin (1992, 1993).

Sanctions are thus intimately linked to international institutions.[23] Economic sanctions were built into the League of Nations charter and were widely used in its short life.[24] They are embedded in the UN charter and became prominent UN measures once great power cooperation in the Security Council emerged with the end of the Cold War. Not only can the construction of multilateral sanctions be facilitated by international organizations, but international organizations embody some mechanism for collective sanctioning as a core element of obtaining compliance by their members to their obligations. The issue of this relationship was put succinctly in the title of a 1930s article, "Are Sanctions Necessary for a Successful International Organization?"[25]

Monitoring cartel compliance

The attempt to wield economic power is thus subject to challenge at the supranational level just as it is at the national level. Historically, individual countries have been prepared to sanction others on one issue or another, but they have had great difficulty getting adherence by the set of countries needed to wield effective market power. After all, the more countries that join a sanctioning regime, the greater the windfall returns to those who do not take part.

Thus, one feature of the exercise of market power is the issue of second order policy: what to do about relevant others unwilling to go along with a sanctioning (or inducing) regime. The United States has, for example, repeatedly confronted the problem of allies unwilling either to accept the general approach of US foreign policy toward another country or unwilling to use the tactics adopted by the United States.

This first arose during the early Cold War when key allies of the United States did not accept its policy of economic warfare against the Soviet Union and China.[26] Similar problems arose subsequently, even as regards sanctioning small countries with whom there was not much extensive trade. The United States' NATO allies, for example, repeatedly disagreed with US sanctions against Cuba.[27] In the case of Iran, the United States has consistently imposed unilateral sanctions more

[23] Wallensteen (2000).
[24] Fiedorowicz (1936).
[25] Buell (1932).
[26] For disagreements on the Soviet Union, see Adler-Karlsson (1968) and Sørensen (1989); for disagreement in dealing with China, see Engel (2005). Also see Mastanduno (1988) and Førland (1990).
[27] Morley (1984) and Wilkinson (2009).

extensive than those that others would agree to.[28] The United States has, for example, instituted secondary boycotts, boycotting companies of allies in order to coerce their compliance with US sanctions.[29]

The problems of cartel management also include dealing with countries willing to circumvent (or not enforce) sanctions that they have titularly supported. Thus countries joined in a sanctioning regime must monitor one another as well as their own and one another's citizens. In effect, states working collaboratively to sanction another state must also contemplate sanctioning one another and one another's citizens. One study concludes "multilateral economic sanctions are sabotaged not by bargaining problems, but rather by enforcement difficulties."[30]

This has meant that the United States has faced the problem of how to obtain others' agreement with its sanctioning strategy. This has proven to be a problem with great power rivals such as China and Russia and the United States has had to choose between more lenient sanctions that others would accept and tougher sanctions adopted unilaterally.[31] China, for example, has posed a problem for the United States and its allies regarding sanctions on both North Korea and Iran. To obtain China's acquiescence in UN sanctions, for example, Western nations have watered down multilateral resolutions. In June 2010, to obtain passage of a fourth round of UN sanctions against Iran, Western nations had to bow to Chinese demands that permitted continued foreign investment in Iran's oil and gas sector, even though these nations' actions would preclude such investments by their own firms.[32]

This has also been a problem with allies of the United States.[33] And it has thus confronted the question of sanctioning those who fail to sanction, and in the process applied US law extraterritorially. In 1996, the US Congress passed the Cuban Liberty and Democratic Solidarity (Libertad) Act, more popularly known as the

[28] Chapter 3 by Reynolds and Wan makes clear that the United States has been ahead of others in sanctioning Iran, Iraq, Libya, and North Korea, and has often not had much support, or only received support after ever more egregious behavior by the sanctioned state.

[29] The empirical record is that one's allies are sanction-busters more than other states (Early 2009).

[30] Drezner (2000: 74).

[31] D. Crawford, R. Boudreaux, J. Lauria, and J. Solomon, "U.S. Softens Sanction Plan Against Iran," *Wall Street Journal*, March 25, 2010.

[32] Paul Richter, "West Worries China May Undermine Iran Sanctions Efforts," Los Angeles Times, June 28, 2010; "Factbox: EU Clamps Down on Iran's Energy Interests," *Reuters*, July 27, 2010.

[33] Turkey, a member of NATO and an applicant to the EU, announced that it would abide by UN sanctions but not by US or EU ones, thus taking advantage of the resolution watered down to meet China's objection (Ghajar 2010).

Helms-Burton Act, and it included ways in which the United States could punish other countries' citizens for doing business with Cuba. It also called for reducing US payments to international institutions which provided Cuba assistance. It was widely denounced as in violation of international law and a variety of international agreements and treaty obligations. The subtitle of one law journal article captures the general assessment: "inconsistency with international law and irrationality at their maximum."[34] Congress also passed the Iran and Libya Sanctions Act of 1996 (also known as the D'Amato Act), which gave the president the authority to impose sanctions on firms investing $40 million or more (subsequently reduced to $20 million or more) in the oil and gas sector in either country, and the options for punishment included banning imports into the United States and precluding federal government purchases from such firms. Both acts generated extensive responses from US allies including counter-legislation intended to block US actions.[35] In the end, the United States never enforced the legislation against foreign firms or foreign subsidiaries of US firms. Two *New York Times* reporters analyzed federal records and found that the US federal government had awarded over $100 billion in contracts to seventy-four foreign and multinational firms that were doing business in Iran, and this included $15 billion to companies that invested in Iran's oil and gas sector in defiance of US sanctions.[36]

With the rise of multinational corporations, countries face both a problem and an opportunity.[37] The problem is the possibility of sanction-busting behavior not just by a domestic rm but by its foreign subsidiaries. US companies, such as Halliburton, continued doing business with Iran simply by using "fully independent, foreign based" subsidiaries, which were not subject to the US embargo. Halliburton's "Dubai-based, Cayman Isles-registered Halliburton Products & Services subsidiary" entered into an agreement to do some work for Iran's oil and gas sector, and perhaps even components for a nuclear reactor.[38] Monitoring as well as evasion becomes a problem as firms

[34] Gierbolini (1997).
[35] Lowe (1997) and von Lutterotti (2002).
[36] Jo Becker and Ron Nixon, "US Enriches Companies Defying its Policy on Iran," New York Times, March 6, 2010.
[37] Rodman (1995, 2001).
[38] Guy Dinmore and Najmeh Bozorgmehr, "Iranian Has Dual Role in Nuclear and US Oil Talks," *Financial Times*, January 27, 2005; J. Leopold, "Halliburton Sold Iranian Oil Company Key Nuclear Reactor Components, Sources Say," *The Free Press*, August 10, 2005.

can also transship goods and hide the origins of fungible goods such as grains and crude oil.

On the other hand, the opportunity arises for a government to enforce its laws by applying them to extraterritorial entities linked to domestic firms or to foreign firms operating in the United States. The United States, for example, ned Barclays, Lloyds, and Credit Suisse, among others, for violating federal sanctions. Court documents revealed, for example, that Barclays "continued disguising sanctioned payments" even after the UK management was warned by its US branch. The banks evaded sanctions by a practice of "stripping" transactions of identifying information and bank officers coached foreign firms by telling them what words could not appear on payment documents.[39] Credit Suisse also helped clients keep financial transactions from being detected by US authorities. They created a pamphlet entitled, "How to Transfer USD Payments," distributed copies of payment forms showing how to ll them out, and assured Iranian clients that payment messages would be individually checked by bank employees, all in order to avoid detection.[40] The entities aided by Credit Suisse included the Atomic Energy Organization of Iran and the Aerospace Industries Organization, both of which had been designated by the United States as proliferators of weapons of mass destruction.[41] Overall, in applying just one particular statute to prevent Iranian proliferation, between 2001 and 2007, the United States imposed 111 sanctions against specific foreign parties, and fifty-two were Chinese, followed by nine that were North Korean, eight that were Syrian, and seven that were Russian.[42]

The need to create an international sanctioning cartel leads states to try to enforce their policies through the extraterritorial application of its laws and policies and to sanction those who do not join in their sanctioning effort.[43] The end result can merely multilateralize an initial bilateral conflict. Efforts on the part of the United States, for example, to obtain extraterritorial compliance with its economic sanctions have generated

[39] Michael Rothfeld, David Enrich, and Jay Solomon, "Barclays in Sanctions Bust," *Wall Street Journal*, August 17, 2010.

[40] Aaron Lucchetti and Jay Solomon, "Credit Suisse's Secret Deals," *Wall Street Journal*, December 17, 2009.

[41] Claudio Gatti and John Eligon, "Iranian Dealinsg Lead to a Fine for Credit Suisse," *New York Times*, December 15, 2009.

[42] US Government Accountability Office (2007: 46–47).

[43] Sometimes states compensate rather than sanction others in order to get their support for multilateral sanctions. The Security Council received appeals from twenty-one countries for financial assistance to compensate them for costs borne in sanctioning Iraq in the 1990s (Stremlau 1996: section 4).

conflict with its allies. One analysis of countermeasures to US sanctions concludes, "efforts by trading partners against US extraterritorial sanctions through blocking measures and other means have a long history and have been increasing in intensity."[44] Since the 1990s, the efforts to block US sanctions have come to include successful challenges within the WTO of US measures as in violation of international obligations.

The need to weld a multinational cartel to exercise market power generates a host of problems. Some states will not go along. Some will actively undercut. Some will agree but not enforce. Enforcing one's sanctions leads to the use of extraterritorial measures which in themselves generate conflict with one's trading partners. Sanctions either create additional conflict or the necessity among a set of sanctioning states to monitor one another and sanction their own firms.

The political economy of sanctions in targeted countries

The point of economic sanctions is to impose economic costs (i.e., hardships) on a sanctioned country. There are general costs that are borne by both state and society in the target nation, and many point to aggregate indicators of costs and suffering: decline in GNP, increased unemployment, increased child mortality, and so on.[45] The broad consequences of comprehensive sanctions, captured by articles with titles such as, "Punish Iran's Rulers, Not Its People" led, by the late 1990s, to calls for targeted or smart sanctions.[46] But costs borne by a nation are not borne equally by all its citizens, not only because economic sanctions generate winners and losers in targeted nations as they do in sanctioning states, but because targeted states respond to shift in part by shifting the burden of sanctions.[47]

Distributional politics in targeted countries

Not only do sanctions (and inducements) have distributional consequences in sanctioning countries, they have distributional consequences

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[44] Clark and Wang (2007: 2).

[45] Like war and gun violence, sanctions have come to be assessed as public health issues by some in that community. In the words of a Harvard Medical School physician in an editorial in *The New England Journal of Medicine*, "economic sanctions are, at their core, a war against public health" (Eisenberg 1997). See also Dreze and Gazdar (1992). For a voice raising a cautionary note about treating sanctions as human rights violations because of their public health implications, see Marks (1999).

[46] Nader (2009).

[47] For discussions of the diverse economic effects of sanctions, see Kaempfer and Loewenberg (1992), Kirshner (1997), Selden (1999), Rowe (2001), and Brooks (2002).

in sanctioned countries. Targeted sanctions are intended to affect some in the society, the targeted, while leaving others unscathed. But even untargeted comprehensive sanctions have differentiated consequences. Not all are equally exposed to increasing rates of unemployment or to drops in income and wealth. Given that, the issue, whether assessing targeted or comprehensive sanctions, becomes one of thinking through the distributional consequences of specific sanctions and whether they strengthen or weaken a ruling elite's hold on power. In some cases, targeted positive and negative sanctions can generate the desired effects on the ruling elite's coalition with minimal collateral damage and thus weaken the regime.[48] In other cases, comprehensive sanctions can wreak such broad widespread economic damage as to weaken the regime.[49]

Ironically, those sectors hurt by sanctions are typically the ones that engage in exchange with the outside world and are the ones most likely to be influenced by it.5[50]

Domestic cleavages and distributional consequences of sanctions

Countries are typically riddled by multiple cleavages, and distributional consequences, both within sanctioning states and sanctioned ones, can arise across any of them. Disaggregating domestic society to assess distributional consequences thus raises the issue of the relevant politico-economic cleavages in a society. Disruptions in trade and financial flows can affect a variety of different cleavages between classes, between ethnicities and religions, between generations, between regions, between urban and rural, between industries and sectors, and so on. Iraq under

[48] This is the purpose of the volume as described in Solingen's introductory chapter. In this sense, sanctions are like cancer treatments. Chemotherapy and radiation treatments kill cancerous cells, but they also kill some healthy ones. They are used because they have a record of being bene cial on net. The search for targeted treatments is a search for therapies that work only on cancerous cells and do not damage healthy ones. So it is with economic sanctions, and the search for targeted ones that only adversely effect those we seek to punish and do not punish the innocent (note, however, Major and McGann 2005). The problem with economic sanctions is that their consequences are a product not only of the sanctions imposed but the steps taken in response by the targeted regime.

[49] See Chapter 5 by Drezner. In Chapter 9, Palkki and Smith note that even as Saddam Hussein's regime acted to protect its supporters from the worst consequences of sanctions, they also worried about consequences of the resulting inequality and the regime being blamed for the state of the economy. They make the same point about Libya, that government leaders worried not only that sanctions reduced their ability to reward allies but also reduced their ability to provide general welfare.

[50] Hendrickson (1994/1995).

Saddam Hussein, for example, favored the minority Sunnis at the expense of Shia Iraqis. For another example, the US northeast opposed the War of 1812 because it feared being disproportionately affected by the trade disruption the war would bring.

Since sanctions are economic measures that affect the flow of goods and capital, their distributional consequences, who benefits and who loses from them, can be derived from economic theories. Political scientists have used arguments from economic theory about the winners and losers from increased economic openness to explain support and opposition for free trade and protection.[51] Using the Heckscher-Ohlin model, they argue that the consequences of trade depend on relative factor endowments, the more abundant factor preferring openness and the more scarce factor preferring closure. Using the Ricardo-Viner model, they argue that domestic political cleavages regarding trade fall along sectoral lines: exporters prefer openness and import-competing industries prefer protection. In the former view, domestic cleavages are those between labor and capital, whereas in the latter, labor and capital within an industry are unified and the divisions are across sectors.[52]

The same models that are used to assess the distributional consequences of increased openness to the global economy can be used to assess the consequences of imposed closure. They can be used to determine the distributional consequences in targeted states and the winners and losers from sanctions.[53] When exports to a targeted nation are sanctioned, import-competing industries gain from what can be thought of as externally imposed protection. When export sanctions target items not produced in the targeted nation, they can even act as infant-industry tariffs. Sanctions hurt the relatively abundant factor of production and help the relatively scarce factor of production. Yet, assessing the distributional consequences of sanctions (both their imposition and their removal) is not straightforward.[54] First, sanctioning states rarely impose across-the-board closure but target their sanctions. Second, the predictions of economic theories rely critically on the workings of market prices, and, as noted above, sanctioned states

[51] Frieden and Rogowski (1996).
[52] Solingen (1998, 2007) broadens the coalitions to include all those who benefit from internationalist outward-looking policies versus those who prefer nationalist inward-looking ones.
[53] For an example of the application of Heckscher-Ohlin to economic sanctions, see Cooper (1989).
[54] For a discussion of both the empirical limitations and strengths of Heckscher-Ohlin, see Leamer (1995).

intervene to shift the effect of sanctions, and their interventions play an important role in determining winners and losers.

In some case, outside sanctioners are particularly concerned with the distributional consequences within the target of their policies. When assessing sanctions against apartheid, for example, there was a concern about the relative impact of sanctions on blacks versus whites in South Africa.[55] The whole point of the sanctions was to end an institution that disenfranchised and immiserated blacks and not to increase their suffering; the whole point was to punish the white beneficiaries of apartheid.

Growth of state power in sanctioned states

Yet understanding even the economic consequences of sanctions requires a political as well as economic model, because sanctions increase the state power of sanctioned states as they do sanctioning ones. Just as the imposition of sanctions by a country requires a degree of state power vis--vis its society and may entail a state's attempt to gain the power necessary to control the activities of private actors, so too the sanctioned state uses the external pressure of sanctions to gain new powers and control.[56]

Sanctioned states invariably increase the degree of state control over the economy as they seek to adjust to the pressures of sanctions.[57] Since sanctions lead to a divergence between the world price and the terms of trade for a sanctioned country, they provide the opportunity to earn rents through arbitrage. Governments that can organize monopolies or monopsonies can capture much of the rents, with resulting bigger budgets and resources. Through such rents and through greater economic control, sanctioned governments can minimize the impact on the political elite and the military.

Just as in wartime, the state in countries under sanction grows in power relative to civil society and comes to control and allocate more of national income.[58] Further, sanctioned states facing internal political pressures for change typically also increase their repression.[59] The

[55] For one example, see Becker (1987).

[56] See Chapter 7 by Nader for sanctions strengthening the Iranian regime.

[57] See Chapter 7's discussion of the IRGC in Iran for an example. Also see Wehrey et al. (2009).

[58] Indeed, one critique of economic sanctions is that even as they reduce the stability of the targeted state, they also allow increases in state power.

[59] In Iran, the IRGC has played a role both in increasing economic control and in increased repression (Scott Peterson, "Irans Revolutionary Guard Tightens Grip: In Post-election Crackdown, Irans Revolutionary Guard Corps has Taken a New

existence of an external threat (in the form of sanctions) may or may not increase internal cohesion, but it does provide the motive, opportunity, and means for accretions in state power.[60]

Sanctioned states and the retargeting of sanctions

The hope of targeted sanctions is that they can adversely affect particular actors and leave others unscathed, that they can pressure imports and exports of critical items while leaving food and medicine untouched. A concern with the general consequences of economic sanctions, what came to be called "comprehensive sanctions," led to a widespread interest in targeted and smart sanctions.[61] The problem is that targeted sanctions affect the untargeted as well, especially as sanctioned governments respond to shift the domestic burden of sanctions.

Unintended economic spillovers occur as actors shift their patterns of consumption and investment in response to demand and supply shifts imposed by others. This observation has come up often in debates on welfare policy. Even targeting assistance to the poor by providing stamps which can only be used for purchasing food will nevertheless result in increased consumption of non-necessary items as the poor use the stamps to replace some of the resources they previously expended on food and shift those funds to the consumption of other items. Food stamps thus increase non-food consumption.[62]

This shift in patterns of consumption (which would also apply to investment) operates as regards sanctions as well. States facing sanctions will shift some consumption from other areas to compensate. Thus sanctions that exclude food and medicines will still affect domestic consumption of food and medicine to the extent that the state has the power to shift societal purchases to reflect state priorities.

This conclusion is conditional on the power of the state to affect domestic distribution and enduring foreign sanctions lead to the growth of state power in order to effect just such changes. Thus, quite separate from the effects of sanctions in creating rally effects or in discrediting a

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Leading Role by Tightening its Control Over Levers of State Power and Stifling Dissent," *Christian Science Monitor*, December 9). Wallensteen (2000) describes external sanctions and a rising internal opposition as the "double grip." Allen (2008) finds that domestic structures in target states (i.e., repression by autocracies) more than mitigate any increased anti-government activity due to sanctions. For the relationship between sanctions and increased repression and human rights violations, see Wood (2008), Peksen (2009), and Peksen and Drury (2009).

[60] Stein (1976).

[61] Biersteker (2004).

[62] Governments thus labor mightily to construct policies that minimize such shifts but have a difficult time designing such measures.

political opposition or the range of consequences for regime legitimacy and support, the imposition of sanctions is met by efforts to increase state power and the state's role in controlling and allocating economic resources. Palkki and Smith note in Chapter 9 that Saddam Hussein's regime gave preferential ration allotments to government employees and regime supporters.

The results of sanctions in targeted countries

The net result of the foregoing is that the effects of sanctions run the gamut in both political and economic terms. In economic terms, sanctions can be inconsequential when sanctioning countries do not achieve market power. Yet even when sanctions are economically consequential, their political effects can run the range from strengthening the state to leading to its downfall.

Sanctions can be economically effective and politically self-defeating when they exact economic pain but serve to strengthen the sanctioned regime. This occurs both because the state increases its power relative to society and because the factions supporting the state are strengthened relative to those opposed to it. There is no small irony and tragedy in the ability of sanctions to impose greater costs on a sanctioned regime's opponents than its supporters.[63]

For sanctions to be politically as well as economically successful they must attack the bases of state power, they must impose costs on the elite and its supporting coalition and relatively strengthen forces opposed to the government and its policies.

Just as sanctioning governments must take into account the domestic losers who might oppose or circumvent sanctions in their society and in those countries whom they hope to enlist in a sanctions regime, they must also take into account the ways in which sanctions both strengthen the sanctioned state and create beneficiaries who would then be opposed to the policy changes desired by the sanctioners. Sanctions provide opportunities for rents whose beneficiaries might want sanctions retained. In Britain, for example, the position of members of parliament on repealing an 1807 measure that had led to a US embargo was correlated with the material consequences of the embargo for their districts.[64] Similarly,

[63] Note that the costs borne by a regime's opponents need not simply be material ones, they can also be politically discredited (one of the reasons for the argument in Chapter 5 that comprehensive sanctions may be preferable). As Chapter 7 demonstrates, there is a complicated interaction between the material and the ideological in Iranian politics.

[64] Selden (1999).

the very sectors and factions in Iran that have benefited from sanctions, such as the Revolutionary Guard and the bonyads, might well prefer weak sanctions to their complete end.[65]

Two-sided divide-and-win

A sanctions game is a two-sided exercise in constructing and wielding market power. The strategy is for each side to wield market power while dividing the other side.

Sanctioners want to use their market power to induce changes in a target state's behavior. They can accomplish this most easily by dividing the target society and create domestic pressure on the target government to change (or even to see the target government topple as part of the process of obtaining policy change by the target).

The sanctioned government can defeat sanctions by wielding its market power and dividing a sanctioning coalition and even induce noncompliance by private actors in sanctioning countries. Most basically, sanctioned governments diversify their foreign interactions and run them through front corporations.[66] Chapter 8 by Haggard and Nolan documents the economic diversification strategy of North Korea. Iran displays much the same pattern, though with different specific countries. Iran's total trade with China has grown almost eight-fold between 2002 and 2008, as China replaced Germany as Iran's biggest trade partner. In the same period, Iran's trade with the UAE has more than doubled, as Dubai has become a re-exporter allowing Iran to import sanctioned items indirectly.[67]

Two sides want to play divide-and-win, and both sides depend on wielding concerted economic power to achieve their political objectives.

This analysis makes it clear both why scholars should model the sanctioning situation as a strategic interaction between sanctioner and target and simultaneously attack the unitary actor assumption and talk about the role of domestic interests and sectors. On the one hand, the

[65] Chapter 7 provides examples of how the Revolutionary Guard benefited from sanctions and the elimination of their business competitors. In contrast, Chapter 4 argues that under certain circumstances and with the passage of time the domestic beneficiaries of sanctions can come to internalize market incentives.

[66] For a partial list of Iranian steps, see "Factbox: Tactics Adopted by Iran to Overcome Sanctions," *Reuters*, July 26, 2010.

[67] Ilias (2010: 25–26); see also Foroohar (2010) and US Government Accountability Office (2007). In the same way that regional integration can lead to trade diversion rather than trade growth, trade sanctions can lead to trade diversion rather than trade decline.

successful construction of uni ed market power by both sanctioning countries and the target state generates a situation of strategic interaction between sanctioner and target.[68] On the other hand, neither side can be presumed to be a unitary actor. Both sides consist of multiple interests that must be welded into unitary market actors, and this usually occurs with differential success by different countries and coalitions facing different circumstances.[69]

Successful sanctions thus combine the use of market power and an ability to divide the constituent elements of one's opponent. Successful resistance of others' sanctions also requires an ability to weld market power and divide sanctioning actors.[70]

The importance of creating market power implicates the relative power between state and society. The stronger the state, the less it is penetrated by and subservient to societal forces, the more it is capable of imposing sanctions and of resisting sanctions. Not surprisingly, the literature on economic sanctions emphasizes the importance of regime type in imposing sanctions and withstanding them. Moreover, exercising and withstanding sanctions themselves affect the power of the state, generating heightened state power (or at least attempts to increase the power of the state).

Inducements

Much of the foregoing treats inducements as the flip side of sanctions. In one sense, inducements simply reverse the process of influence. Inducers seek to obtain policy change by promising rather than threatening, by rewarding rather than punishing. Different terms are used – carrots, incentives, inducements, positive sanctions, positive linkage, rewards, promises – but they all point to a set of policies to influence by providing benefits rather than imposing costs.[71]

The obvious question to raise is whether inducements, like sanctions, require the construction of market power. A strategy of positive

[68] Although most work ignores strategic interaction, examples of work that do include this kind of analysis include Eaton and Engers (1992), Smith (1995), Drezner (1998), and Hovi et al. (2005).

[69] The number of relevant variables thus make general assessments of sanction success or failure beside the point, in any specific case. They simply point to the variable states necessary for success.

[70] The chapter by Palkki and Smith demonstrates that Saddam Hussein worked both to split the coalition of sanctioning states, but used Iraqi resources to try to generate opposition to sanctions in foreign countries.

[71] Dorussen (2001), Crumm (1995), Drezner (1999), Baldwin (1971a, 1971b), Newnham (2000, 2002), Rosecrance (1981), and Davis (2000).

sanctions would be easier if it did not entail the construction of market power, if it did not require a government to harness its domestic society and create an international cartel. The picture often presented is that economic inducements rely on market incentives and have the character of inhering in the market and not being a product of government policy.

There are two problems for an argument that incentives differ fundamentally from sanctions. The first is that absent state power and international cartels, inducements fail in the same way that sanctions do. The second is that, just as with sanctions, it often takes state power to align private interests with public ones.

Coordinating inducements

It would seem that inducements differ from sanctions in that not all outside powers who want to see change in a particular state need to provide inducements. Sanctions will fail if they can be circumvented so all relevant outsiders must agree on sanctions, whereas inducements can be provided by only a few.

Nevertheless, inducements require coordination and the creation of market power as well. Despite the fact that not all outside powers need to offer inducements, they must nonetheless coordinate their actions. If they do not, a strategy of unilateral inducements is equivalent to a policy of sanction-busting. Indeed, a state that acts as a buster of a sanctions regime can always argue that it is merely providing inducements to obtain policy change from a targeted state. What distinguishes sanction-busting from inducement is the coordination of incentives by those attempting to influence a target state. A state attempting to influence another must have all its domestic interests adopting the same policy toward a target, and a multilateral coalition must work together, otherwise a strategy of inducements by one or a few is simply a sanction-busting strategy.

Financial flows to developing nations illustrate the problem. International financial institutions (and governments) attach conditions to loans provided to debtor nations. Borrowers, however, prefer funds without conditions. When private banks entered the sovereign lending market in the 1980s and competed with the IMF as well as each other, borrowers preferred the loans that came without conditions. Conditionality changes the price for a loan by adding additional requirements to the exchange. Conditionality thus requires the absence of alternatives or coordination by lenders. In other words, conditionality

can only be exercised when there is market power by those imposing the conditions.

Moreover, a strategy of inducement itself depends on sanctions. The offer of market benefits in exchange for policy change requires sanctions that preclude those benefits without policy change.[72]

A strategy of targeted benefits is also one of targeted sanctions. Providing inducements targeted toward some groups and sectors also requires that these incentives not be available to other groups and sectors.

In short, positive sanctions are also sanctions that require the construction of market power. In effect, inducing policy change requires the creation of a monopoly to provide benefits under some conditions and to some sectors.

A strategy of inducement as well as a strategy of sanctioning both rely on carrots and sticks. It is possible to adopt a sanctioning strategy in which the carrot being held out is merely that of an end to punishments once there is compliance. At the other extreme is a strategy of inducement in which the stick is merely the denial of benefits rather than a meting out of punishments.[73]

But without a common strategy, that is without market power, sanctions are merely unilateral efforts that can be undercut by other countries and non-compliant domestic interests, and incentives are merely sanction-busting by another name. What is striking in the analysis of US and non-US unilateral sanctions of Iran, Iraq, Libya, and North Korea is that, between 1990 and 2009, the United States adopted almost twice as many unilateral negative sanctions as those adopted unilaterally by others (ninety-nine to fifty-six), and in the same period, other countries unilaterally extended almost twice as many positive inducements as the United States (ninety-three to fifty-four).[74] This provides some indication of the problem of collective action and the asymmetric preferences of the United States and its allies.

Both rewards and punishments entail the construction of market power and require multilateralism, monitoring, and enforcement. And ironically can require punishing one's citizens and allies, and can result

[72] The chapter by Reynolds and Wan demonstrates that many inducements are about the removal of sanctions.

[73] This is linked to the finding by cognitive psychologists of the importance of the status quo point and the different ways in which gains and losses are viewed. This too has implications for sanctioning strategies.

[74] Reynolds and Wan, Chapter 3, this volume.

in greater self-punishment than that experienced by the sanctioned state.

Incentives and governmental action

Governmental involvement in an inducement regime is not limited to restraining market benefits absent policy change in a target state. The inducement of joining the global economy, of buying and selling in competitive markets, and becoming a recipient of foreign investment and the like presumes that private actors will respond in particular ways once internal changes are adopted. It presumes that only the restraints of sanctions have prevented the flow of commerce and investment. It presumes that the interests of private actors will provide the necessary blandishments once sanctions are removed. The self-interested behavior of societal actors will be sufficient. Thus, whereas the interests of producers and consumers are such that sanctions have to be state exercises in the construction of market power, inducements are often presumed to flow from the interests of societal actors and merely require the end of state-imposed sanctions.

Yet the policy changes being pressed on foreign governments are no guarantee that proffered economic inducements will follow. It is interesting that in the cases of both Libya and Iran, governments sanctioning those regimes could hold out the prospect of future investment flows if they shifted away from proliferation policies, but no such prospect is likely for North Korea. The exchange and investment prospects for North Korea are certainly dim in the short-term, even if it changes its nuclear policy. In that case, inducements would have to be provided by governments.

There are then cases in which incentives require governmental involvement. This can happen directly or through government's ability to direct the actions of private actors.

Governments can directly proffer inducements, offering aid and low-interest loans. But governmental resources are typically dwarfed by those of private actors. In such cases, carrots, like sticks, depend on marshaling private action for public purpose. Private actors will not buy products from specific countries simply because their government wants to use this as a carrot. Exporters will not sell to those who need credits. Capital will not flow where rates of return are smaller or where concerns of instability and expropriation remain.

Governments also have an ability to provide positive sanctions indirectly through their ability to channel private market activity. They step in when private actors find market incentives inadequate for providing

the inducements governments desire. They provide export credits and guarantee bonds and loans and provide insurance.[75]

The contingency of multiple possibilities

Sanctions depend on a multiplicity of features associated with sanctioning and sanctioned countries as well as the markets to which they are applied. The political ability to impose sanctions depends on the strength of the state relative to its society. Imposing sanctions in a democracy is more difficult than in an authoritarian system, and it is most difficult in a democracy in which the state is weak relative to the society.[76] Sanctions become more problematic when the sanctioning state does not have market power and must obtain the acquiescence of others.

The disjuncture between having and not having market power is evident in the consequences of the 1996 US attempt to prevent investment in Iran's oil and gas sector. Demand for both forms of energy has increased, especially in China and India, and as noted above, the policy has been eminently unsuccessful as foreign multinationals have simply replaced US companies as investors and developers of Iranian oil, and the United States has not been willing to punish those firms.[77] This has made it difficult to obtain much acquiescence. When John Bolton, as Undersecretary of State for Arms Control and International Security, suggested to the Japanese ambassador in 2004 that Japan might be penalized for an investment by its state-controlled oil exploration company in developing an oil eld in Iran, the ambassador replied, "Well, that's interesting. How come you've never sanctioned a European Union company?"[78]

In contrast, the same bill has been eminently successful in preventing the development of a liquified natural gas industry. Iran has the world's second largest reserves of natural gas but has been hampered in expanding its export production because US firms have effective monopoly power on the equipment needed to develop the capacity. In the words of James Ball of Gas Strategies, "There has never been an LNG plant built

[75] For an argument of how a state's strategic needs affect its shaping of markets, see Skålnes (2000).

[76] The United States is typically characterized as a weak state, although the literature does note that state strength can vary across policy domains, and thus the US state is stronger on monetary policy than trade policy (Krasner 1977b). On the other hand, one study argues that democracies are more successful sanctioners because of their superior ability to signal credibly (Hart 2000).

[77] Pant (2010) and Hughes and Kreyling (2010).

[78] Becker and Nixon, "US Enriches Companies."

without any US component. With the sanctions, not even a 5-cent washer or bolt could come from the US." And he noted, "This is uncharted territory. It can be done, but nobody has had to do it before."[79]

On the flip side of the coin, the ability to foil, undercut, diffuse, and adjust to sanctions depends on the market power of the sanctioned country and the strength of its state relative to its society. Authoritarian regimes, targets of more than three-quarters of US sanctions, are more difficult to sanction precisely because they already reflect states with some societal control, with relatively smaller constituencies, and with the instruments to increase their control and capture the rents that accrue from sanctions successful enough to change the terms of trade of sanctioned countries.[80] Moreover, sanctioned states with substantial resources, such as oil-rich Iran, are in a position to redistribute among factions and sectors, buy off critics, and pay more for what they need.[81]

Conclusion

Sanctions are state strategies and the outcomes of sanctions are a product of strategic interaction, of the sanctioner(s) and the sanctioned. Each side in this interaction is attempting to wield market power, to gain the power of monopoly or monopsony, in the process both dividing the opponent (so as not to face concentrated market power by its opponent) and using market power to extract, or to avoid having extracted, a political price for an economic exchange. Although sanctions are adopted by one state or coalition of states to influence the behavior of another state, and as much as they are an element of international strategic interaction, they are inherently exercises in which domestic economic cleavages are central. Each side is engaged in marshaling together domestic economic interests and other countries to wield market power. And each side is attempting to divide the other so as to defeat its attempt to wield market power. Understanding divergent domestic and international interests is essential for both sides.

The adoption, implementation, and success of both sanctions and counter-sanctions policy thus depends on relations between state and

[79] Hafezi et al. (2004); also Thomas Erdbrink, "Sanctions Slow Development of Huge Natural Gas Field in Iran," *Washington Post*, July 23, 2010, but see Gas Matters (2010) and Noël (2010).

[80] The introductory chapter by Solingen especially emphasizes the different constituencies in different types of regimes and the consequences for elites concerned with their political survival.

[81] As characterized in one microeconomic model, "Power is obtained through expenditures on repression and loyalty" (Kaempfer et al. 2004: 34).

society and between a state and its allies (or at least confederates). Executing a policy successfully (and quite apart from whether the policy is itself successful) requires monitoring and sanctioning one's own firms and the firms of one's allies.

Since the result of sanctions depends critically on the relationship between state and society within the sanctioner and the sanctioned, regime type is a critical factor in assessing the prospects for, and the outcomes of, economic sanctions. When the sanctioning states are democracies and the sanctioned state is an autocracy, their respective domestic governance arrangements make it harder for the former to generate the requisite collective action and make it easier for the latter to generate countervailing measures against targeted sanctions.[82] Ironically, sanctions can weaken a state absolutely but also strengthen it relatively (to its society and domestic opposition).

Even the most generic sanctions have differential effects, both because economic measures have distributional consequences and because the impact of sanctions also reflects the attendant political measures taken by sanctioner and sanctioned. There are two important consequences to note. First, even the most comprehensive sanctions have differential impact. Second, even the most targeted sanctions generate collateral damage, hurting those not targeted by the sanctioners. However precise, sanctions remain blunt instruments whose consequences depend on a complicated set of strategic interactions, including the sanctioned state's ability to retarget sanctions and to extract rents.

[82] Autocracies differ in their dependence on external sources of revenue and in their ability to increase tax revenue and reallocate expenditures, and as a result sanctions have different effects on leadership stability in different types of autocracies (Escribà-Folch and Wright 2010).

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