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Bryan R. Early. ***Busted Sanctions: Explaining Why Economic Sanctions Fail*****.** Stanford: Stanford University Press, 2015. ISBN: 9780804792738 (cloth, $90.00); 9780804794138 (paper, $29.95).

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Introduction by Thomas Maddux, California State University Northridge, Emeritus

In 2016 President Barack Obama guided two United States efforts involving sanctions on two adversarial states, Fidel Castro's Cuba since 1960, and Iran over its development of nuclear power and potentially nuclear weapons. The first ended without success as Fidel and his brother Raoul Castro maintained control of Cuba despite the significant economic consequences of U.S. policies. The second ended in an agreement between Iran and an international coalition led by the U.S., Russia, China, and European states to stop Iran's potential to develop a nuclear weapon for at least ten years. Despite some rhetoric from President Donald Trump, the agreement with Iran has been implemented and relations with Cuba have developed gradually with respect to tourism and trade if not complete diplomatic recognition.

In *Busted Sanctions: Explaining Why Economic Sanctions Fail*, Bryan Early focuses on why economic sanctions are difficult to successfully implement as third-party states, economic interests in these states, as well as adversaries of the sanctioning state help the sanctioned state resist the sanctions. Cuba provides a good example of both types of 'sanction busters' in the Canadian and British exporters who maintained trade relations with Cuba, and the Soviet Union, which provided sufficient oil and other forms of assistance to keep the Cuban economy from sinking under the impact of the U.S. efforts to deny as much economic engagement of Cuba with other states as possible.

The reviewers are impressed with Early's study and consider it a significant contribution to the international relations literature on sanctions. As Susan Allen points out, "one of the most important contributions of Early's book is his clear delineation of two types of sanctions- busters—those motivated by profit-seeking and those motivated by politics." Allen approves Early's conclusion that third-party states more frequently "engage in sanctions busting for commercial reasons rather than ideological ones," and tend to be states that are "geographically proximate countries with open economies." Allen would have welcomed more analysis on whether the states choose to bust sanctions or just allow firms to enhance profits by replacing firms that obey the sanctions. An example that Early studies is the role of the United Arab Emirates (UAE) in tolerating the role of multinational firms, many of which were under U.S. ownership, as noted by Allen, to trade with Iran.

Navin Bapat argues that Early's "insights are quite profound" and his book "very significant," and identifies the author as the "first sanctions researcher to really tackle the questions of sanctions-busters and their role in undermining sanctions efforts." Early's "systematic empirical tests" and case studies lead to several policy suggestions such as the value of multilateral versus unilateral sanctions based on data which suggests that approximately one third of sanctions will overcome the effects of the sanction busters. Bapat concludes that Early offers a number of insights for policy practitioners to consider as well as opening the "door for many new areas of research."

Mark Souva agrees that Early's study improves understanding on "why some economic sanctions succeed while other fail," particularly when the sanctions do not impose a severe enough cost. Souva endorses Early's analysis on several issues such as "who busts sanctions" and praises the author's "careful empirical analysis" and "outstanding" case studies. Souva does suggest that Early needs a more developed analysis on the issue of success or lack thereof, particularly with respect to the relationship of sanctions to military force, either as an alternative to force or a complement to it. For example, Souva suggests that perhaps the sanctions on Cuba were somewhat successful in being "economically punishing" on Cuba and costly to the Soviet Union.

Writing from the perspective of a policymaker and practitioner, Eric Lorber agrees that Early has provided "useful insight into why [sanctions] … may be likely to fail, and how policymakers can improve their chances of success." Lorber focuses on the post-2001 period and emphasizes the shift of the U.S. from reliance on trade restrictions and embargoes to financial restrictions given the "importance of the dollar in the world financial system, private firms' concern with their business reputations, and the fact that the United States is the hub for many key technologies necessary for the development of industries in other countries." Noting the use of financial restrictions to pressure Iran and to respond to Russian President Vladimir Putin's actions in Crimea and Ukraine, Lorber credits Early with looking at how sanctions "can be undermined and the role of the private-public sector relationship (in this case private firms and sanction-busting countries) in impacting such effectiveness." Lorber does suggest some problems in Early's analysis on why sanctions fail, most specifically in situations such as the UAE's relationship with Iran where the federal structure of the UAE made it difficult to maintain support for sanctions on Iran when a sub-state like Dubai allowed sanction-busting trade. "A variable measuring a state's capacity" would be helpful to judge the actual stance of the state on sanctions. Lorber also would put less emphasis on trade data and more on restrictions on financial transactions in order to "assist policymakers in better understanding" what coercive measures work best in the twenty-first century.

Early responds carefully to the suggestions and issues raised by the reviewers and recommends more evaluation by policymakers for "determining what constitutes success with respect to sanctioning efforts" particularly the "aggregate consequences over time." Early recognizes the value of the new emphasis on financial restrictions but concludes that "trade-based and aid-based sanctions busting can help ameliorate some of the adverse effects of even financially-oriented sanctions." Early uses the U.S. and European Union response to Putin's seizure of Crimea to illustrate this conclusion.

Participants:

Bryan R. Early is an Associate Professor of Political Science at the University at Albany, SUNY. He is also the Director of the Center for Policy Research and the Project on International Security, Commerce, and Economic Statecraft (PISCES). His major research interests include the study of economic statecraft, the proliferation of weapons of mass destruction, and political violence.

Susan Hannah Allen received a Ph.D. in political science from Emory University and is currently an associate professor at the University of Mississippi. Her research has appeared in *International Studies Quarterly*, *Journal of Conflict Resolution*, and the *Journal of Peace Research*. Building both on her experiences working in NGOs at the UN and her academic research on UN sanctions, she is currently working on a book project on decision-making in the United Nations Security Council.

Navin Bapat, B.A. (Michigan, 1998), M.A. (Rice, 2001), Ph.D. (Rice, 2004) is an Associate Professor in Political Science and the Curriculum of Peace, War, and Defense at the University of North Carolina–Chapel Hill. His research utilizes mathematical modeling to study terrorism, insurgency, and the use of economic sanctions. He has received two grants from the National Science Foundation, one to examine the effectiveness of economic sanctions, and another to examine the growth of insurgent movements from small cells to large-scale rebellions. These grants have led to publications in the *American Journal of Political Science,* the *Journal of Politics*, *International Organization, International Studies Quarterly,* the *British Journal of Political Science*, *Public Choice,* the *Journal of Peace Research, International Interactions,* and *Conflict Management and Peace Science.*

Eric B. Lorber is a senior associate at the Financial Integrity Network, where he advises financial clients on issues related to economic sanctions, anti-money laundering, and regulatory compliance. He is also a fellow at the Center for a New American Security with the Energy, Economics, and Security Program, as well as a senior advisor to the Foundation for Defense of Democracies' Center for Sanctions and Illicit Finance, focusing on issues related to economic sanctions and financial security. His commentary on sanctions and related issues has appeared in *Foreign Affairs*, *Foreign Policy*, *The National Interest*, *Cato Unbound*, *The Journal of Conflict Resolution, Middle East Policy Journal*, *The Wall Street Journal*, *Bloomberg*, and *Reuters*, among others. He has also testified on these issues before the United States Senate. He holds a JD from the University of Pennsylvania Law School, an MA from the War Studies Program at King's College, London, and a BA from Columbia University.

Mark Souva, Professor of Political Science, Florida State University. Major publications: Forthcoming. "Audience Costs, Information and Credible Commitment Problems", with Chungshik Moon*, Journal of Conflict Resolution*; "Promoting International Trade: The Role of Market Protecting Institutions," with Dale Smith and Shaun Rowan, *Journal of Politics* 70:2 (2008): 383-392; 2007. "An Institutional Theory of Sanctions Onset and Success", with David Lektzian, *Journal of Conflict Resolution* 51:6 (2007): 848-871.

Review by Susan Hannah Allen, University of Mississippi[1]

In *Busted Sanctions: Explaining Why Economic Sanctions Fail*, Bryan Early explores how third-party states can derail economic coercion using both the tools of trade and foreign aid. The United States has strong economic influence in the international market and a strong ideological orientation toward the use of sanctions, making it the most frequent sanctioner in recent history. This makes responses to its policies an interesting area for exploration, and thus the focus of the book is the sanctioning efforts of the U.S. In fact, the publication of this book is well-timed given that the two sanctions cases discussed in depth are the U.S. sanctions against Iran and Cuba – both of which have generated a great deal of recent political attention.

A big problem the United States has had to deal with is sanction busters. One of the most important contributions of Early's book is his clear delineation of two types of sanctions-busters—those motivated by profit-seeking and those motivated by politics. While sanctions busting is a relatively frequent occurrence, Early's key intuition that it does not occur for the same reason in every case is an important advancement.

In earlier work by Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott,[2] sanctions-busters are uniformly characterized as ideologically driven black knights. These black knights step in to provide economic support for sanctioned states that have been targeted by their political adversaries. While this is clearly true in a few well-known sanctions cases (like the Soviet Union's role in aiding Cuba), Early finds that this black-knight behavior is actually the exception, not the rule. After examining the actions and characteristics of sanctions-busters, Early notes that there is a much greater tendency for third-party states to engage in sanctions busting for commercial reasons rather than ideological ones.

Sanctions disrupt established commercial patterns and as a result, there are both political and economic consequences for this disruption. Early's theory of sanctions busting acknowledges the fact that these economic consequences can be (and often are) beneficial for some actors in the system. Trade-based sanctions busting occurs much more frequently than aid-based sanctions busting, and such actions are motivated by an opportunity to take advantage of market disruptions. In two thirds of the cases in Early's analysis, sanctions-busters are profiteers. But who profits?

The states that are best positioned to serve as trade-based sanctions-busters are geographically proximate countries with open economies. One question Early does not address is whether these states choose to be sanctions-busters or whether they passively provide the market conditions that allow firms in those states to be sanctions-busters. Obviously, geography cannot be manipulated after sanctions are imposed, and sanctions-busters have not historically dramatically changed their economies in order to take advantage of potential profits. Third-party states do not appear to do anything decisive in these situations. At most, Early demonstrates that they choose not to close down opportunities for firms within their borders to profit from

[1] This review was first published, in slightly different form, on H-Diplo. https://networks.h-net.org/node/28443/reviews/88357/allen-early-busted-sanctions-explaining-why-economic-sanctions-fail.

[2] G.C. Hufbauer, J.J. Schott, and K.A. Elliott, K.A., *Economic Sanctions Reconsidered: History and Current Policy*, vol 1. (Washington, D.C.: Institute for International Economics, 1990).

the economic shift caused by the sanctions. But Early does not explore whether trade-based sanctions busting is driven by states or markets.

The story is very different with aid-based sanctions busting. There Early demonstrates that third-party states make active policy choices in order to influence the outcome of U.S. sanctions. In these cases, there is clear agency on the part of the third-party state and geography plays a smaller role.

In the case study on the non-proliferation sanctions levied against Iran, Early explores the role of the United Arab Emirates (UAE) as a crucial sanctions-buster, one that was clearly motivated by profit rather than politically motivated. Unfortunately, Early does not make it clear what the UAE did other than exist in close proximity to Iran. The political structure of the UAE is highly decentralized, consisting of a federation of seven hereditary absolute monarchies. Not all of the seven emirates participated actively in the sanctions busting trade or approved of it. Tension existed between Abu Dhabi, which is the capital, and Dubai, which served as an important port for goods coming into sanctioned Iran (110-111). Most of the key economic actors engaged in sanctions busting were multinational firms (many U.S. owned) who realized they could get scarce goods into Iran through Dubai and reap great profits (116-117). Very little of this occurred as a result of actions driven by the state. The critical decisions seem to have been made at the firm-level rather than the state-level, but because of the focus on state behavior (especially for aid-based sanctions busting), the difference in the level of analysis between the two different motivations for sanctions busting seems to get lost.

While clearly the Iran case is one that has captured media attention, the UAE does not meet the broad description of trade-based sanctions-busters that Early provides based on the large-N quantitative portion of the analysis. Economically motivated sanctions-busters tend to have large economies and open political systems. Often these states are allies and economic competitors of the United States. Examples he provides include Germany, Japan, and the United Kingdom. Additional brief discussions involving these countries might also enhance the strength of Early's case, especially since he notes that given the frequency of trade-based sanctions-busting, these are the states that have the greatest influence on the effectiveness of U.S. sanctions. Are these states upending U.S. sanctions efforts or simply not actively disciplining national firms that are engaged in profit-seeking behavior that relates to the sanctions?

Another question relates to generalizability. Because the United States is the most frequent sanctions sender, it makes sense for Early to focus on these cases, but one of the key issues in determining which countries are likely to step in as sanctions-busters is which countries can fill the economic gaps left by the sanctioner. Do the same patterns hold when sanctioners with less market power impose sanctions? Are the benefits too small to engage in sanctions-busting behavior if the senders are smaller states?

Second, will politically motivated sanctions busting occur outside of the context of a bipolar world? According to Early, the states that are most likely to attempt to use foreign aid to counter-act U.S. sanctions are rich adversaries. The previous point addresses the question of the wealth of the potential third party states, but are there a multitude of less influential sanctions senders who create ideological incentives for sanctions-busting? Would the United States boost foreign aid to a country sanctioned by Venezuela or Cuba without an accompanying commercial incentive? Even in the discussion of China's recent increase in aid to Cuba, the role of profit-motivation seems to supercede the political motivations. Taking both of these points into consideration, the author might have strengthened the case for his theory by offering additional anecdotes outside of the U.S. sanctions cases that are the primary focus of the book.

Overall, Early's book makes an important contribution to the growing literature on the impact of economic sanctions.[3] Little theoretical attention has been given to the role of third-party states in the sanctions process, especially those which circumvent the restrictions. Despite the fact that many sanctions regimes fail to extract the desired political concessions from targets, the United States and others continue to rely on economic coercion. By strengthening their understanding of the impact that third parties have on the effectiveness of sanctions, policymakers may be able to design sanctions that minimize or mitigate the influence of sanctions-busters. If the critical actors are firms rather than states, and many of these firms are U.S. owned, this may be another path by which sanctions policies can be strengthened. The book also invites further exploration of the dynamics at the firm level rather than the state level and additional consideration of multinational corporations as sanctions-busters.

[3] Examples of this work include R.M. Wood, "A Hand upon the Throat of the Nation": Economic Sanctions and State Repression, 1976–2001, *International Studies Quarterly* 52:3 (2008): 489-513; S.H. Allen, "The Domestic Political Costs of Economic Sanctions." *Journal of Conflict Resolution* 52:6 (2008): 916-944; G. Biglaiser, and D. Lektzian, "The Effect of Sanctions on US Foreign Direct Investment. *International Organization* 65:3 (2011): 531-551; D. Peksen, and A.C. Drury, "Coercive or Corrosive: The Negative Impact of Economic Sanctions on Democracy," *International Interactions* 36:3 (2010): 240-264; and D. Lektzian, and G. Biglaiser, "Investment, Opportunity, and Risk: Do US Sanctions Deter or Encourage Global Investment?" *International Studies Quarterly* 57:1 (2008): 65-78.

Review by Navin Bapat, University of North Carolina, Chapel Hill

Given the destructiveness of military conflict, states are increasingly turning to economic sanctions as an alternative way of pursuing coercive diplomacy. States that impose sanctions, which are sometimes called "senders," disrupt their normal trading and investment relationships with target states in an effort to impose costs on these states economies. This can be done by imposing fines on firms that continue trading with the target state, or by going as far as physically restricting trade using a blockade. These actions create economic costs by discouraging economic transactions between individuals in the sender and the target, thereby harming the target's economy. Ideally, citizens and economic elites in the target state will then pressure the leader to acquiesce to the sender's demands, which in turn will result in the removal of sanctions and the resumption of normal economic ties. Although this process appears theoretically sound, numerous empirical studies demonstrate that sanctions frequently fail to achieve their objectives. This observation has led to a considerable literature examining the reasons for why sanctions seem to consistently fail.[1]

Early's work offers an important contribution to this literature. He argues that a key reason as to why sanctions fail is the intervention of third parties, or as he calls them, "black knights" (19). These states seek to undermine the effectiveness of a sender's sanctions by continuing or increasing trade/investment with the target state. Target states are therefore able to overcome the loss of business with the sender by increasing their economic relationships with the black knight. Early discusses the important example of how the United Arab Emirates (UAE) worked to circumvent American sanctions against Iran by facilitating oil for gold exchanges between the Islamic Republic and Turkey.

Early identifies two types of sanctions-busting. First, black knights may engage in aid-based sanctions-busting. This involves cases where black knights provide economic assistance to target states to offset their losses from sanctions. For example, Early discusses how the Soviet Union provided Cuba with extensive aid such that it could withstand the U.S. embargo (171-178). Second, black knights may engage in trade-based sanctions-busting. In these cases, sanctions-busters opportunistically take advantage of the withdrawal of the sender from the target's market by subsuming the sender's market share. To illustrate these types, Early discusses how the UAE made itself indispensable in selling sanctioned American goods in Iran. In a particularly interesting example, Early details how Halliburton, a multinational oil company, relocated its corporate headquarters to Dubai in 2006 to continue its business in Iran while avoiding Congressional scrutiny (129). In this case, the UAE was able to profit from the trade restrictions created by the U.S. government. And, as a result, the ability of the U.S. to deny Iran access to strategic materials or choke its oil trade was undermined by trade-based sanctions-busting.

Early demonstrates through systematic empirical testing and case studies that while the sender's adversaries are primarily responsible for aid-based sanctions-busting, the sender's allies are most likely to participate in trade-based sanctions-busting. In other words, the sender's worst enemy in attempting to use sanctions are its own friends. The UAE is one case where an American ally actively worked against its sanctions efforts. Similarly, in this case, the key U.S. ally of Turkey was a critical player in trading gold for Iranian oil. This is a key contribution of Early's work. If adversaries undermine sanctions efforts by offsetting economic damage with

[1] For example, see Richard N. Haass, "Sanctioning Madness," *Foreign Affairs* 76:6 (1997): 74-85 and Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security* 22:2(1997): 90-136.

aid, and if allies undermine sanctions by supplanting lost trade, it stands that sanctions are very unlikely to produce policy success. The success rate of sanctions as measured by the Hufbauer, Schott, Elliott, and Oegg (HSEO) dataset is estimated to be approximately 34%.[2] Conversely, this indicates that sanctions fail in 66% of their attempts to coerce changes in target state's behavior. This empirical finding is consistent with Early's predictions that sanctions-busters are likely to undermine any sanctions effort.

These insights are quite profound and make Early's contribution very significant. Early is the first sanctions researcher to really tackle the question of sanctions-busters and their role in undermining sanctions efforts. This is certainly to be applauded. He is careful about what can and what cannot be supported through systematic empirical tests, and uses case studies to supplement the tests of his hypotheses. In total, the work is well done and yields some very interesting conclusions. Further, Early offers several policy implications based on his systematic work. For example, he argues that in order to combat the problem of sanctions-busting, the U.S. should make a greater effort to pursue multilateral versus unilateral sanctions (215). This is consistent with his theoretical framework, and makes sense given recent studies of the effectiveness of multilateral versus unilateral sanctions.[3]

However, it is interesting that despite sanctions-busting efforts, approximately one third of sanctions efforts are successful according to the HSE data. According to alternative data sources, such as the Threat and Imposition of Sanctions (TIES?) dataset, the effectiveness of both threatened and imposed sanctions ranges from 27.2%-44%,[4] depending on how success is defined. These rates of success seem somewhat high given the pervasiveness of sanctions-busting. This suggests that while sanctions-busting may take place, there are likely strategies available to overcome this problem. Early alludes to the multilateral solution in his work. This conclusion now has empirical support. According to the TIES data, multilateral sanctions have a success rate of 51% (170/335) compared to unilateral sanctions at 31% (214/689).[5] Perhaps there are also alternative strategies that may allow senders to overcome the problem of sanctions-busting. For example, empirical work indicates that imposed sanctions are more likely to succeed if they are imposed through international institutions, if they are costly, if issues are less salient, and if multiple issues are involved.[6] The latter two points are important if we consider that sanctions may be part of a larger bargaining process. By deliberately linking issues, limiting demands, or focusing on a specific set of behaviors, senders and targets may be better able to facilitate conflict resolution. Additionally, Early alludes to the use of financial sanctions as being an important tool of leverage for the U.S. (1). Taken together, these insights suggest that there are multiple

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[2] Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, "Economic Sanctions Reconsidered," (Washington, D.C.: Peterson Institute for International Economics, 2007).

[3] Navin A. Bapat and T. Clifton Morgan, "Multilateral versus unilateral sanctions reconsidered: A test using new data," *International Studies Quarterly* 53:4 (2009): 1075-1094.

[4] T. Clifton Morgan, Navin Bapat, and Yoshiharu Kobayashi, "Threat and imposition of economic sanctions 1945–2005: Updating the TIES dataset," *Conflict Management and Peace Science* (2014): 0738894213520379.

[5] Morgan et al (2014). It is important to note, however, that Early's insights come from HSE.

[6] Navin A. Bapat, Tobias Heinrich, Yoshiharu Kobayashi, and T. Clifton Morgan. "Determinants of sanctions effectiveness: sensitivity analysis using new data." *International Interactions* 39:1 (2013): 79-98.

mechanisms that may be available for senders to overcome the problem of black knights. The challenge is simply figuring out which ones will be effective under what circumstances.

These statements illustrate how Early's work opens the door for many new avenues of research. In trying to understand sanctions strategically, Early raises the question: if senders can anticipate that black knights will attempt to undermine sanctions efforts, what steps can they take to overcome the sabotaging of their sanctions? To be sure, these are promising questions for future researchers to pursue.

Review by Eric B. Lorber, Center for a New American Security

My thanks to Thomas Maddux for the opportunity to comment on Bryan Early's excellent book, *Busted Sanctions: Explaining Why Economic Sanctions Fail*. Early's work—which examines the motivations, characteristics, and impacts of so-called 'sanctions-busters' on attempts to successfully employ economic coercion—is an important part of a recent resurgence in the study of economic statecraft. As policymakers have increasingly relied on sanctions as tools of first resort to address intractable foreign policy issues in recent years, Early's book provides useful insight into why such attempts may be likely to fail, and how policymakers can improve their chances of success.

And while Early's core argument—that external support that sanctioned states can leverage from third-party spoilers has a major impact on the success of sanctioning efforts—is compelling, it would be interesting to see whether—and how—many of conclusions may change in a post-2001 era where the practice of economic sanctions has been significantly revamped by policymakers.

In this review, I provide this recent historical and policy context, noting that much of the academic literature has not kept pace with these policy developments. In the past few years, however, a number of academics have begun exploring these issues,[1] and Early's work is one of the most notable contributions, deepening our understanding of how economic sanctions do—and do not—work. I then suggest two ways in which his work could be sharpened to account for these changes. I should note that I come to this roundtable from the perspective of a policymaker and a practitioner, not an academic. And so while my critiques of Professor Early's work may at times seem outside the scope of his project, they are meant to incentivize the academic community to better its—and the policymaking community's—understanding of how these tools operate.

Starting in the mid-2000s, the United States began employing significantly more sophisticated types of economic sanctions than traditional trade restrictions and embargoes. Using the importance of the dollar in the world financial system, private firms' concern with their business reputations, and the fact that the United States is the hub for many key technologies necessary for the development of industries in other countries, the United States found new ways to pressure rogue actors.[2]

In the case of Iran, for example, the United States used its position as the financial capital of the world—and one of its largest markets—to essentially force foreign financial institutions to abandon their business with the Islamic Republic. The U.S. Treasury Department threatened those financial institutions—and later non-financial companies—with a choice: either they could do business in U.S. financial markets (and have access to U.S. dollars for transactional purposes) or they could do business in Iran, but not both. The inability to use the U.S. financial system is a major impediment to foreign firms wishing to do business in sanctioned

[1] See, for example, Dursun Peksen and Byunghwan Son, "Economic Coercion and Currency Crises in Target Countries," *Journal of Peace Research* 52:4 (2015): 448. See also Matthias Neuenkirch and Florian Neumeier, "The Impact of UN and US Economic Sanctions on GDP Growth," *European Journal of Political Economy* 40:A (December 2015): 110.

[2] See, for example, Elizabeth Rosenberg and Zachary Goldman, *Economic Statecraft: American Economic Power and the New Face of Financial Warfare* (Washington, D.C.: Center for a New American Security, 2015), http://www.cnas.org/economic-statecraft-american-economic-power.

jurisdictions: transactions in U.S. dollars have long been the norm in many international markets and sectors, even when the parties involved are based outside the United States. As a result, a large number of foreign firms shuttered their business operations in Iran, increasing economic pressure on the country.[3]

Similarly, the United States has imposed sophisticated sanctions on Russia that move well beyond simple prohibitions on transacting with certain of Vladimir Putin's cronies. These new tools—which target Russia's ability to refinance its massive external debt, as well as prevent the country from developing key energy resources over the medium to long term—leverage key advantages enjoyed by the United States: technological superiority and attractive capital markets. A significant component of these sanctions prevents U.S. energy companies from providing cutting-edge technologies to Russian firms that would help those firms develop difficult-to-reach oil resources (such as shale, offshore, and Arctic resources). And like the sanctions aimed at isolating Iran from Western financial markets, U.S. and European-Union (UN) sanctions on Russia prohibit Western financial firms from dealing in new debt or equity with more than a thirty-day maturity period, making it exceedingly difficult for Russian companies to secure the necessary financing to service the country's massive debt.

Policymakers, seeing the sophisticated nature and powerful impact of these sanctions, have concluded that these new tools of coercion are different from—and a marked improvement on—prior forms of economic punishment. For example, in a recent speech, outgoing Undersecretary of the Treasury for Terrorism and Financial Intelligence David Cohen noted that "we have been able to move away from clunky and heavy-handed instruments of economic power. . . . [a]ll of us in this room remember how sanctions used to consist primarily of trade restrictions or wholesale bans on commercial activity. . . . [t]hese embargoes rarely created meaningful pressure. Sanctions that focus on bad actors within the financial sector are far more precise and far more effective than traditional trade sanctions."[4]

Importantly, these new types of sanctions move significantly beyond strict embargoes or preventing U.S. persons from trading with sanctioned countries, which were the hallmark of U.S. sanctions programs during the Cold War and into the 1990s. Rather, these new sanctions target a country's ability to conduct financial transactions and effectively cut these countries off from western financial markets. Such prohibitions are less focused on stopping U.S. persons from sending goods to sanctioned countries such as Iran and more concerned with denying these countries the ability to utilize the international financial infrastructure necessary to engage in significant cross-border trade.

While policymakers have re-discovered the potential power of sanctions, the academic literature on economic sanctions has not kept pace. With the exception of a few notable authors—some of whom are participating in this roundtable—academic debates have continued to focus primarily on whether—and the conditions under

[3] Adam Szubin, "Remarks of Acting Under Secretary of Treasury for Terrorism and Financial Intelligence at the United States Senate Committee on Banking, Housing, And Urban Affairs." Washington, D.C., 5 August 2015. Available at https://www.treasury.gov/press-center/press-releases/Pages/jl0144.aspx.

[4] David Cohen, "Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Practicing Law Institute's 'Coping with U.S. Export Controls And Sanctions' Seminar, 'The Evolution Of U.S. Financial Power,'" Lecture, Practicing Law Institute, Washington, D.C., 11 December 2014.

which—sanctions can be effective.[5] Less attention has been paid to two emerging and critical areas—the role of the private sector in impacting whether these sanctions succeed or fail—and whether new types of sanctions that move beyond simple trade restrictions may be more or less effective.

Busted Sanctions usefully steps into this space and represents one of the first book-length projects to look beyond simply whether sanctions can be effective to explore both how they can be undermined and the role of the private-public sector relationship (in this case private firms and sanction-busting countries) in impacting such effectiveness.

Early argues that profit seeking states—in addition to states motivated by politics—are often responsible for engaging in sanctions-busting activity, and that this activity can seriously undermine the effectiveness of a comprehensive sanctions regime (12-15). In particular, he finds that states that are geographically proximate to sanctioned countries and have open economies are more likely to engage in sanctions-busting behavior, even if that behavior may undermine their political interests (as the sanctioned states may often be their rivals or pose security threats) (155). According to Early, these states engage in sanctions-busting for profit; sanctions create market opportunities for companies and countries willing to flout the sanctioning country because they freeze potential competition out of the target state's markets (155-157).

While Early's theory for why states and firms engage in sanctions-busting behavior helps us better understand why U.S. sanctions episodes may fail, the theory raises a number of important—and ultimately unanswered—questions.

First, the relationship he posits between the private sector and the state apparatus in many of these countries is oversimplified, and may suggest that countries engaging in sanctions- busting are intentionally flouting U.S. sanctions regimes when in fact those states simply do not have the capacity to effectively regulate potentially prohibited activity.

In Early's theory, countries engaged in trade-related (as opposed to foreign aid-related) sanctions-busting benefit from their companies' business activities in sanctioned countries; these sanctions-busters permit or facilitate their industries doing business in sanctioned jurisdictions because it is domestically beneficial, either shoring up the state's bases for support politically or bolstering the state economically.

Early's argument assumes that the state has the capacity to prevent such sanctions-busting activity by its private firms, but either actively facilitates such activity or simply looks the other way. This is often times not the case, however. For example, in his qualitative analysis of the UAE, Early elides over the governance structure of UAE and that certain federal elements within that structure (e.g., Dubai) were far more complicit

[5] For another important exception, see Daniel Drezner, "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice," *International Studies Review* 13:1 (2011): 96.

in promoting illicit trade with Iran than others.[6] In fact, the UAE has had a difficult time stopping these sub-state governments from facilitating such activity.[7]

This case is evidence of a significantly greater challenge facing the United States and its partners as they have tried to impose biting sanctions on various countries: ensuring that these partners have sufficient capacity to prevent companies operating within their jurisdictions from engaging in sanctions-busting activities. For example, in the post-9/11 era, the United States has expended a significant amount of political capital and resources trying to help countries develop and implement policies and procedures designed to ensure compliance with U.S. and international sanctions programs.[8]

It is curious. Then, that Early's qualitative and quantitative analysis does not include a measure of state capacity to prevent such activities. While it is surely the case that many countries have actively facilitated sanctions-busting activities—or have intentionally looked the other way as their companies engaged in such business—it also seems likely that a number of these countries, particularly smaller countries with significant international flows, such as the UAE, would simply lack the institutional capacity to significantly limit such activities. Including a variable measuring such as state capacity—which admittedly could be difficult to do given that states more likely to engage in sanctions-busting activity are also less likely to build such capacity—would help us better understand whether these states are actively undermining U.S. sanctions programs or simply may require assistance in preventing such activity.

Second, while Early's analysis focuses on trade flows—and whether states increase or decrease their trade with countries following the imposition of sanctions on those targets—such a dependent variable may be ultimately unsatisfying, particularly if trying to provide recommendations for policymakers who have been developing sharpened tools of economic statecraft. Early's statistical model focuses on trade flows from 1950 until 2002 (42-55), and while embargoes and restrictions on trade have been widely used forms of economic coercion, in the post-2001 era, policymakers have focused far more on limiting targets' access to western financial markets. Such an approach often has the tertiary effect of limiting trade flows between countries like Iran and those in Western Europe, but the more important impact has been on the ability of these countries to finance trade, investment, and development.

By focusing only on trade data—and only analyzing data from 1950 to 2002—Early's analysis misses this critical component of the sanctions' story, and indeed one of the primary reasons that sanctions as a tool of economic statecraft have re-emerged so prevalently in the past 15 years. This circumscribed scope may impact his findings; for example, while many countries may have engaged in significant trade-related sanctions-busting during that period of time, following 2002 they may not have engaged in attempts to circumvent

[6] Susan H. Allen, Review of *Busted Sanctions: Explaining Why Economic Sanctions Fail*, by Bryan Early, *H-Diplo*, October 2015, https://networks.h-net.org/node/28443/reviews/88357/allen-early-busted-sanctions-explaining-why-economic-sanctions-fail.

[7] *Ibid.*

[8] See, for example, Juan Zarate, "Harnessing the Financial Furies: Smart Financial Power and National Security," *The Washington Quarterly* 32:4 (2009): 43-59.

restrictions on financial transactions, as the United States made increasingly clear that doing so would jeopardize their companies' access to U.S. financial markets.

Admittedly, this critique is unfair for two reasons: first, Early addresses some of these developments during his qualitative case study of the UAE. Second, there is likely limited data for this time period (approximately 2001-2015), and that data would have to identify both trade *and* financial flows, which is often difficult to track.

However, it goes to a larger point that the academic study of sanctions needs to do a better job following the granular developments in sanctions' policy—and incorporating those developments into the study of such tools—if it is going to assist policymakers in better understanding the limits of these levers. While it is important to know why sanctions-busting occurs, if those conclusions are limited to data that stops at 2002, they will be of limited use in understanding the current wave of sanctions, and what they will likely be able to achieve.

In this way, Early's work is doubly important: it serves as useful contribution to our knowledge of economic statecraft by moving beyond assessing whether such blunt tools can change target state behavior and at what cost, but it also makes clear that significant additional data collection and research needs to be done to ensure that the state of academic literature on sanctions accurately reflects the developments in the policy world.

Review by Mark Souva, Florida State University

Busted Sanctions advances our knowledge of why some economic sanctions succeed while others fail. Bryan Early argues that the actions of third parties are a central reason as to why sanctions fail. Sanctions fail because they are busted by opportunistic actors. In addition to more fully developing this argument, *Busted Sanctions* offers a sophisticated empirical analysis of the success of sanctions, likely sanctions-busters, as well as outstanding case studies to illustrate the causal logic of the argument.

It is well known that while many sanctions fail to produce a policy change in the target, some do. Explaining this variation is a central policy and theoretical challenge. Some have argued that sanctions fail because they are not costly enough.[1] This argument falters by not taking into account domestic political institutions. Costly sanctions imposed on autocratic regimes are likely to increase the probability of failure by creating extra rents for the dictatorial regime. Relatively low cost sanctions or even the threat of sanctions, on the other hand, sometimes succeed if they narrowly target a regime's ruling coalition.

Another argument for why sanctions fail is that they are a substitute for military force, as such they are a signal that the sanctioning state lacks resolve, for if the state had high resolve on the issue it would use military force. Research indicates, however, that sanctions are more likely to complement the use of military force than to substitute for it.[2] Nevertheless, research has not clearly indicated when sanctions are substitutes and when are they are complements. Among the set of failed sanctions, substitution seems to be a cause of only a few of these cases.

Early's argument addresses some of the limitations of these alternative arguments but also fails to account for some of their insights. To argue that sanctions fail when third parties bust them is similar to the argument that sanctions fail because they are not costly enough. One of Early's valuable contributions is to explain how sanctions may not impose a significant economic cost on a target. Some third parties work to bust the sanctions, meaning some third parties increase their trade or aid with the target state. Early's argument, however, does not take into account how the target's political institutions may affect the effectiveness of sanctions. One reason for this is probably that Early's investigation focuses exclusively on U.S. sanctions and most of the countries the U.S. targets are non-democracies. But there is variation in autocratic institutions.

Early's argument also does not address the substitutes or complements question. One reason sanctions are employed, according to Early, is that they are less costly than military force for the sanctioning state. This suggests that sanctions are substitutes. If that is the case, they may fail because of lack of resolve and not because of sanctions-busting. The empirical analysis does not account for this potential omitted variable.

A related but larger question is what constitutes success. It is difficult to evaluate the success or failure of sanctions without a clear understanding of the counterfactual. Are busted sanctions failed sanctions? How do we know what would have happened if the sanctions were not busted? Sanctions-busting is likely correlated

[1] Alfred Cooper Drury, "Revisiting economic sanctions reconsidered," *Journal of Peace Research* 35:4 (1998): 497-509.

[2] David J. Lektzian and Christopher M. Sprecher, "Sanctions, signals, and militarized conflict," *American Journal of Political Science* 51:2 (2007): 415-431.

with difficult-to-observe variables, such as the expectation of being caught and punished for sanctions-busting. Do sanctioners anticipate the possibility of sanctions-busting? If not, why?

The most novel theoretical aspect of this book is Early's argument on who busts sanctions. Trade sanctions are likely to be busted by allies of the United States and aid sanctions are busted by adversaries of the U.S. This thesis is supported by a careful empirical analysis. Early estimates a competing risks model and finds that as the number of countries busting trade sanctions (i.e. trading with the sanctioned state) increases, the probability of sanctions success decreases. An important future research project is to examine sanctions-busting against regional and international organizations. Does busting only occur when sanctions are bilateral and perceived as illegitimate by friends and foes? If sanctions-busting is primarily confined to bilateral sanctions, then maybe they should not be used unless there is support from an international organization. Early also shows that as countries receive more foreign aid during sanctions, the sanctions are more likely to fail. Most importantly, Early opens a new line of research into the question as to who is likely to be a trade or aid sanctions-buster. Others are sure to follow up on this question.

The case studies in this book are outstanding. Early has conducted excellent and thorough research to document sanctions-busting in prominent cases like the sanctions on Iran and Cuba. Consistent with the argument, Early documents that the United Arab Emirates and Turkey, American allies, actively busted U.S. trade sanctions on Iran, and the Soviet Union, China, and Venezuela, American adversaries, actively busted U.S. aid sanctions on Cuba.

Early's evidence on sanctions-busting is solid. But it is not clear that sanctions failed in either of these cases, especially the sanctions on Iran. In both cases, the sanctions were economically punishing. Each of these targets would have had a more robust economy absent the sanctions. One can also make a reasonable case that the sanctions on Iran pushed it into negotiations and some significant concessions. While the Castro brothers still rule in Cuba, American sanctions were costly to both Cuba and the Soviet Union, which in and of itself may be taken as a measure of success.

Policymakers and scholars will benefit from Early's research. When contemplating sanctions, a sanctioner needs to consider the likelihood of sanctions-busters. If busting is likely, are sanctions worthwhile?

Author's Response by Bryan R. Early, University at Albany, SUNY

In my book *Busted Sanctions*, I seek to explain why some countries undercut sanctioning efforts by significantly increasing the amount of foreign aid or trade they provide to sanctioned states. I refer to this behavior as sanctions busting and argue that it has greatly undermined the effectiveness of the United States' economic sanctions. My analysis reveals that both aid-based and trade-based sanctions busting have played a major role in preventing U.S. sanctioning efforts from succeeding but in different ways. I find that while profit-seeking predominately motivates trade-based sanctions busting, political motivations drive aid-based sanctions busting. The contributors to this roundtable, Susan Allen, Navin Bapat, Eric Lorber, and Mark Souva, have each paid me the compliment of investing their time and efforts into thinking seriously about how I can improve upon my arguments, the evidence I use to support them, and the policy conclusions that can be drawn from my scholarship. I want to thank each of the roundtable participants for both their criticisms and their ideas that build upon the foundations of my book.

In this essay, I will try to respond to some of the broader critiques provided by Allen, Bapat, Lorber, and Souva and also discuss what their remarks suggest for future research on sanctions busting. My response will focus on three major sets of criticisms related to how sanctions busting affects the success of sanctioning efforts, why states engage in sanctions busting, and how the success of sanctioning efforts can be assessed. As I conclude below, many of the questions raised by the roundtable participants call for additional scholarship in order to answer them. The roundtable's participants have thus provided a valuable roadmap for continuing to explore what causes sanctions busting, what impact it has, and whether the problems created by it can be minimized.

Does Sanctions Busting Matter the Same in All Cases?

In my book, I sought to explain how increased foreign aid and trade from third-party states could help sanctioned states defeat the sanctions imposed against them. I argue that sanctions-busting trade ameliorates the adverse economic effects that sanctions can have on target states' private sectors. In contrast, I argue that sanctions-busting aid more directly benefits the leaders of sanctioned states—providing them with enhanced resources they can employ to prevent sanctions from destabilizing their rule. As my analysis shows, both sanctions-busting trade and aid have distinct, deleterious effects on the likelihood that sanctioning efforts will succeed and sanctioned countries have incentives to pursue both types of sanctions-busting support if possible.

In his review, Souva argues that the theoretical framework I provided does not take into account how the regime type of sanctioned states may mediate the impact that both sanctions-busting aid and trade have. He is right. While I sought to control for whether having a democratic regime makes sanctioned countries less likely to succumb to sanctioning efforts in general (45-47), I did not explore the potential interaction effects between regime type and sanctions busting. As an extension to my book's core argument, I think that Souva's suggestion represents a valuable line of future inquiry. For example, it could be argued that democratic-capitalist states might be more efficient at leveraging trade-based sanctions-busting to ameliorate the adverse economic effects of sanctions. In contrast, certain types of authoritarian governments might be more effective at exploiting foreign aid in ways that prevent sanctions from jeopardizing their rule. Comparatively, then, such regimes could be less likely to concede to sanctions than democratic regimes that are also receiving aid-based sanctions-busting support. Exploring this topic could also provide more granular insights for policymakers about how sanctions busting can affect a sanctioning effort's likelihood for success.

Souva and Bapat both point in their reviews to issues pertaining to whether sanctioning efforts are unilateral or involve multilateral coalitions. Cooperating with sender states in imposing sanctions is the opposite of cooperating with target states in busting them. Yet whereas the marginal value-added of a single state joining a sanctioning coalition is likely to be low, the presence of even a major trade-based sanctions buster can undermine the effectiveness of sanctioning efforts. Given that it is costly for third-party states to join most sanctioning efforts while it can be profitable for third-party states to engage in trade-based sanctions busting, senders often find it much more difficult to obtain support for their sanctions.[1] Even when third-party states could be expected to cooperate with sanctioning efforts due to obligations imposed by international institutions, I have found evidence that only certain international institutions are effective at preventing their members from engaging in trade-based sanctions busting.[2]

Yet, as Bapat notes, evidence from the recently updated TIES data set[3] indicates that multilateral sanctioning efforts have a superior track record of success compared to unilateral sanctions. If states are able to build effective multilateral sanctions coalitions, then there are fewer third-party states available to offer sanctioned states assistance. Given that it only takes one or two sanctions busters to have a deleterious effect on sanctioning efforts' likelihood of succeeding, though, sanctions coalitions would have to be quite large *and* effectively monitored in order to prevent sanctions busting from taking place. One of the takeaways from my book's case studies is that the most important consideration for the U.S. government was not whether it had the support of at least one other country to make its sanctions multilateral instead of unilateral; rather, it mattered most whether the U.S. government had the cooperation of the third-party states possessing the greatest amount of leverage over the target. In the case of the U.S. sanctions against Iran, for example, it was far more critical for the U.S. to get the cooperation of the United Arab Emirates (UAE) than to have a country like Mexico agree to join the sanctions. More granular research on the impact of which states participate in sanctioning coalitions versus which states sanctions-bust could help shed light on this issue. The recently updated TIES data represents a valuable resource for conducting such analyses.

In his remarks, Lorber provides some excellent context for a number of changes in the U.S. government's sanctioning strategies that I was only partially able to document in my book. In the latter part of the 2000s, the U.S. government began to leverage financial sanctions and other forms of economic statecraft, such as anti-money laundering provisions, far more extensively. In particular, the U.S. government become much more adept at influencing the decision-making calculus of foreign financial institutions that had been playing an essential role in facilitating sanctions-busting transactions. As I document in my case study of the U.S. sanctions against Iran, this financially-focused sanctioning strategy and gaining the cooperation of the European Union (EU) helped reinvigorate the sanctioning effort against Iran that had not been very effective up until that point. My book went to press before the Joint Comprehensive Plan of Action (JCPOA) with

[1] Lisa Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions* (Princeton: Princeton University Press, 1992); Bryan R. Early, "Alliances and Trade with Sanctioned States: A Study of U.S. Economic Sanctions, 1950-2000," *Journal of Conflict Resolution* 56:3 (2012): 547-572.

[2] Bryan R. Early and Robert Spice, "Economic Sanctions, International Institutions, and Sanctions Busters: When Does Institutionalized Cooperation Help Sanctioning Efforts?," *Foreign Policy Analysis* 11:3 (2015): 339-360.

[3] Clifton Morgan, Navin Bapat, and Yoshi Kobayashi, "The Threat and Imposition of Sanctions: Updating the TIES dataset," *Conflict Management and Peace Science* 31:5 (2014): 541-558.

Iran was struck, but I was able to observe several of the clear ways that U.S. sanctioning efforts towards Iran had improved starting in the late 2000s.

This gets to one of the central questions that Lorber's comments raise: Could the U.S. government avoid the adverse effects of sanctions busting by turning exclusively to financial sanctions? My answer is no—for several different reasons.

First, I do not see a sole reliance upon financial sanctions as an effective strategy and I think that both trade-based and aid-based sanctions busting can help ameliorate some of the adverse effects of even financially-oriented sanctions. The U.S. and EU sanctioning efforts against Russia over its annexation of Crimea are instructive on this point. Yes, a major component of the sanctioning effort against Russia involved targeting Russian financial institutions, and those sanctions have had a significant, negative impact on the country's economy. Less heralded, though, were the sanctions put in place on strategically valuable dual-use commodities that coincided with the arms embargo that was also enacted. Denying Russia strategically valuable commodities that could contribute to its energy, military, and high-tech sectors can undercut both Russia's economic and military strength in the long run. Relying on financial sanctions alone would overly limit both the breadth and scope of sanctioning efforts—even if it is far more difficult to impose effective trade sanctions. I foresee financial sanctions as playing an enhanced role in complementing traditional trade sanctions, but not supplanting them all together.

Secondly, I think that both aid- and trade-based sanctions busting can help target states ameliorate the costs imposed by financial sanctions. Consider, for instance, one of the most highly-touted examples of the U.S. government wielding its new tools of financial coercion—when the U.S. government convinced Banco Delta Asia in Macau to freeze $25 million-worth of North Korean assets in 2005. The action infuriated Kim Jong-il, cut the North Korean regime off from a valuable source of hard currency, and encouraged the North Korean leadership to resume negotiations. At least in the short-run, the policy appeared to be very successful.[4] A counter-factual could readily be imagined, though, in which an aid-based sanctions buster like China could have interceded by giving North Korea $25 million in order to make up for the shortfall caused by the freezing of its assets. That could have readily undermined the measure's impact. Beyond freezing assets, sanctions aimed at isolating a target county's financial sector impose costs both by hurting the banks directly and by raising the transaction costs for other businesses to engage in international commerce. While trade-based sanctions busters may not be able to ameliorate all the costs imposed by sanctions against a target state's financial sector, they could help mitigate those costs. Both Turkey and the UAE profitably assisted Iran's efforts to overcome its isolation from the international financial sector, for example, by facilitating payments for its fossil fuel exports in gold (1-2).

Finally, I think the increasing role played by financial sanctions suggests that the concepts I develop in my book may need to be extended to account for the emergence of financial sanctions busters. If the U.S. government continues to use the threat of cutting off countries and financial institutions from the U.S. financial system, this will incentivize the emergence of alternative financial centers and financial networks that

[4] See an insider account of this incident in Juan Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: PublicAffairs, 2013).

do not rely on U.S. dollars or overlap with U.S. jurisdictions.[5] That certainly will not happen overnight, but I think that's the natural evolution of the cat and mouse game between the U.S. government, the parties it sanctions, and all the private actors that can profit from undercutting U.S. economic sanctions. Financial sectors that are inoculated from U.S. coercive efforts would be natural candidates for becoming active financial sanctions busters, serving as hubs for sanctioned states/entities to receive loans, obtain financial services, and invest their financial assets.

The feedback provided by Souva, Bapat, and Lorber suggests that far more research on the effects of sanctions busting needs to be conducted and that sanctions busting is a dynamic phenomenon in need of continued study. I acknowledge that my book only represents a starting point for a number of far deeper inquiries into this subject that these scholars have called for.

Firms or Governments: Who Is Actually Responsible for Sanctions Busting?

I argue that profit-seeking primarily motivates trade-based sanctions busting and political prerogatives primarily motivate aid-based sanctions busting by third-party states. The policy choices of third-party governments play a significant role in both types of sanctions busting behaviors, but their role is far more variable and difficult to determine in the case of trade-based sanctions busting. It is pretty clear that third-party governments are responsible for determining whether to give target states massive aid packages. As part of my explanation of aid-based sanctions busting, I argue that having access to large pools of budgetary resources is essential for third-party governments to become aid-based sanctions busters. Accordingly, both a third-party government's capacity and political motives help determine whether or not it will engage in aid-based sanctions busting.

In their commentaries, both Allen and Lorber critique my explanation of the role third-party governments play in determining whether countries emerged as trade-based sanctions busters. Allen's main criticism focuses on the fact that third-party governments appear to have little agency in determining whether their states engage in trade-based sanctions busting. In contrast, Lorber argues that I do not take into account variation in the capacity that governments have to adopt specific policies. The former implies that I should have accounted for how government policies could facilitate sanctions-busting trade in greater depth, while the latter suggests that I should have accounted for the fact that many governments cannot effectively monitor and regulate their firms' activities. Both are fair critiques, but both also help illustrate why I sought to develop a highly generalizable theory of trade-based sanctions busting.

My theory argues that profit-seeking firms are the drivers of which states become trade-based sanctions busters. Firms expand their business in or migrate to third-party states that constitute the most profitable venues for taking advantage of sanctions-busting opportunities. They also lobby their host governments to adopt favorable policies to support such trade or, at the very least, to convince their governments not to join in sanctioning efforts. Governments have agency in both selecting which policies to adopt: either in supporting the sanctions, adopting policies that promote commerce with the target, or maintaining neutral status quo policies. I argue that there are often substantial economic and political costs for governments that decide to prevent their constituents from sanctions busting when it is otherwise profitable to do. For

[5] For a similar argument, see Erik Jones and Andrew Whitworth, "The Unintended Consequences of European Sanctions on Russia," *Survival* 56:5 (2014): 21-30.

governments that want to help target states to defeat sanctions, it is far more cost effective for third-governments to adopt policies that are supportive of trade-based sanctions busting than to instead engage in aid-based sanctions busting. The commercial interests and behaviors of firms thus play the dominant role in my theoretical explanation, with governments and their foreign policy interest playing a secondary role in affecting outcomes. My general theory can thus accommodate the fact that sanctions-busting firms can gravitate to third-party states that offer the most profitable venues for trading with sanctioned states in the following instances: third-party governments support sanctions busting, third-party governments maintain neutral policies, or third-party states lack the capacity to prevent sanctions busting.

My response to Allen and Lorber's criticisms is that I think focusing on the factors that affect the profitability of trading with sanctioned states in explaining which countries become trade-based sanctions busters offers the most parsimonious explanation for most cases. Rather than making any single factor determinant in whether a third-party state sanctions busts, my theory allows for numerous elements of a third-party state's profile to influence how profitably firms can trade with sanctioned states. Those factors may be political, economic, or geographic. I disagree with Allen's assentation, for example, that the UAE's emergence as a leading trade-based sanctions buster on Iran's behalf "does not meet the broad description of trade-based sanctions-busters." The UAE was geographically proximate with Iran, Iran had a high level of pre-existing commercial dependence upon trade with the UAE, the emirate of Dubai was the region's leading transshipment hub for incoming trade to the Middle East, and the UAE became a U.S. ally in 1994. As I detail in my book, Dubai's proactive adoption of innovative 'free trade zones' only helped to facilitate sanctions-busting trade with Iran even further and those innovations were adopted by a number of other emirates, like Sharjah.[6] At first glance, the UAE does appear to be very different than other leading sanctions busters like Germany and Japan. Yet, it is my theory's focus on the profitably of trading with specific sanctioned states that explains why the UAE was well-suited to sanctions bust on Iran's behalf even if it might not have been as generally well-suited to sanctions bust on other countries' behalves as Germany or Japan.

While academics prefer parsimonious theories, the enterprise of policymaking requires greater attention to the specific circumstances in any given case. As both Lorber and Allen suggest, understanding what specific policies governments adopt to encourage the development of sanctions-busting trade relationships and understanding the factors that can prevent states from effectively participating in sanctioning efforts are valuable endeavors and could heavily influence the policy-relevant insights that stem from my project. My general theory is broad enough to accommodate more detailed theorizing about how other state attributes or the adoption of specific policies can affect third-party states' attractiveness as sanctions-busting venues. Pursuing these additional lines of inquiry could yield important policy-relevant insights.

Thinking about Failing versus Failed Sanctioning Policies

Finally, I wanted to respond to Souza's remarks about whether the sanctions against Iran and Cuba were actually failing policies with some thoughts on what it means for economic sanctions to be successful. The most straightforward way of thinking about whether sanctions fail or succeed is whether the sanctions play a significant role in forcing their targets to make the desired concessions. Yet a more nuanced way of thinking

[6] Early (2015), 122-126.

about the success of sanctioning efforts is not only whether the desired concessions were achieved but also what they cost and how long it takes to achieve them.

One of the reasons that I took the issue of time seriously in my analysis is that how long sanctioning efforts persist plays a crucial role in evaluating whether or not they are worthwhile endeavors (52-54). In both the Iranian and Cuban cases, the U.S. government imposed economic sanctions that failed to achieve their objectives for decades. While some U.S. interests may have been advanced by the adverse economic impact those sanctions had on both countries, the U.S. economy also bore a large share of costs associated with those sanctions—and to the benefit of foreign commercial competitors.

In the case of Cuba, the sanctions clearly did not remove the Castro regime from power nor force Cuba to reject Communism. In fact, Fidel Castro did not commit to becoming a Marxist-Leninist or reach out to the Soviet Union for support until after Cuba had been subjected to harsh U.S. sanctions (167-168). During the Cold War, Castro became actively involved in seeking to thwart the U.S. government's foreign interests abroad in spite of the U.S. sanctions. Rather than forcing changes in Cuba and leading to the emergence of a pro-American regime, the U.S. government's stubborn commitment to sanctions after the end of the Cold War drove Cuba to forge sanctions-busting relationships with the anti-American Chávez regime in Venezuela and with China. While the U.S. sanctions have certainly had adverse effects on Cuba's economy, they accomplished very little politically, and U.S. businesses lost out on decades' worth of economic opportunities. In fact, Cuba's stubborn persistence at holding out against the United States' unrelenting sanctions emerged as an embarrassing issue for the United States in venues like the United Nations General Assembly.

U.S. sanctioning efforts did adversely affect Iran's economy during the 1980s to late-2000s but nowhere to the extent that Iran seriously considered making the desired policy concessions. Only when the U.S. government got serious about stopping the progress of Iran's nuclear program in the late 2000s by investing significant resources in gaining the cooperation of the parties that were supporting Iran via sanctions busting (i.e., the UAE and EU) and employing a new set of coercive financial tools did the sanctions truly begin to bite. That contributed to the JCPOA deal that accomplished *some* of the objectives the U.S. had in imposing nonproliferation-oriented sanctions on Iran, but the reinvigorated sanctioning campaign did not change Iran's support for foreign terrorist organizations like Hezbollah, its human rights policies, or its political institutions. It's also striking how excited many European businesses were to reestablish business ties in Iran following the nuclear deal—suggesting that the remaining sanctions the U.S. government has left in place will return to being largely ineffective.

According to my analysis, the U.S. sanctions policies towards Cuba and towards Iran from the mid-1980s to late-2000s were persisting in failure. I consider them failures because they had an extremely low chance of success given the fact that third-party states were proactively undercutting them and that U.S. business interests were bearing significant costs as a result. Rather than remaining committed to costly sanctions policies that are unlikely to work as a result of sanctions busting, the recommendation I make in my book is that policymakers should consider changing tactics. That's what the Obama Administration began doing with respect to Cuba and Myanmar, refocusing efforts on diplomatic engagement instead of relying on sanctions alone.

What this discussion ultimately suggests is that both policymakers and academics need to develop better rubrics for determining what constitutes success with respect to sanctioning efforts. Beyond the question of whether sanctions achieve their goals, assessing their aggregate consequences over time is critical to evaluating whether or not they were worthwhile endeavors.

Conclusion

I am very grateful to the contributors to this roundtable for their reviews of my book. I think they provided a valuable service in charting a course for future research on the sanctions busting phenomenon. While I could not respond to all the points the contributors raise, I sought to highlight ways in which additional research could constructively address some of their most salient points. Specifically, I think that my initial theoretical framework can be made more nuanced and, hence, more policy relevant by accounting for potential factors that could mediate the impact that sanctions busting has. Additionally, my theory did not exhaustively account for all the factors that could influence which states become sanctions busters, and that remains an open area of future inquiry. I am excited about what future research in those areas will look uncover.

Finally, I think this roundtable highlights a more fundamental challenge that both policymakers and academics face in seeking to understand and evaluate the effectiveness of economic sanctions. Academics have confronted significant challenges in developing appropriate schemes for measuring whether sanctions are successful, but the challenge for policymakers is even greater because they must make ongoing assessments about the balance of costs and benefits associated with maintaining sanctions and the sanctions' prospective chances of achieving their goals. I hope that, by explaining the role played by sanctions busting in undercutting the effectiveness of economic sanctions, my book has improved the conceptual tools available to both scholars and policymakers in determining ways of improving how sanctions are used. Indeed, Lorber and his co-author Peter Feaver argue elsewhere that presidential administrations "would be well served to create an interagency working group that closely examines the likely economic and political impact of" new forms of financial sanctions "…*before* imposing them."[7] I would take their recommendation one step further and recommend that the executive branch should do that prior to imposing any major new sanctioning effort. Factoring in which states are most likely to respond to sanctions by becoming sanctions busters and anticipating how that would affect the sanctions' prospects for success should help U.S. policymakers make better decisions with respect to their sanctions policies.

[7] Peter Feaver and Eric Lorber, "The Sanctions Myth," *National Interest*, 15 June 2015, http://nationalinterest.org/feature/the-sanctions-myth-13110.