PS5370 International Political Economy

Week 11 Geopolitics and Trade

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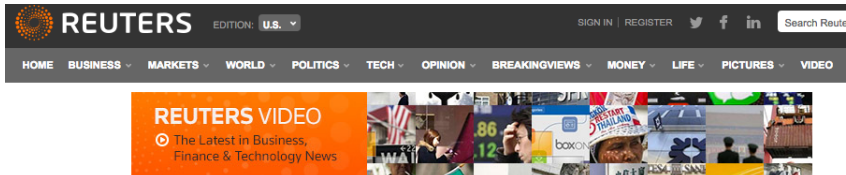
Outline

Geopolitics and Trade

Russia-Turkey

Russian government ratifies economic sanctions against Turkey

Russian Prime Minister Dmitry Medvedev has signed a decree prohibiting the import of food from Turkey and banning charter flights between the two countries. This is in...

RT.COM

US-Liberia

Definition

- The definition of economic coercion

Drezner (2003)

"...the threat or act by a sender government or governments to disrupt economic exchange with the target state, unless the target acquiesces to an *articulated* demand..." (643) [emphasis added]

- Self-Selected Sanctions

- *articulated* demand

- Political Conflict and International Trade

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Types of Economic Sanctions

- Trade (Embargo)
- Investment
  - Capital Flow Restrictions
  - Asset Freezes and Seizures

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Do Sanctions Work? Some examples: (Sender-Target)

- US-Liberia
  - Period: 2004-2015
  - Initiator: George W. Bush
  - Trigger: A failed peace deal for ending the civil war in Liberia
- Multilateral Economic Sanctions against South Africa
  - Period: 1962-1994
  - Initiator: UN Security Council
  - Trigger: Apartheid system (A racist class-segregating system)

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    - Initiator: UN; US; Congress
    - Trigger: Apartheid; racial oppression done to long time[?]

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Economic Sanctions, Chinese Style

- Example I: Dalai Lama's US Visit in 2010

Press Conference Remarks by Zhu Weiqun (deputy head of the Communist Party's United Front Work Department)

"If President Obama were to meet with Dalai Lama, without a doubt, this would seriously undermine the political foundation of China-US relations, future cooperations...[and] be counterproductive for the US to weather the storm of the current economic crisis. We will definitely take **corresponding measures**." [emphasis added]

Economic Sanctions, Chinese Style

- Example II: Liu Xiaobo's Nobel Prize (2010)

Press Conference Remarks by Ma Chaoxu (Spokesman of the Ministry of Foreign Affairs)

"In the recent years, Sino-Norway relations have maintained sound development, which is beneficial to the interests of both countries as well as their people. The Nobel Committee's decision to award the Nobel Peace Prize to Liu Xiaobo, however, completely goes against the purpose of the Nobel Peace Prize, and will also **damage the Sino-Norway relations**" [emphasis added]

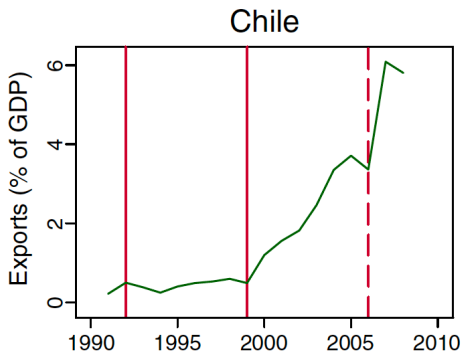# Chinese Sanction: Dalai Lama Effect-France (Fuchs and Klann, 2013: 169)
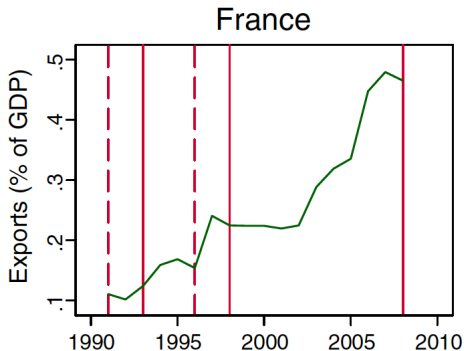
Vertical lines indicate meetings with a government member (dashed line) or political leader (solid line)

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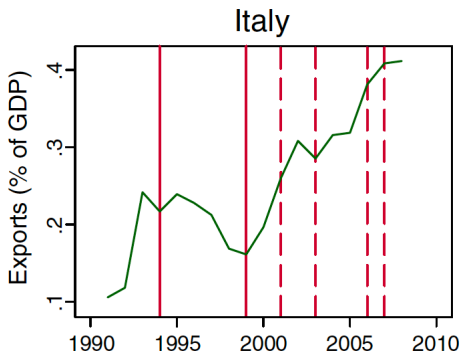
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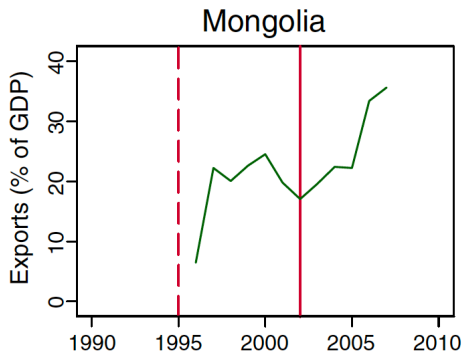

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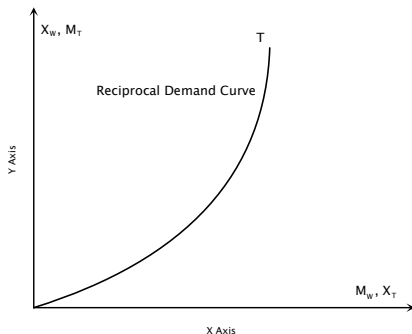- Do they work and why?

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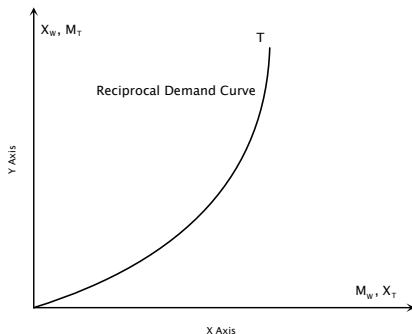
1 Economic Effects

2 Politics of Economic Sanctions

Economic Effects: Offer Curve

- The Target Country T's (Convex) Reciprocal Demand Curve
  (Offer Curve) for a certain good: $\partial M_T / \partial X_T > 0$,
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- "Terms of Trade" improve as T moves out from the origin
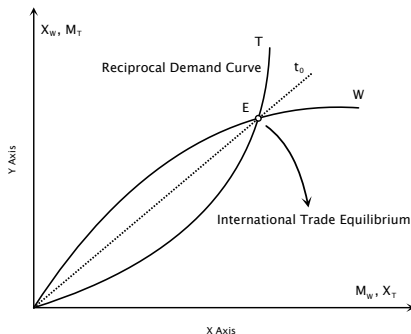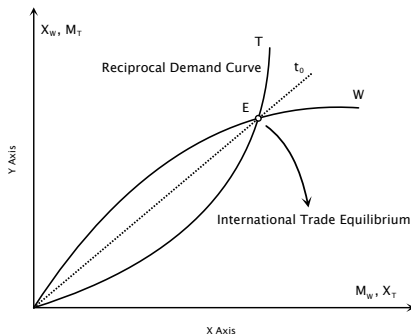 along the offer curve

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Economic Effects: Pre-Sanction Equilibrium

- W: The rest of the world (all other countries) (It's offer curve is concave, $\partial^2 X_W / \partial M_W^2 < 0$)
- Assumption: T has a comparative advantage in the good, X_T, and is the only supplier of the good.
- International Trade Equilibrium, E, and Terms of Trade, t_0

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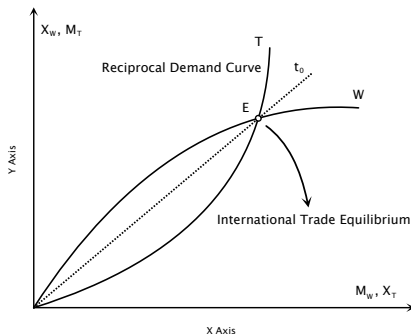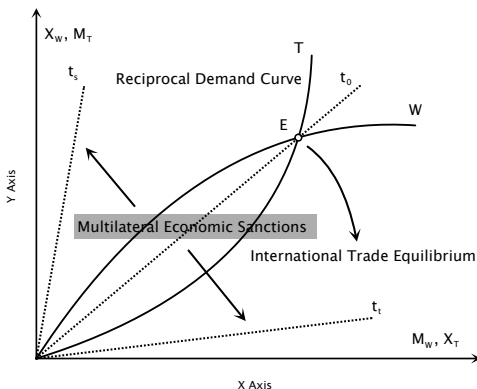

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Economic Effects: Multilateral Economic Sanction

- When multilateral economic sanctions (a total embargo) are imposed, both T and W are denied opportunities to trade:
  - Back to Autarchy: $E \rightarrow 0$
  - Worsened Terms of Trade: $t_0 \rightarrow t_s, t_t$

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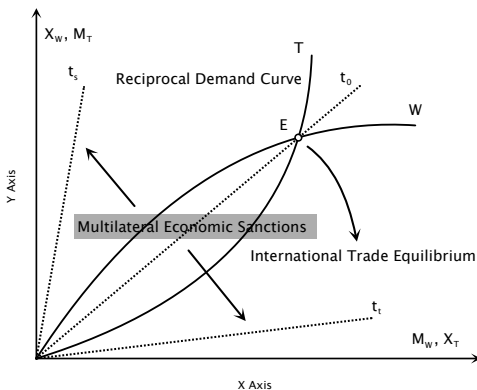 - Worsened Terms of Trade: $t_0 \to t_s, t_t$

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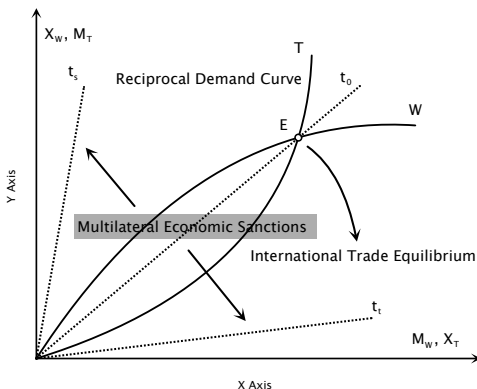 - Worsened Terms of Trade: $t_0 \rightarrow t_s, t_t$

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- A New Equilibrium and (Worsened) Terms of Trade, t^* (worse than t_0)

Economic Welfare

- Economic sanctions are welfare-worsening for both sanctioning and sanctioned countries

- Country Size and Self-Sufficiency

- Curvature (Elasticities) of R's offer curve

- Rents under Multilateral Economic Sanctions

- Who got the rents?

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Rents: Unilateral Economic Sanction

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- Senders: Import-Competing Producers
- Targets: trans-shipping, smuggling

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Sanctions Paradox (Daniel Drezner)

- Unitary-Actor Perspective
- Paradox:

  sanctions will be more common but less successful between adversaries, but less likely while more successful between allies

  - Why?
    - Soft Underbelly Hypotheses
    - Conflict Expectations and Welfare Losses

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    - Costly, Repeated play and Reflexive cases

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Costs of Trade Disruption

- The traditional measure of the level or change in total trade between countries as a result of sanctions is an ambiguous measure of the policy's costs for either side.

- Alternatives:
  1. Kavaklı et al. (2020): external and internal substitution
  2. Blanchard & Ripsman (2008): vulnerability & resource mobility

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Akoto et al. (2020)

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- The argument rests not on overall sanction costs but in the leverage such costs inflict upon targets. Although it could be more difficult for the target to replace specific IIT commodities, the very nature of IIT suggests that both trade partners produce more similar commodities. Thus, in the event that sanctions were imposed, the sender would face similarly high costs, suggesting lower leverage.

- Hypothesis: In the absence of intra-industry trade, higher target reliance on trade with senders is associated with a higher likelihood of target acquiesce. This association diminishes toward zero as the proportion of sender–target intra-industry trade increases. (confirmed).

- The paper finds strong support for the expectation that higher target trade dependence on the sender(s) is associated with a higher probability of target acquiescence to sanction threats when dyadic trade is composed primarily of inter-industry trade, but that this association between trade dependence and acquiescence diminishes toward zero as the proportion of bilateral intra-industry trade increases.

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- The argument rests not on overall sanction costs but in the leverage such costs inflict upon targets. Although it could be more difficult for the target to replace specific IIT commodities, the very nature of IIT suggests that both trade partners produce more similar commodities. Thus, in the event that sanctions were imposed, the sender would face similarly high costs, suggesting lower leverage.

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- The paper finds strong support for the expectation that higher target trade dependence on the sender(s) is associated with a higher probability of target acquiescence to sanction threats when dyadic trade is composed primarily of inter-industry trade, but that this association between trade dependence and acquiescence diminishes toward zero as the proportion of bilateral intra-industry trade increases.

Akoto et al. (2020)

- The composition of trade could have important implications for states' ability to adjust to trade interruption. The key feature of intra-industry trade is that a higher bilateral proportion of IIT implies that trade partners could more easily produce domestically (some variant of) commodities for which they currently trade.

- The argument rests not on overall sanction costs but in the leverage such costs inflict upon targets. Although it could be more difficult for the target to replace specific IIT commodities, the very nature of IIT suggests that both trade partners produce more similar commodities. Thus, in the event that sanctions were imposed, the sender would face similarly high costs, suggesting lower leverage.

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