

# PS5370 International Political Economy

## Week 11 Geopolitics and Trade

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National Taiwan University

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# Outline

- ➊ Economic Effects
- ➋ Politics of Economic Sanctions

# Geopolitics and Trade



## Russia-Turkey

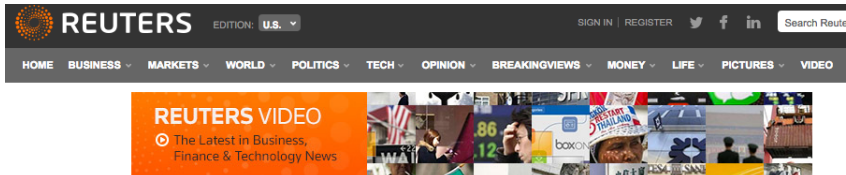


### Russian government ratifies economic sanctions against Turkey

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

The image shows the top section of the Reuters website. It features the Reuters logo on the left, followed by the word "REUTERS" in large, bold, white letters. To the right of the logo, there is a dropdown menu for "EDITION: U.S.". Further right, there are links for "SIGN IN" and "REGISTER", and social media icons for Twitter, Facebook, and LinkedIn. A search bar is located on the far right. Below these elements is a horizontal navigation bar with various categories: HOME, BUSINESS, MARKETS, WORLD, POLITICS, TECH, OPINION, BREAKINGVIEWS, MONEY, LIFE, PICTURES, and VIDEO. Below the navigation bar is a "REUTERS VIDEO" section with a red background and white text, stating "The Latest in Business, Finance & Technology News". To the right of this section is a collage of various news images, including a person in a red and white striped shirt, a person in a blue shirt, a person in a white shirt, and a person in a blue shirt.

Politics | Thu Nov 12, 2015 4:05pm EST

Related: WORLD, ELECTION

## U.S. lifts economic sanctions against Liberia: White House

WASHINGTON



The United States lifted economic sanctions against Liberia on Thursday as President Barack Obama cited the country's "tremendous progress" and commitment to democracy since emerging from civil war in 2003, the White House said.

### TALES FROM THE TRAIL



At Clinton fundraiser, senator and

# 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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• Targeting those in government's official and party apparatus

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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: 1990-1991
  - Initiator: US, EC, Japan
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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]

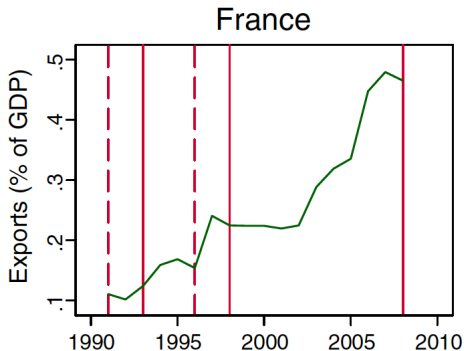
## Economic Sanctions, Chinese Style

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

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

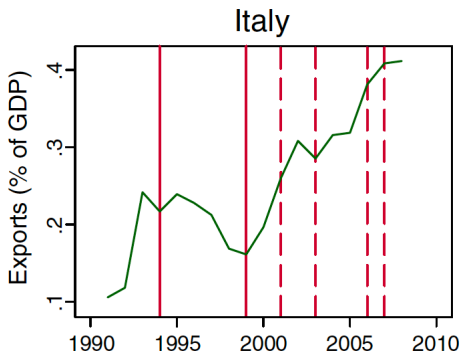
"In the recent years, Sino-Norway relations have maintained sound development, which is beneficial to the interests of both countries as well as their people. The Nobel Committee's decision to award the Nobel Peace Prize to Liu Xiaobo, however, completely goes against the purpose of the Nobel Peace Prize,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

## Chinese Sanction: Dalai Lama Effect-France (Fuchs and Klann, 2013: 169)



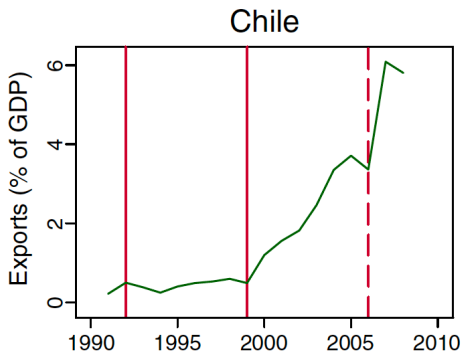
Vertical lines indicate meetings with a government member (dashed line) or political leader (solid line)

## Chinese Sanction: Dalai Lama Effect-Italy (Fuchs and Klann, 2013: 169)



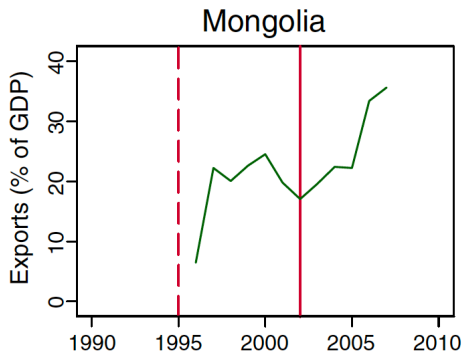
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## Chinese Sanction: Dalai Lama Effect-Chile (Fuchs and Klann, 2013: 169)



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## Chinese Sanction: Dalai Lama Effect-Mongolia (Fuchs and Klann, 2013: 169)



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# Key Questions about Economic Sanctions

- What are their economic effects?
- Why do countries use them?
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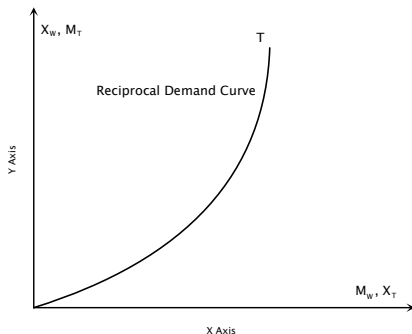
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# Outline

## ① Economic Effects

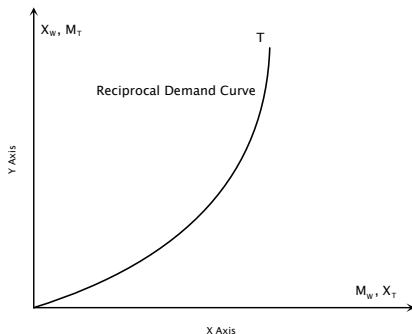
## ② Politics of Economic Sanctions

## Economic Effects: Offer Curve



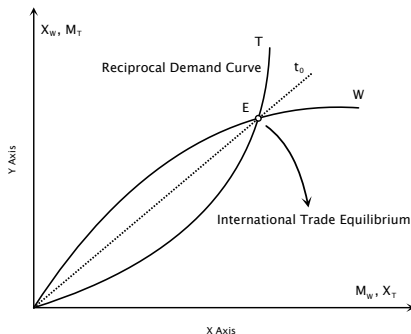
- The Target Country  $T$ 's (Convex) Reciprocal Demand Curve (Offer Curve) for a certain good:  $\partial M_T / \partial X_T > 0$ ,  $\partial^2 M_T / \partial X_T^2 > 0$  (Based on Kaempfer and Lowenberg, 2007)
- "Terms of Trade" improve as  $T$  moves out from the origin along the offer curve

## Economic Effects: Offer Curve



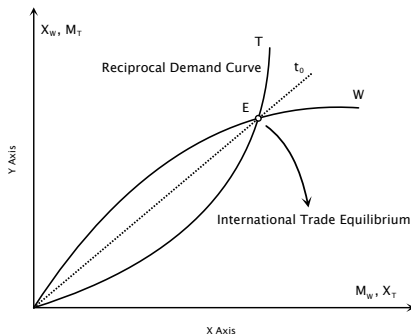
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## Economic Effects: Pre-Sanction Equilibrium



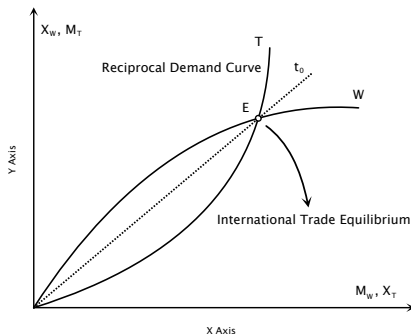
- $W$ : The rest of the world (all other countries) (It's offer curve is concave,  $\partial^2 X_W / \partial M_W^2 < 0$ )
- Assumption:  $T$  has a comparative advantage in the good,  $X_T$ , and is the only supplier of the good.
- International Trade Equilibrium,  $E$ , and Terms of Trade,  $t_0$

## Economic Effects: Pre-Sanction Equilibrium



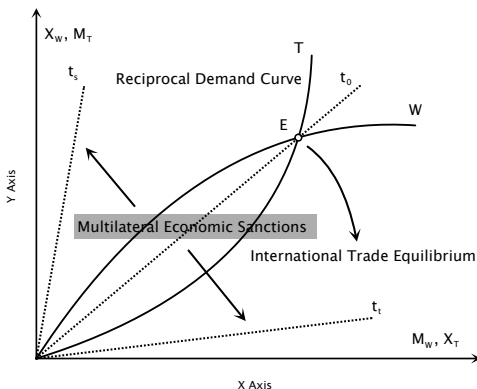
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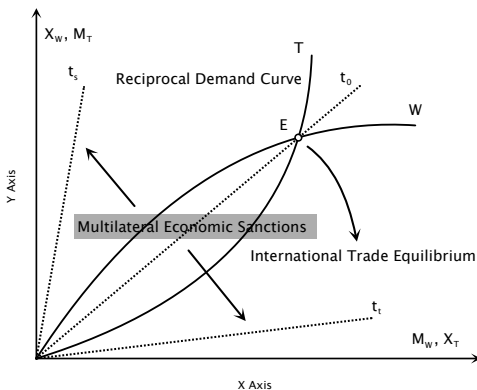
# Economic Effects: Multilateral Economic Sanction



- 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:  $t_0 \rightarrow t_s, t_t$

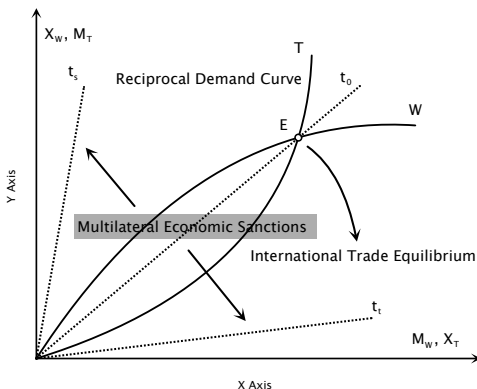


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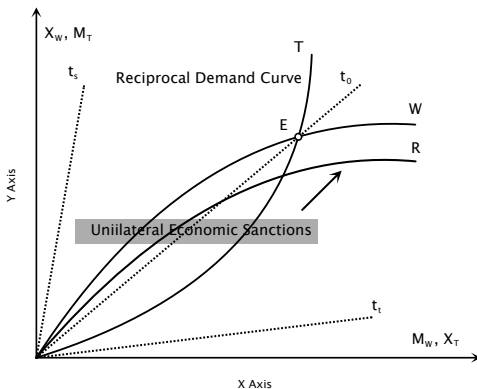
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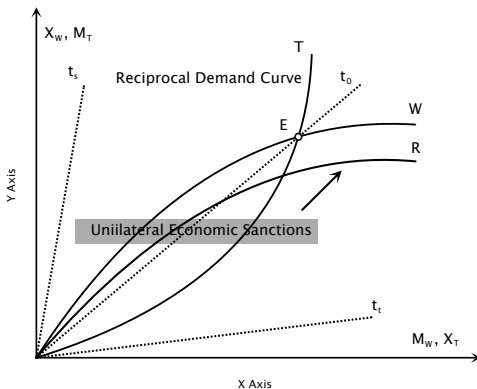
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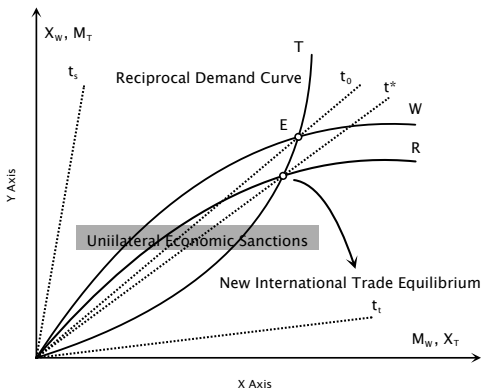
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# Economic Effects: Unilateral Economic Sanction



- 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?

→ Sanctions

→ Leaders of the target states will engage in self-defeating behavior

→ Effects

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● Smugglers

● Sanctioning countries (if they are not self-sufficient)

● Sanctioned countries (if they are not self-sufficient)

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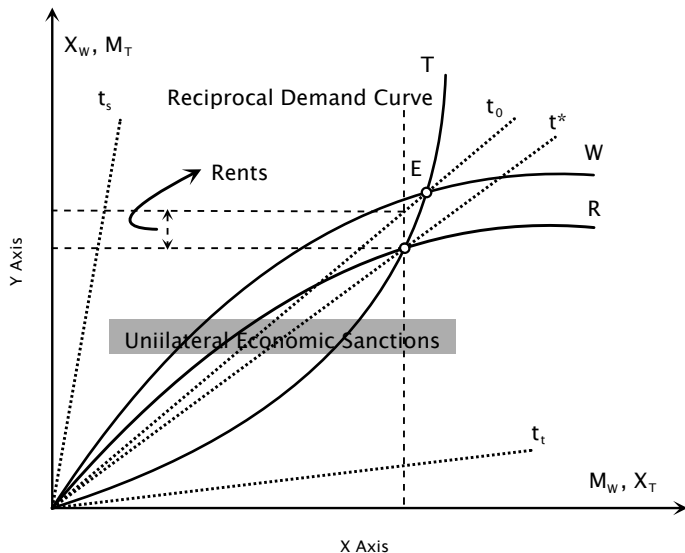
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# Rents: Unilateral Economic Sanction



# Who Got the Rents under Unilateral Economic Sanctions?

- Non-Sanctioning Countries
  - Senders: Import-Competing Producers
  - Targets: trans-shipping, smuggling

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① Economic Effects

② Politics of Economic Sanctions

# 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?
  - Self-Selected Sanctions
  - Conflict Escalation and Economic Costs

## Sanctions Paradox (Daniel Drezner)

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- Why?

• High-Intensity Sanctions

• Limited Sanctions and Economic Costs

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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:

- Kavakli et al. (2020): external and internal substitution.
- Anderson and Vaithianathan (2020): indirect effects on third parties.



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# Kavakli et al. (2020)

- Three major factors:

- ① market power (a combination of export volume and comparative advantage),
- ② domestic production capabilities, and
- ③ export portfolio variety.

- Five hypotheses:

- ① H1: The more likely the target can rely on a diverse foreign supply network, the lower the likelihood of economic success. (Confirmed)
- ② H2: The more easily the sender can externally substitute for the target's exports, the higher the likelihood of economic success. (Confirmed)
- ③ H3: The smaller the number of commodities exported by the target state, the lower the likelihood of economic success. (Confirmed)
- ④ H4: The more concentrated the export portfolio of the target state, the higher the likelihood of economic success. (Rejected)
- ⑤ H5: The more associated with a particular sanction will member states in the target's network, the more likely the sender's success. (Confirmed)

# Kavakli et al. (2020)

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- Five hypotheses:
  - ① H1: The more widely the target country is diversified in its exports, the more likely the country will experience a reduction in exports.
  - ② H2: The more widely the target country exports to a wider range of markets, the higher the likelihood for economic recovery (rebound).
  - ③ H3: The higher the number of commodities exported by the target state, the less likely the country will experience a reduction in exports.
  - ④ H4: The more concentrated the export portfolio of the target state, the higher the likelihood of economic collapse (recession).
  - ⑤ H5: The more diversified the export portfolio of the target state, the more likely the country will experience a reduction in exports.

## Kavakli et al. (2020)

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  - ❷ H2: The more easily the sender can externally substitute for the target's exports, the higher the likelihood of sanctions success. (Confirmed)
  - ❸ H3: The more the number of destinations served by the target state, the higher the likelihood of sanctions success. (Confirmed)
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  - ➌ H3. The greater the number of commodities exported by the target state, the lower the likelihood of sanctions success. (Confirmed)
  - ➍ H4. The more concentrated the export portfolio of the target state, the higher the likelihood of sanctions success. (Rejected)
  - ➎ H5. The cost associated with a particular sanction will matter more in the imposition stage than in the threat stage. (Confirmed; imposition stage)



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## Kavakli et al. (2020)

- Three major factors:
  - ❶ market power (a combination of export volume and comparative advantage),
  - ❷ domestic production capabilities, and
  - ❸ export portfolio variety.
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## 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.
- 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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