

Tales of the Unexpected:

When Do Economic Sanctions Work?

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Abstract

Previous research has documented a very modest success rate in cases where economic sanctions are actually imposed. By contrast, the success rate is noticeably higher in cases that are settled at the threat stage. In this paper, we identify the conditions under which sanctions work only *after* being imposed. These cases have two characteristics in common: First, the threatened country initially underestimates the impact of sanctions, miscalculates the opponent's determination to impose them, or wrongly believes that sanctions will be imposed and maintained whether it yields or not. Second, the target's misperception of these factors is corrected only after sanctions are imposed.

1 Introduction

Do economic sanctions work, and if so, when? Some authors are moderately optimistic about the effectiveness of sanctions (Elliott 1998; Hufbauer, Schott, and Elliott 1990). Others argue that sanctions work only in exceptional cases (Pape 1997 and 1998). Still others have emphasized that one needs to distinguish between (a) cases where sanctions have actually been imposed and (b) cases where sanctions have only been threatened (Lacy and Niou 2000; Morgan and Miers 1999; Parker 2000). They argue that even though *imposed* sanctions have a low success rate, a significant number of cases are settled at the threat stage, i.e., without sanctions being imposed. In cases of the latter type, the success rate is significantly higher (Drezner 2003).

Although policy makers in sender countries no doubt care about the effectiveness of *threatened* sanctions, they are likely to be no less interested in the prospects for success in cases where such threats fail, and sanctions are actually imposed. The purpose of this paper is to identify the conditions under which we should expect sanctions to work only *after* their imposition. We argue that for imposed sanctions to work, two conditions must be fulfilled. First, the target country must initially underestimate the impact of sanctions, miscalculate the opponent's determination to impose them, or wrongly believe that sanctions will be imposed and maintained whether it yields or not. Second, the target's misperception of these factors must be corrected only *after* sanctions are imposed.

The paper is organized as follows: Section Two briefly reviews relevant parts of the existing literature on sanctions. Section Three addresses the main research question of this paper: Under what conditions are *imposed* sanctions likely to work? Section Four presents a (very) simple model which serves to deepen and

clarify part of the argument in Section Three. Finally, Section Five rounds up the paper with some concluding remarks.

2 Previous research

A number of the existing empirical studies on sanctions use the data base constructed by Hufbauer, Schott and Elliott (1990). All of these studies conclude that sanctions lead to major concessions by the target state only in a minority of the cases, even though there is considerable disagreement over *how* small this minority is. Given these rather dismal estimates of the prospects for sanctions to induce compliance, one might ask why sanctions are nevertheless a popular instrument in international relations. One possible answer is that sanctions also have important domestic and symbolic dimensions (Dorussen and Mo 2001; Lindsay 1986). For example, sanctions might be imposed primarily to satisfy a domestic interest group, or simply to demonstrate that the government cares and “is doing something.”

A second answer is that the empirical studies mentioned in the previous paragraph underestimate the effectiveness of sanctions, because the data base constructed by Hufbauer et. al. suffers from selection bias (Parker 2000). The reason for the bias is that the data base (with five exceptions) includes only cases where sanctions have actually been imposed (Drezner 2003). In most instances, however, sanctions are threatened before they are imposed, and sanctions are imposed only if the target refuses to comply. But if a credible threat of sanctions fails, it is usually a sign that the target does not intend to comply *even if sanctions are imposed*. So it is a curious fact that when sanctions are imposed, there are often good reasons to expect them to fail. It should therefore come as no surprise that the success rate of imposed sanctions is low. In order to get a more complete picture of the success rate of economic sanctions, one also needs to include cases where there is a greater likelihood of success, i.e. cases where sanctions have been threatened but not imposed.

Drezner (2003) offers a study of this type, using cases where the US has threatened sanctions to achieve reduced trade barriers, compliance with labour standards, or protection of the environment. Using data from Bayard and Elliott (1994) and Elliott and Richardson (1997), Drezner reports that in the period 1975-1994 sanctions were threatened under Section 301 in the US Trade Act a total of 84 times. In more than 80% of these cases the dispute ended at the threat stage (without sanctions being imposed). The success rate in these cases was 56.34%, as compared to only 33.33% when sanctions were imposed.

In cases of threatened sanctions involving labour standards, Drezner refers to Elliott (2000), who reports a total of 33 cases since 1988 where the US has tried to pressure various developing countries to comply. The threat has been suspension of benefits under the Generalized System of Preferences. Twenty-six cases ended at the threat stage, with a success rate of 57.69%. This is in stark contrast to the remaining seven cases, where sanctions have been imposed. At the time of Elliott’s study, no significant concessions had been made in any of these cases.

A third source used by Drezner is DeSombre (2000) consisting of 76 cases where the US threatened sanctions to enforce international environmental regulations. Half of these cases ended at the threat stage, with an impressive success rate of 92.11%. By contrast, in cases where sanctions were imposed, the success rate was 52.63%.

In conclusion, Drezner’s study shows that the success rate in cases where sanctions have been imposed is considerably lower than in cases that have ended at the threat stage. This is a strong indication that the

selection bias in Hufbauer's, Schott's, and Elliott's data set is likely to cause users of this data set to underestimate the overall ability of sanctions to make a target yield.

3 Conditions for (imposed) sanctions to work

So, if sanctions work at all, they are likely to do so at the threat stage. However, occasionally sanctions *do* work only *after* they have been imposed. Under what circumstances should we expect this outcome?

When threatened sanctions fail, the outcome depends on the *reason(s)* for their failure. Assuming that both sender and target behave rationally, there are three main possibilities.¹ First, a threat of sanctions might fail because the target considers sanctions, however regrettable, to be a lesser evil than submitting to the sender's demands. In this case the threat is *insufficiently severe*, since in the eyes of the target, the cost of compliance outweighs the cost of sanctions. Second, a threat of sanctions could fail because it is not deemed *credible*. In other words, the target does not expect sanctions to be imposed even if it refuses to yield to the sender's demands. Finally, a threat of sanctions might fail because the target expects sanctions to be imposed *regardless* of whether it yields to the sender's demands. In the latter case, the threat is seen as *noncontingent*, i.e., it is not credible that sanctions will *not* be imposed if the target yields.²

Should we expect *imposed* sanctions to work in any of these cases? For the time being, assume that both sides are able to assess all relevant aspects of the situation correctly. (This assumption will be relaxed shortly).

First, consider a case where a threat of sanctions fails because the target does not consider the consequences of the sanctions to be sufficiently severe. Assuming that the threat is credible, the sanctions will be imposed. However, since the target did not yield at the threat stage, there is no reason to expect it to yield after sanctions have been imposed either. This is true *if* its initial judgment (that the cost of yielding outweighs the cost of sanctions) is correct. Therefore, in such cases *imposed* sanctions do not work.

Second, consider a situation where a threat of sanctions fails because the target (correctly) considers it to be an empty threat. Empty threats are just that - empty. In such cases, it does not matter if the threat is both sufficiently severe and contingent. Sanctions will not be imposed.

Third, consider the case where a threat of sanctions fails because it is *noncontingent*. Here the threat is credible, and sanctions *are* imposed. However, even if the cost of sanctions outweighs the cost of yielding, the sanctions will not work because (by assumption) the target knows they will be maintained *regardless* of whether it submits to the sender's demands. Hence, however regrettable the target finds the sanctions, it simply has no incentive to yield.

To sum up: Whenever a threat of sanctions fails, we should expect one of two things: *Either* the sanctions will not be imposed because the threat to impose them is empty, *or* sanctions will be imposed, but the target does not yield, either because the consequences are not sufficiently severe, or because the threat is *noncontingent*. In short, if the target does not yield to the *threat* of sanctions, it will not yield after sanctions are imposed either.

¹ A fourth possibility is that the threat is irrelevant, in the sense that the target is incapable of yielding despite its desire to do so. In this case, neither threatened nor imposed sanctions will have any chance of being effective. For a detailed account of the conditions necessary for a threat to be effective, see Hovi (1998: ch 2).

² Sanctions might also be said to fail (in a sense) in cases where a country has successfully concealed the breach of a norm. In such cases, sanctions will neither be threatened nor imposed.

The above conclusion rests on the assumption that the target has *perfect* knowledge of the consequences of ignoring the threat of sanctions, including whether sanctions will be imposed, the magnitude of the costs if they are, and whether sanctions are avoided if it yields. In this scenario, imposed sanctions *cannot* work.

The other side of the coin is that imposed sanctions can only work if these factors are *not* known with certainty at the outset. Specifically, two conditions must be fulfilled for *imposed* sanctions to work. First, the target must miscalculate one or more of the above factors at the threat stage. Second, the miscalculation must be corrected only *after* sanctions have been imposed.

3.1 Underestimating the cost of sanctions

First, consider a target that ignores threatened sanctions because it underestimates their effect. The target anticipates the imposition of sanctions, but defies the threat because it mistakenly expects the cost of yielding to outweigh the cost of sanctions. However, assume that after sanctions are imposed, the target eventually realizes that it underestimated the sanctions' true costs, and comes to consider them intolerable.³ Provided that the threat of *continued* sanctions is both credible and contingent, the target might then find it in its best interest to yield. To illustrate, consider the multilateral sanctions against Rhodesia which were imposed in 1965.⁴ The stated purpose was to force the Smith Government to grant black Rhodesians political rights. Civil warfare and withdrawal of South African support further strained the regime. By 1976, Ian Smith was "ready to accept a transitional multi-racial government and majority rule within two years." (Doxey 1987:40). A final agreement was reached in December 1979 (Ibid.:41). Whereas Hufbauer, Schott, and Elliott conclude that the sanctions "contributed to a negotiated settlement" (1985:416), others have attributed Rhodesia's yielding to factors such as guerrilla warfare, Mozambique's support of the black majority, and the loss of South African support of the white minority. Yet others agree that all these factors contributed to Rhodesia's yielding, but argue that they themselves were caused by the sanctions and the international resentment of Rhodesia that they represented. According to the latter view, the sanctions worked, *but only indirectly* (Baldwin 1985:196-201). It seems plausible that these indirect effects may have made the consequences of sanctions harsher than Rhodesia expected. Although the Smith regime was braced for hardship, it hoped that the sanctions would quickly wither away (Doxey 1987:46). Instead, the sanctions were intensified in 1968. At the same time, the internal unrest put more and more pressure on the government. In short, the regime was prepared for the immediate consequences of sanctions, but not for the long-term endurance and continuing resolve of the international community or the indirect effects triggered by the sanctions.

3.2 Miscalculating the sender's determination to impose sanctions

Consider a target that ignores threatened sanctions because it erroneously believes this threat to be empty. A target holding such beliefs might be induced to reconsider once the sender proves its resolve by imposing sanctions, provided that the threat of *continued* sanctions is both sufficiently severe and contingent. The *unexpected imposition of sanctions* is the key factor in this case. While there is good reason to believe that

³ A related possibility is that the resolve of the sender state proves to be unexpectedly strong, and that the sanctions stay in place longer than the target expects.

⁴ Note that the cases presented here are meant to exemplify, rather than prove, the theoretical points. Further research is needed to empirically test the hypotheses put forth in this paper.

empirically, such cases will be few and far between,⁵ it is at least *possible* that the following incident provides an example. In October 1932, the UK renounced its bilateral trade agreement with the USSR, because the latter was reluctant to increase its imports of British goods. Later the same year, six British citizens were arrested in Moscow, charged with sabotage, espionage and bribery (Beloff 1947:35; Strang 1956:81-9, 117). London threatened that unless a trial was averted, it would take action against the import of Soviet commodities. The USSR, however, stood by its charges (Strang 1956:87). In April 1933 five of the suspects were convicted and two of the convicts were imprisoned. A far-reaching embargo was imposed a week after the trial. In response, Moscow retaliated economically as well as diplomatically (Strang 1956:110; Beloff 1947:35). However, already in June the same year, the British and Soviet governments began talks, and shortly thereafter the prisoners were released. At the same time, the economic measures were withdrawn on both sides (Strang 1956:35; Beloff 1947:110-4). Hufbauer, Schott, and Elliott thus count these sanctions as successful (1990:32). Despite that the British made it very clear that the threatened embargo would bar Soviet import, and unambiguously stated that the embargo would be lifted as soon as the prisoners returned safely to Britain (Strang 1956:99, 112), the Soviets went on with the trial, and sent two of the convicts to prison. However, when the threat of the British government was put into effect, the Soviets did not take long to negotiate their release. Although it is difficult to prove that the Soviets did in fact perceive the threat as empty, the circumstances – in particular the quick policy change after the embargo was imposed – seem to point in this direction.

3.3 Misperceiving the contingency aspect

Finally, consider a target that ignores threatened sanctions because it erroneously believes they will be imposed and sustained regardless of whether it yields. Assume that this threat is both credible and sufficiently severe, and furthermore that after the imposition of sanctions the sender(s) make(s) it unequivocally clear, via negotiation or a formal decision by an international body, that sanctions will be lifted if the target yields. Under these conditions, the target might be induced to yield. The case of Libya might serve to illustrate this possibility. When the UK and the US indicted and required extradition of two Libyans for the 1988 PanAm-Lockerbie explosion, Libya refused. In 1992, the UN passed two Security Council Resolutions. The first demanded Libya's full cooperation, the second imposed economic sanctions. Further sanctions were imposed in 1993. Libya challenged the legality of the resolutions before the International Court of Justice, but lost (Plachta 2001:125-9). Following a compromise, the suspects were extradited to The Netherlands for trial in 1999. UN sanctions, but not unilateral US sanctions, were subsequently suspended.⁶ This is a successful case of imposed sanctions in the sense that Libya eventually accepted that the suspects be extradited for trial in a Western country. The question is *why* the sanctions worked, and why it took so long for Libya to yield. The evidence suggests that for a period of time, Libya falsely believed that a decision to extradite the two suspects would not cause a lifting of the sanctions. The Libyans were convinced that the real goal of the US was the overthrow of Qaddafi (Zoubir 2002:35-6; see also

⁵ The reason is that it takes time to impose sanctions. If the sender really is determined to impose sanctions, then sooner or later this is likely to become clear to the target, even if the latter has *initially* misjudged the threat of sanctions as empty. Whenever the true intentions of the sender become clear before sanctions are imposed, then the target is likely to yield, given that the threat of sanctions is also sufficiently severe and contingent. If this happens, sanctions will not be imposed.

⁶ The UN sanctions have not, however, been permanently lifted, due to US and French objections (*World of Information Business Report – Libya* 2000, 9, BBC News (<http://news.bbc.co.uk/2/hi/europe/3197095>)).

O’Sullivan 2003:184). Statements by US officials seemed to justify this belief (Zoubir 2002:43).⁷ If Libya believed that the US wanted sanctions to remain in place no matter what, it would have been pointless to meet the demands, because it takes a unanimous vote by the permanent members of the Security Council to lift UN sanctions. Negotiations were eventually undertaken in order to persuade Qadaffi that UN sanctions *would* be lifted if US demands were met (Zoubir 2002:41). “As part of this effort, the UN Security Council passed UN Resolution 1192, which explicitly stated that UN sanctions would be suspended once Libya handed over the suspects.” (O’Sullivan 2003:184).⁸

In summary, *imposed* sanctions should be expected to work only in cases where the target does not learn crucial information concerning credibility, severity or contingency until *after* the imposition of sanctions. Furthermore, the target must miscalculate at least one of these factors at the threat stage.⁹

4 A simple model

We now look more closely at the first possibility above using a very simple game-theoretical model to further clarify matters. Few models in the literature on sanctions predict that the target will yield *only after* the imposition of sanctions.¹⁰ The present model is interesting because it admits this outcome in equilibrium. Despite its simplicity, the model enables us to identify the conditions under which this outcome might occur. However, readers who prefer to skip the game-theoretical treatment may proceed directly to the next section.

The specifics of the model are as follow: The two players are Target and Sender. Sender has threatened to impose sanctions if Target violates an international norm.¹¹ Target has the first move, and must choose whether or not to violate the norm. If it does not violate the norm, the game ends. However, if Target violates the norm, Sender must decide whether or not to impose sanctions. If sanctions are not imposed, the game ends. Otherwise, the game continues with “Nature” making a random move, deciding with probability p that sanctions will be “harsh,” and with probability $1-p$ that sanctions will be “lenient.” Finally, having learned the true impact of sanctions by observing Nature’s move, Target decides whether or not to yield to Sender’s demands. We assume that if Target yields, the sanctions will be lifted. If Target does not yield, the sanctions remain in place. This scenario is shown in Figure 1.

⁷ To be more precise, the lifting of sanctions requires that at least 9 of the 15 members vote in favour, and that no permanent member votes against.

⁸ In September 2003, the events seem to be approaching a new stage. Qadaffi has promised compensation to the families of the Lockerbie victims in order to normalize Libya’s international relations. The US has signalled that it is unlikely to lift its unilateral sanctions, although Libya has reason to believe that the UN sanctions will now be permanently lifted.

⁹ We disregard the logical possibility that these factors are correctly estimated at the threat stage, but that – after sanctions have been imposed – the target is deceived into erroneously overestimating (i) the consequences of sanctions, (ii) the sender’s resolve, or (iii) the sender’s willingness to lift sanctions if the target yields.

¹⁰ Most previous models predict either that the target yields at the threat stage, or that sanctions are imposed but result in a stalemate. See Drezner (2003:645-8) for a review of the literature.

¹¹ For example, the relevant violation could be to invade a neighbouring country or illegally to develop weapons of mass destruction.

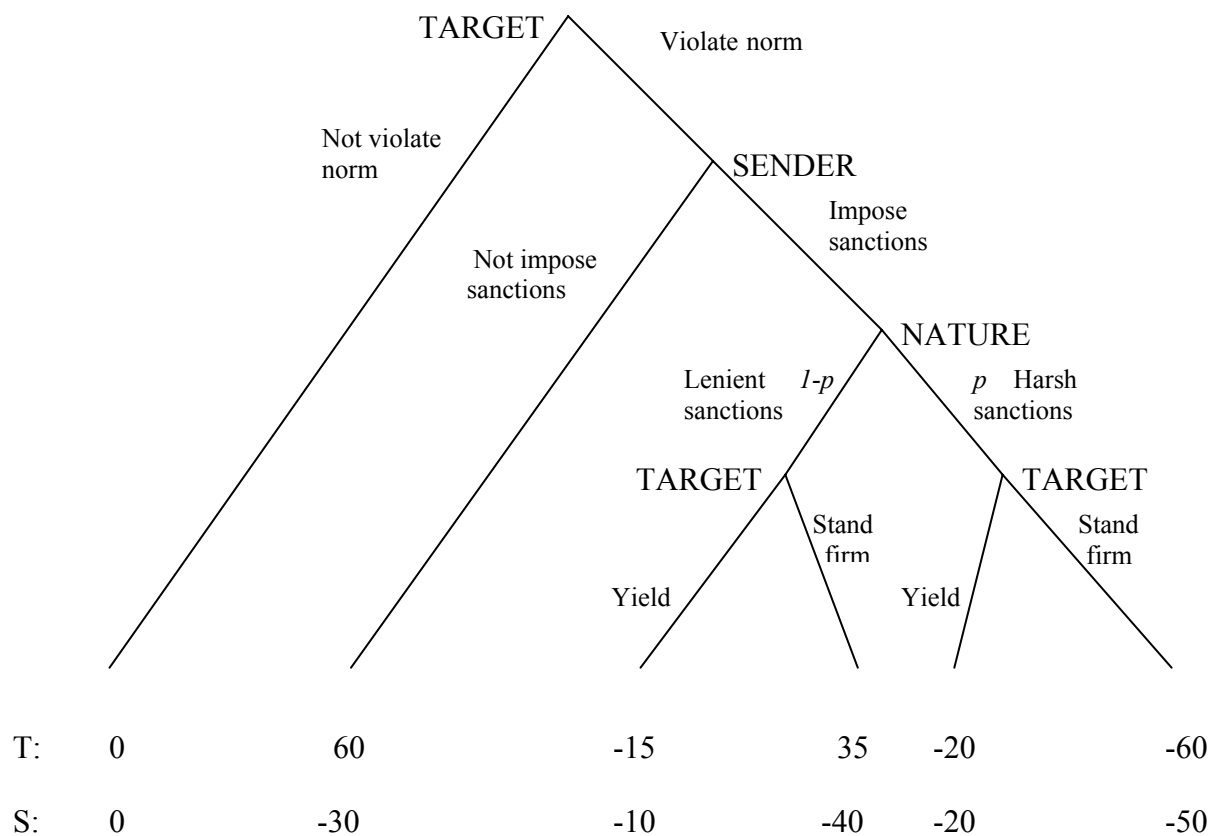


FIGURE 1. A simple sanctions game

The basic idea underlying the model is that neither Sender nor Target is able to foresee the exact consequences of sanctions. The impact of sanctions depends on how successful the target is in counteracting them via sanctions busting and similar manoeuvres, and will not be known until the sanctions have been in place for some time. A random move determines whether the sanctions will be “harsh” or “lenient,” and Nature’s move takes place only *after* the imposition of sanctions.

Other main assumptions underlying the game are as follows:

- 1) Target has a desire to violate an international norm that Sender wants it to respect;
- 2) Target is prepared to face the consequences of “lenient” sanctions, but not those of “harsh” sanctions.
- 3) “Harsh” sanctions are more costly to *both* parties than “lenient” sanctions.

Therefore, if sanctions are imposed, both Sender and Target prefer an outcome involving “lenient” sanctions.¹² The conclusions arrived at below remain valid even if we make the alternative assumption that “harsh” sanctions are no more (or even less) costly to Sender than “lenient” sanctions.

¹² For example, both parties prefer the sequence - “Target violates norm. Sender imposes sanctions that prove to be lenient. Target stands firm,” - to the sequence - “Target violates norm. Sender imposes sanctions that prove to be harsh. Target stands firm.”

The (ordinal) preferences of the parties may be summarized as follows:¹³

Target:

Best: Target violates norm, but sanctions are not imposed.

Second best: Target violates norm, Sender imposes sanctions that prove to be lenient, Target stands firm.

Third best: Target does not violate norm.

Fourth best: Target violates norm, Sender imposes sanctions that prove to be lenient, Target yields.

Next worst: Target violates norm, Sender imposes sanctions that prove to be harsh, Target yields.

Worst: Target violates norm, Sender imposes sanctions that prove to be harsh, Target stands firm.

Sender:

Best: Target does not violate norm.

Second best: Target violates norm, Sender imposes sanctions that prove to be lenient, Target yields.

Third best: Target violates norm, Sender imposes sanctions that prove to be harsh, Target yields.

Fourth best: Target violates norm, no sanctions imposed.

Next worst: Target violates norm, Sender imposes sanctions that prove to be lenient, Target stands firm.

Worst: Target violates norm, Sender imposes sanctions that prove to be harsh, Target stands firm.

Before we analyse the game, two observations are in order. First, it is useful to know the expected utility to Target of *resisting* imposed sanctions, calculated *at the beginning of the game*. It is easily established that this expected utility is $p(-60)+(1-p)(35)=35-95p$. Second, it follows from the above assumptions that in the final move, it is in the best interest of Target to stand firm if sanctions prove to be lenient, but to yield if sanctions prove to be harsh. In the former case the payoff for standing firm is $+35 (>35-95p)$. In the latter case the payoff for standing firm is $-60 (<35-95p)$. This means that *for imposed sanctions to work, the costs of resisting them must prove higher than expected at the time the norm is violated*.

To identify the equilibria of the game, consider first Sender's decision whether to impose sanctions given that the norm has been violated. The expected utility to Sender of imposing sanctions (given the violation) is $p(-20)+(1-p)(-40)=20p-40$. By contrast, if it does not impose sanctions, it gets an expected utility of -30 . Thus, it pays to impose sanctions if $p>0.5$. By contrast, if $p<0.5$, then Sender will not impose sanctions even if Target violates the norm.

Next, consider Target's decision whether or not to violate the norm. If $p<0.5$, Sender will not impose sanctions and thus Target will always violate the norm. Consider the case where $p>0.5$. If Target does not violate the norm, it obtains a payoff of zero. If it violates the norm, it obtains an expected utility of $p(-20)+(1-p)35=35-55p$. Thus Target violates the norm if $p<35/55$.

There are three possible equilibria in this model. *Equilibrium 1:* If p is low (less than 0.5 in the numerical example used here), Target violates the norm and Sender refrains from imposing sanctions. Because harsh sanctions are unlikely, chances are slight that Target will yield to sanctions. Since sanctions are both costly *and* unlikely to be successful, Sender prefers to avoid them. Foreseeing this, Target decides to violate the norm. We may call this a "called bluff equilibrium," since the threat of sanctions is ignored and proven to be empty.

Equilibrium 2: If p is high (above 35/55 in our example), Target does not violate the norm and hence no sanctions are imposed. In this equilibrium, it is relatively likely that sanctions will be harsh and thus that Target will yield to sanctions. This motivates Sender to impose sanctions if Target violates the norm. Foreseeing this,

¹³ The numerical values specified in the model are cardinal (interval level) payoffs. Obviously, the exact payoffs (but not the rankings) are somewhat arbitrary, and the results must be interpreted accordingly. Note that the status quo payoffs (i.e., the payoffs resulting if Target does not violate the norm) have been set equal to zero. Hence, all other payoffs might be interpreted as net benefits (or costs) compared to the status quo.

Target refrains from violating the norm. In other words, Target is deterred by a credible threat of sanctions that are likely to be harsh. We may call this the “effective deterrence” equilibrium.

Equilibrium 3: With an intermediate p (between 0.5 and 35/55), Target violates the norm, and Sender imposes sanctions. Depending on Nature’s move, Target updates the probability that sanctions are harsh to 0 or 1, stands firm if sanctions prove to be lenient and yields otherwise. In this case, the probability of harsh sanctions is sufficiently high to induce Sender to impose sanctions, yet not high enough to deter Target from violating the norm. Hence we may refer to this as the “imposed sanctions” equilibrium.¹⁴

In summary, the (very) simple model presented in this section illustrates the possibility that *imposed* sanctions might work if their impact proves to be harsher than expected by the target at the threat stage. However, the model also admits other possible outcomes in cases where the impact of sanctions is uncertain, including (i) that the target is deterred from violating the norm by the mere threat of sanctions, and (ii) that sanctions are not imposed although the norm *is* violated. The model helps to identify the conditions required for each outcome. For *imposed* sanctions to work, the probability that their consequences will be harsh must be neither too low nor too high.

5 Conclusion

Recent research on economic sanctions has pointed out the need to distinguish between (a) cases where sanctions have actually been imposed and (b) cases where sanctions have only been threatened. In this paper, we have identified the conditions under which sanctions work only *after* they are imposed. For this to be the case, two conditions must be fulfilled. First, the target initially miscalculates the sender’s determination to implement sanctions, underestimates the impact of sanctions, or wrongly believes that sanctions will be imposed and maintained even if it yields. Second, the target’s misperception of these factors is corrected only *after* sanctions are imposed.

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¹⁴ If “harsh” sanctions are *less* costly than “lenient” sanctions to Sender, the interval for p generating this equilibrium widens (the bottom boundary becomes lower than in our example). As a result, the p interval of the first equilibrium narrows.

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