

POLS 318: Theories of IR
Lecture 13 (03.03.2021):
Economic Policy in IR

Rotem Dvir

Texas A&M University
rdvir@tamu.edu

Department of Political Science
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Overview

- 1 Quick review
- 2 Introduction
- 3 Success/Failure
- 4 Applications
- 5 Foreign Aid
- 6 Extra Material

Review

WHAT WE COVERED LAST MEETING?

- The role of government in global economy.
- Free trade: comparative advantage.
- Benefits of trade.
- Costs of global trade.
- Democracy and trade.
- How the public views free trade - sociotropic preferences.

Questions?? Email me!

Background

The Tools of global economic policy

SANCTIONS

- Coercive policy → compel behavior.
- Successful sanctions.
- Failed sanctions.
- Economic sanctions → limit economic activity.

Economic Sanctions

History and Development

- Siege tactic against a walled city.
- Pressure on citizens.
- Prevalent since the end of *World war I*.
- Extended after Cold war.

Economic Sanctions

US sanctions - 2019

Figure 1: Country-Based and Country-Related U.S. Sanctions Programs as of July 2019



Source: GAO presentation of Department of the Treasury and Department of State information. | GAO-20-145

Economic Sanctions

Logic

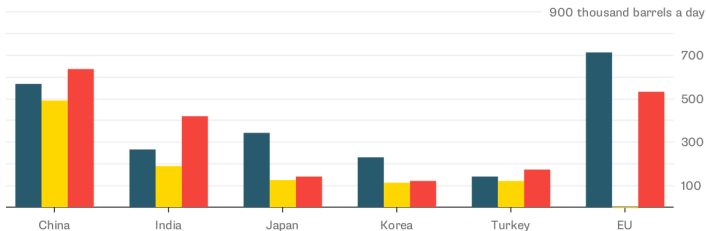
- Economic deprivation for the public.
- Lead to political disintegration.
- Aerial bombing.
- Costs to public → pressure government.
- Critical → target is vulnerable to economic coercion.
- Economic costs → political implications. ▶ Russia-Ukraine

Does it work?

Before, During and After

Iran has struggled to restore fully its oil sales to buyers in Europe, Japan and Korea after the easing of sanctions

● Before (1H 2011) ● During (2H 2015) ● After (2H 2017)



Note: Six-month average Iranian crude oil exports to key destinations
Source: Bloomberg, CGES

BloombergGadfly

Economic Sanctions

A strategic interaction

- Cost-benefit analysis → a bargaining tool.
- Halt sanctions → one actor stops.
- A choice: the sender or the target.
- Settlement is better than costs of economic dispute.

Economic Sanctions

Domestic institutions

- Internal support and the success of economic sanctions.
- *Selectorate theory*.
- How leaders survive in office? the winning coalition...
- Private and public goods.
- Regimes: democracy vs. autocracy.

Selectorate Theory

Regime and winning coalition



Sanctions

Regimes and Sanctions

- Smaller 'pool' of resources.
- A constraint on leaders.
- Costs on leader's coalition → more likely to succeed.
- Democracies → more sensitive to sanctions.
- Economic costs lead to political ones.
- *Deprivation effect.*

Sanctions

Regimes and Sanctions

- Sanctions over a long period of time.
- *Backlash effect.*



Sanctions

Autocrats and Sanctions

- Dictators → different rewards structure.
- Smaller coalition → less constraints.
- Examples: Iraq (Saddam), Argentina (military Junta).
- Deprivation, black markets and corruption.
- Public suffers the most!

Sanctions

Failure

- Democracies are more sensitive.
- But when resisting?
- Transparency, media and opposition.
- United against sanctions → conceding is not likely.

Testing sanctions

Allen (2005)

- Comprehensive sanctions → more successful.
- Multilateral action is less useful (cooperation issues).
- Regimes - democracies concede more than dictatorships.
- Prolonged sanctions are less successful (Spain-England).
- Turnover and sanctions success/failure.

Testing sanctions

The public view (Grossman et al. 2018)

- Israel - EU economic sanctions.
- Smart design → target specific group.
- *Distributional effect.*
- Public attitudes and political consequences of sanctions.

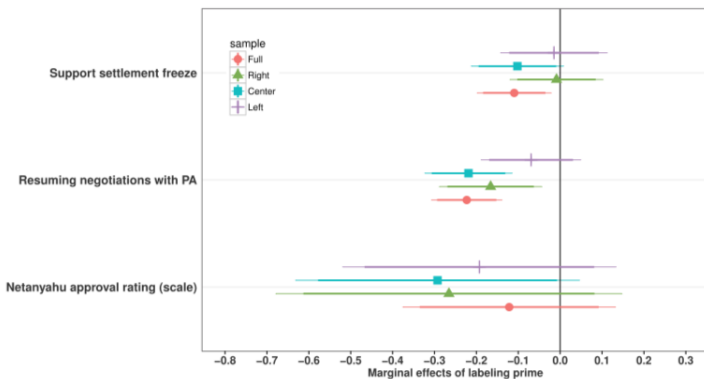
Testing sanctions and public opinion

- 2015 Survey - Israeli population.
- Lab experiment.

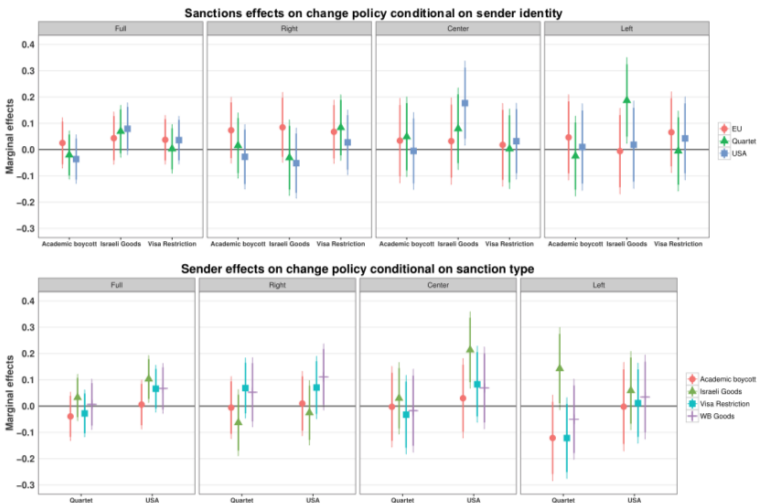


Testing sanctions and public opinion

Do sanctions work? The Israeli context



Testing sanctions and public opinion



Foreign Aid Policy

Introduction

- Contribute money, goods and services to foreign countries.
- Aid → subsidized loans, or price below market value.
- Given by government, NGO's (Red cross, doctors w-o borders), and various charities.

MAIN OBJECTIVE

- Tradeoff - aid for policy concessions.
- Recipient can transfer the aid to her resource base.

Foreign Aid Policy

The problems

- Failure to alleviate poverty, social and political inequality.
- Does not lead to spread of freedom or justice.
- Mostly given to dictators.
- Offer very little to their citizens.
- The 'other' incentives to provide aid (spread ideology, strengthen trade relations, secure favored leaders).

Foreign Aid

Political survival and aid

- Aid → secure leader's survival, not improving population conditions.
- Selectorate theory and the winning coalition.
- Aid → policy that coalition members dislike.
- When dictators receive aid?
- Extra resources given to coalition.
- Citizens loss is double:
 - ① Face ramifications of disliked policy.
 - ② No material compensation.

Political survival and foreign aid

THE DONOR STATE

- How citizens in recipient countries view sender of aid?
- Supporting the corrupt regime...
- Unclear benefits to sender.



Aid and corruption

US AND EGYPT



Aid and Conflict

Can aid reduce costs in civil war? (Sexton 2016)

- Foreign aid supports government against rebels.
- Establish control over contested territory.
- Foreign aid and increased violence?
- Strategic calculations of insurgents.
- Prevent aid from undermining insurgents' position.

Aid and Conflict

Can aid reduce costs in civil war? (Sexton 2016)

- Contested territories.
- Test case - Afghanistan.
- Violent incidents (2008-2010).
- US military control or not - does aid matter?

Aid and Conflict

Findings

- Aid in contested areas → increase in violence.
- Aid reduce violence in areas controlled by US.
- Type of project matters: humanitarian vs. defense.

Implications

- Aid cannot win public support.
- Force 'multiplier' in areas already in government control.
- More attacks → initiated by insurgents.

Recommended readings

More studies on sanctions and foreign aid:

- 1 Pond, Amy. (2017). "Economic sanctions and demand for protection." *Journal of Conflict Resolution* 61, 5, 1073-1094.
- 2 Heinrich, Tobias, and Yoshiharu Kobayashi. (2020). "How do people evaluate foreign aid to 'nasty' regimes?." *British Journal of Political Science* 50, 1, 103-127.
- 3 Early, Bryan R., and Dursun Peksen. (2020). "Shadow Economies and the Success of Economic Sanctions: Explaining Why Democratic Targets Are Disadvantaged." *Foreign Policy Analysis* 16, 3, 353-372.

Economic Sanctions

