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Domestic Politics, Trade Policy, and Economic Sanctions: A Public Choice Model with Application to United States-Chinese Relations

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Domestic Politics, Trade Policy, and Economic Sanctions:

A Public Choice Model with Application to United States-Chinese Relations

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ABSTRACT

Economic sanctions are not only a foreign policy tool but a form of trade policy. Like other kinds of trade policy, sanctions attract domestic political support from both protectionists and the human rights lobby. Sometimes the human rights lobby can piggyback on protectionists to encourage policy-makers to demand sanctions, while protectionists can also hijack the human rights issue for their own ends. Two variables, WTO membership and an independent legislature, affect both the likelihood and the form of sanctions in this domestic political environment. WTO membership, like MFN treatment in general, mobilizes export interests against a trade sanctions policy. Congress's more hawkish preferences on both trade policy and human rights mean that when the United States imposes sanctions against a WTO member, it is likely to do so under congressional leadership and perhaps against the will of the president. These variables color Sino-American trade relations today.

Economic sanctions make up an important part of many states' foreign policy toolkits. Consequently, many foreign policy analysts have studied the conditions that make sanctions more or less likely to bring about changes in the target state's policy, or the conditions under which sanctions may achieve other foreign policy goals (see Baldwin 1985; Lindsay 1986 for overview).

Whatever their effectiveness, using sanctions provokes considerable controversy both political and academic. Producers denied export sales often provide the most vociferous opposition. For example, American wheat farmers loudly protested President Carter's boycott on grain sales to the Soviet Union after the invasion of Afghanistan. Important multinational corporations such as Allied Signal, Boeing, Con-Agra, IBM, and Motorola oppose using sanctions against the People's Republic of China (PRC) today (Morici 1997: 275).

Academic controversy also dogs sanctions. International economists, in particular, generally oppose using trade policy to achieve non-trade ends. Sanctions normally have welfare losses in both the sender and target countries, and these welfare losses are anathema to many. As a result, it is hard to find academic authors who favor using sanctions against human rights violators such as the PRC.

Given the considerable literature on the subject, it is perhaps surprising that few have examined sanctions not as foreign policy but more narrowly as trade policy.[1] More generally, many leading studies of sanctions have explicitly excluded domestic political concerns (i.e., Baldwin 1985; Hufbauer, Schott and Elliott 1985; but see Lindsay 1986). Yet, like other forms of trade policy, sanctions attract political support or opposition based not only on the national interest but on the particularist interest of producers, consumers, and others (Kaempfer and

[1]The reverse is also true: studies of trade policy have generally ignored sanctions. For an illuminating if now-dated review of the literature, see Baldwin (1985: 42-50).

Lowenberg 1988, 1989, 1993; Pahre 1998). Protectionists may use humanitarian justifications for sanctions as a smokescreen for their own material interests, thereby "hijacking" the human rights case for sanctions. By the same token, the human rights lobby can "piggyback" on protectionism, which helps them muster political support for sanctions that would not otherwise be available.

To see how domestic politics matters in such cases, this paper grounds an analysis of sanctions in a model of trade policy politics. I give particular attention to two issues. First, I examine how the politics of sanctions depends on whether the sanctioning and target countries have a trade treaty in effect between them. Setting aside any legal issues, breaking a trade treaty entails domestic political costs. This makes both piggybacking and hijacking harder because it mobilizes an export interest against the proposed sanctions.

Second, I look at how differences between legislative and executive preferences can affect the form that sanctions take. The United States uses sanctions much more often than other countries, a fact that most analysts attribute to American power. However, the United States' peculiar domestic institutions may also play a role in sanctioning episodes. In particular, a "hawkish" legislature makes it more likely that a country will break its obligations under a trade treaty such as the GATT/WTO. Such legislatures do not constrain the government in parliamentary systems, at least when the government has majority support (Pahre 1997). Having a legislature independent of the executive in which both protectionist and human rights lobbies are influential makes the United States more likely to use trade sanctions than other countries. This creates an environment in which both hijacking and piggybacking are likely.

Sanctions as foreign policy

Most studies look at whether sanctions achieved changes in the target's foreign policy behavior. This case study literature has usually found that sanctions rarely succeed in bringing

about changes in the target. Unfortunately, these case studies have suffer from severe selection biases in that the most spectacular failures receive the greatest attention (Martin 1992: 4-5). Clearly, then, we can have little confidence in the policy conclusion that sanctions do not work.

The best response to the problems of biased case studies is to collect more systematic data. In a study of over one hundred sanctioning episodes since World War I, Hufbauer, Schott, and Elliott (1985: 79-92) find that sanctions are more likely to succeed when used by a large country against a much smaller target, when the sender's goals are modest, when sanctions are costly to the target but not to the sender, when the sender and target are allies, when the target does not receive aid from third parties, and when the sanctioning episode is short-lived.[2] However, studying sanctions solely as a policy tool still leaves a paradox. Because sanctions are often not an effective policy instrument, policy makers who choose sanctions that don't work are not be rational (Baldwin 1985: 3-4).

In this case, policy makers must be maximizing some utility other than change in the target country's behavior.[3] To understand these goals better, James Lindsay (1986) examines a broad set of goals including subversion, deterrence, and symbolism. When sanctions seek "compliance," they rarely succeed but their symbolic goals may be important both domestically and internationally. Sanctions may also deter future "misbehavior," though it is inherently difficult to determine exactly which non-events past sanctions have successfully deterred (for some attempts along these lines, see Baldwin 1985; Hufbauer, Schott and Elliott 1985).

Sanctions might also serve political ends in the sender country. For instance, William H. Kaempfer and Anton D. Lowenberg (1988) argue that sanctions might serve the interests of

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[2]For criticism of such studies, which seem unconcerned with the widely variant "cases" they count, see Baldwin (1985: 146-149).

[3]It may also be true that scholars have analyzed "success" poorly. Success is almost always a matter of degree, and any weighing of costs and benefits must consider opportunity costs, alternatives not chosen, and the goals' level of difficulty (Baldwin 1985: 128-134).

domestic pressure groups that have either pecuniary or "expressive" moral interests in the imposition of sanctions. While Kaempfer and Lowenberg insert domestic political motives by analytic fiat, I will ground them in standard models of trade policy making. Such concerns play a central role in the model I develop throughout the paper.

Interest groups and trade policy

To examine sanctions policy as trade policy, I will use a simple public choice model. This model is a member of the class of "politically realistic" functions of trade policy (Baldwin 1987; Milner and Rosendorff 1997). I will not justify the functional form of the government's utility function here, though it can be derived from a model with electorally motivated tariff setting (Milner and Rosendorff 1997: Appendix B). The model is a simplification of existing two-country models of tariff setting (i.e., Grossman and Helpman 1995; Hillman, Moser and Long 1995; Milner and Rosendorff 1997; Pahre 1995).[4]

Suppose that two governments, A and B, each choose trade policy in response to demands from economic actors. These pressures may come from exporter and import-competing interests, or may include consumer demands for lower tariffs. In response to these pressures, each government favors some nonzero domestic tariff. At the same time, each government's ideal foreign tariff is zero. In other words, A has the ideal point $\{t_A, 0\}$, and B has the ideal point $\{0, t_B\}$ with $t_A, t_B > 0$. For simplicity, I assume that utility is a negative function of the distance from the outcome of the game to this ideal point. As a result, indifference curves are circles around each player's ideal point.[5]

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[4]The underlying model here differs significantly from that model proposed by Deardorff and Hall in this volume.

[5]In a more elaborate model, the indifference curves would be ellipses because home tariffs are more important than foreign tariffs to each government; however, the shape of the indifference curves does not affect the graphical analysis here.

Because each government selects only its own tariff, each chooses its ideal point. With A choosing t_A and B choosing t_B, the non-cooperative outcome N is the point $\{t_A, t_B\}$. Figure 1 shows this outcome graphically.

Figure 1 about here

Figure 1 also shows each country's circular indifference curves around its ideal point. Because each country's tariff has externalities on the other country, there are joint gains to mutual liberalization. These joint gains are possible in the lens defined by the intersection of the two indifference curves; points in this lens are closer to both states' ideal points than is N, and are therefore Pareto-superior to N. However, those points in this lens that are not on the line segment connecting t_A to t_B are Pareto-inferior to points on this line segment, since a move to that line makes both states better off. As a result, the set of possible trade agreements is that part of the contract curve t_At_B that makes both actors better off than the status quo. This line segment is shown in boldface in Figure 1. I will label the contract reached C, which is at some point $\{t_A^C, t_B^C\}$.

Though this agreement is welfare-improving for both states, it may not be enforceable. The two parties face a problem analogous to the Prisoners' Dilemma, in that each would like to defect on the agreement while the other country adheres to it. As one example among many, each state prefers reverting to its unilateral tariff if only the other state will keep the cooperative tariff; thus A prefers $\{t_A, t_B^C\}$ to C, and B prefers $\{t_A^C, t_B\}$ to C. Each deters cheating by threatening to revert to the no-agreement point $N = \{t_A, t_B\}$ on all subsequent plays of the game. (This is the "Grim Trigger" punishment.) However, the temptation to cheat may still be greater than the rewards of cooperation because punishment takes place in a discounted future (see Fudenberg and Maskin 1986 for the general problem). With sufficiently high valuation of the

future, cooperation is enforceable; with sufficiently low valuation of the future, cooperation is unenforceable and therefore will not occur. Because cooperation may or may not occur, we must analyze sanctions in two different environments.

In summary, this simple game shows how politically motivated governments pursue trade policy in a way that leads to two classes of outcomes. First, the two governments may choose their tariffs in a vacuum, without agreeing to Pareto-improving reciprocal tariff reductions. Second, the governments may reciprocally lower tariffs if such an agreement can be enforced. When they do so, each government will punish the other if it deviates from the agreed-upon tariff.

Domestic political economy and sanctions

States use sanctions infrequently. The most comprehensive study of sanctioning episodes, Hufbauer, Schott and Elliott's (1985) database, includes only 105 cases in this century. For this reason, we should think of the game sketched in the previous section as the baseline case. When sanctions are relevant, I analyze them as a shift of the equilibrium in the basic trade policy game.

From a domestic political economy perspective, sanctions have costs and benefits not captured in the trade policy game. The most important benefit is political support from the human rights lobby for imposing sanctions. Because some activists treat sanctions as a matter of principle, they will give this support regardless of the sanctions' effectiveness. While there might be other lobbies that oppose sanctions on principle, such as interest groups that share ethnic ties with the target country, I will assume that the net human rights lobby always favors sanctions. This "symbolic" or expressive goal can be an important reason why states use sanctions (Baldwin 1985; Kaempfer and Lowenberg 1988, 1989, 1993; Lindsay 1985).

I capture this effect by assuming that a human rights lobby changes the politician's ideal

point. Just as exporting, import-competing, and consuming lobbies influence the politician's ideal tariff, so too will human rights activists change this ideal point. Because activists will demand restrictions on the target's imports, the demand for sanctions, s_A , is an addition to the prior ideal point.[6] The new ideal point for A then equals $t_A^S = t_A + s_A$.

Figure 2 about here

The effect of this new demand for sanctions depends on whether the two countries have a tariff treaty in effect between them. Without a trade agreement in effect, A will choose its new ideal point ($t_A^S = t_A + s_A$) as its tariff, as shown in Figure 2. This leads to a new Nash outcome, shifting the outcome to the point shown. In such cases, we will observe A taking actions to restrict its trade with B, that is, imposing sanctions. Human rights activists easily piggyback on protectionist demands to obtain higher sanctions than they would without the protectionist lobby.

Having a tariff treaty in effect between the two states changes the situtation. There are two possibilities. First, A's demand for sanctions may be so strong that it is willing to break the tariff treaty. This occurs when A prefers the sanctions reversion point to any point on the original contract curve (before the demand for sanctions). Figure 2 shows this case, in which A will impose sanctions in violation of the trade treaty. Country B will reciprocate and the sanctions reversion point will result.[7] Protectionists would obviously like to encourage such an outcome, since they obtain denunciation of an otherwise effective tariff treaty. In these cases,

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[6]While I think of the term s_A as resting narrowly on domestic political considerations, other goals would have a similar effect. For instance, a foreign policy maker who values the punishment, deterrent, or commitment effects of sanctions for foreign policy reasons (Baldwin 1985: 96-111) would also see their ideal tariff shifted outwards by a term we could label s_A.

[7]The states may also negotiate a new treaty. As drawn in Figure 2, this would entail $t_B^* = 0$, $t_A < t_A^* < t_A + s_A$. Though consensual, this outcome will look like sanctions with some successful coercion, since A's tariff is higher than the pre-sanctions tariff and B's tariff is lower.

protectionist hijacking of the human rights lobby is likely.

However, the demand for sanctions may be weaker than this. Instead of the relatively large s_A shown, suppose that s_A is small and only moves A's ideal point very slightly rightwards. In this case, A prefers adhering to the old tariff treaty instead of moving to the new Nash sanctions equilibrium.[8] In this case, the new non-cooperative equilibrium is only slightly different from the original non-cooperative equilibrium, and A clearly prefers the tariff treaty to that. Here there is no incentive for hijacking or piggybacking, since the trade policy outcome does not change.

This analysis shows that a new demand for sanctions may have two effects. First, in the absence of a trade treaty a new demand for sanctions will lead directly to a change in trade policy. The human rights lobby piggybacks on protectionism to obtain these sanctions. However, when the sender and target have a treaty in effect, the new demand for sanctions may or may not lead to a sanctions policy. Only when domestic groups induce a high demand for sanctions will the government find it rational to break a trade treaty to impose sanctions. In this case, protectionists would benefit from hijacking the human rights demand for sanctions. When the demand for sanctions is weaker there is no change in the government's policy. The human rights lobby is too weak to successfully piggyback on protectionists, and the protectionists have no incentive to hijack the sanctions issue.

The most easily tested implication of this analysis is that we should expect sanctions to be more common in the absence of trade treaties than when two countries have a treaty in effect. I test this **treaty hypothesis** in the next section. This hypothesis also implies that reciprocal trade treaties, or regimes such as the GATT or WTO built on such treaties, inhibit the use of trade sanctions.

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[8]Here as elsewhere I ignore the possibility that the states might renegotiate the tariff treaty. Renegotiation opens up second-order problems best avoided here.

Testing the treaty hypothesis

Like the other hypotheses in this paper, I will test the treaty hypothesis against the set of sanctioning episodes since World War II in which the United States was the sanctioner. The United States dominates the Hufbauer, Schott and Elliott database, accounting for over half of all cases. This may stem from the fact that this database used only English-language sources (Hufbauer, Schott and Elliott 1995:3) or it may mean that the United States is peculiarly likely to employ sanctions as a foreign policy instrument. The absence of foreign language sources strongly shaped that database,[9] but it is hard to know what kinds of variables are associated with this selection bias. To avoid this bias, I look only at the population of cases in which the United States is the sender. The rest of the database probably reflects selection bias. I do not include the cases from 1919 to 1945 for a similar reason.[10]

According to the preceding section, the presence or absence of a trade treaty affects the likelihood of sanctions. GATT membership is a good first cut at operationalizing this independent variable. When the target state is a GATT (WTO) member, the United States will be less likely to use trade as a sanctioning tool than when the target is not a GATT (WTO) member.

An ideal test would examine all those cases in which sanctions would have been used but

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[9]To take only one kind of example, many of the cases involve the United States using foreign aid reductions as a sanctioning tool against its clients. Hufbauer, Schott and Elliott include several well-known cases in which the USSR did likewise, against Yugoslavia, Romania, China and Albania. However, there must have been many more cases that the West will only slowly learn about as Soviet archives are studied. More surprisingly perhaps, the Hufbauer, Schott and Elliott database includes only two cases of French aid cutoffs, both targeted against Tunisia. I suspect that France used this tool more frequently but that one must know the French language literature to find all the cases.

[10]Even so, all the tests in this paper suffer from a different kind of selection bias, in that I will only look at observed sanctioning episodes. Fuller consideration of these hypotheses would want to look at cases in which sanctions were not used, but that requires a theory about when sanctions enter the policy menu.

for the GATT. However, we can find out when non-trade sanctions are used instead of trade sanctions. When GATT/WTO rules apply, trade sanctions are less likely and non-trade sanctions are more likely.[11] With a dichotomous dependent variable (sanctions were used or not) and independent variable (states either have a tariff treaty or not), it would be pedantic to use anything but simple cross-tabulations.

Table 1
The Treaty Hypothesis

		Sanctioning Tool	
		Aid only	Trade
GATT member?	No	8	21
	Yes	20	12
$\chi^2 = 7.47$ p = .006			

Table 1 shows that this treaty hypothesis is consistent with the data at a high level of statistical significance. The evidence for the treaty hypothesis is even stronger if we look more closely at some of the anomalous cases. Five cases of trade sanctions against a GATT member involve restrictions on the exports of fissionable materials or other goods closely tied to nuclear reactors (South Africa, Brazil, Argentina, India, Pakistan). These restrictions are not inconsistent with the GATT, and are consistent with the goals of the nuclear non-proliferation treaty (NPT) regime. Table 2 shows that excluding these nuclear cases provides even stronger support for the treaty hypothesis than the more naive coding rules in Table 1.

Table 2
The Treaty Hypothesis
Excluding Nuclear Cases

		Sanctioning Tool	
		Aid only	Trade
GATT member?	No	8	20
	Yes	19	7
$\chi^2 = 10.68$ p = .001			

[11] I ignore two complications. First, sanctions against a non-WTO member might violate WTO provisions with respect to WTO members. For example, Canada and the EU allege that the Helms-Burton sanctions against firms operating in Cuba violate the TWO. These violations of third party rights should inhibit trade sanctions even against non-member targets. Second, sanctions do not violate the GATT if voted by the UN Security Council, as were some sanctions against South Africa.

A second refinement also sharpens these results. Table 1 uses only a blunt conceptualization of sanctions as applying either to trade or to aid. However, GATT rules are much stronger against potentially protectionist import restrictions than against export sanctions. Tables 3 and 4 distinguish import sanctions from export sanctions, both with and without the nuclear cases. Again, the evidence is strongly consistent with the treaty hypothesis. Not only does the GATT inhibit trade sanctions, but within the population of trade sanctions cases, it makes export sanctions more likely and import sanctions less likely.

Table 3
Import vs. Export Sanctions

		Sanctioning Tool		
		Aid only	Exports only	Imports
GATT member?	No	8	7	13
	Yes	20	5	5
$\chi^2 = 8.97$ p = .011				

Table 4
Import vs. Export Sanctions
Excluding Nuclear Cases

		Sanctioning Tool		
		Aid only	Exports only	Imports
GATT member?	No	8	6	13
	Yes	19	1	5
$\chi^2 = 11.55$ p = .003				

These are obviously simple tests of the theory. That aside, there are other plausible objections to these tests. Most important, it might be true that the United States shares many preferences with other GATT members, so that it rarely attempts to sanction GATT members at all. The United States rarely sanctions the countries of Western Europe, for example, most of whom were also founding members of the GATT. This bias in the sanctions population might account for the pattern we observe. On the other hand, many of these developed countries are

also much less likely to receive aid from the United States. As a result, the United States has fewer tools available to use against those states. Because the United States lacks the aid tool for most developed countries, trade sanctions might be even more likely than against developing states.

Sanctions are indeed rare against West European allies, but American sanctions against France and the United Kingdom in 1956 provide an illuminating case. Both targets were GATT members, and the United States had few aid levers against them. This lack of tools forced the United States to use a novel sanctioning policy, withdrawal of support for the British pound on international money markets. This tool avoided violating the GATT in exactly the way the treaty hypothesis would expect. This case suggests that even if the population of sanctions cases is biased, treaties nonetheless affect the choice of sanctioning tool.

Implications of the treaty hypothesis

The preceding two sections showed that GATT membership has a clear effect on the choice of sanctioning tools, and that this effect follows easily from a two-country model of trade policy. Similarly, reciprocal MFN, which the US and PRC have granted each other since 1979,[12] also inhibits sanctions because if one state denies MFN treatment to the other, the target will follow suit.

However, the analysis here does not exclude non-trade sanctions such as foreign aid reductions or monetary policy tools. Such sanctions are likely. If we were to model a foreign aid game in the same way as the trade game, we would assume that the United States has an ideal level of aid for a given donor. Having a human rights lobby would shift that ideal point downwards, just as the lobby shifts the ideal tariff upwards. Because countries do not sign

[12]Under the Jackson-Vanik Amendment to the Trade Act of 1974, the President must request annual renewal of MFN for China by June of each year. MFN renewal takes effect unless both chambers of Congress pass a disapproval resolution, which is subject to Presidential veto.

foreign aid treaties analogous to the GATT or WTO, the sanctions-inhibiting effect of cooperation does not occur. Aid sanctions should be common, and they are (see Baldwin 1985: 299-319).

Because political concerns affect the choice of sanctioning tool, they also affect the policy outcome. Hufbauer, Schott and Elliott (1985: 99-101) find that import controls contribute to success in changing target behavior, while export controls have a strongly negative effect on the level of success. Financial sanctions, most of which involve using foreign aid to influence target behavior, have a small negative effect on the degree of success. Because it makes import controls more politically costly, GATT/WTO membership forces sanctioning states away from the most effective policy tool and towards less effective financial and export tools.

This pattern of success makes sense in the political model here. When a sanctioning state is willing to violate a trade treaty, it not only suffers significant costs itself but also inflicts greater costs on the target. The target suffers the effect of sanctions (s_A) and loses the benefits of the trade treaty previously enjoyed.[13] The higher the costs a target pays for non-compliance, the more likely sanctions are to succeed. As a result, import sanctions against GATT members are the kind of sanction most likely to succeed.[14]

Import sanctions are the most politically difficult, as American policy toward China demonstrates. Rather than break its agreements with China to provide reciprocal MFN, the United States used non-trade sanctions against China after the Tiananmen massacre. The Bush administration supported the World Bank's suspension of loans to China, worth $780 million in

[13]Many American policy-makers argue that the costs to sanctioner and target are even greater than this, because breaking off cooperation in one issue area will lead to a breakdown of cooperation in other issues. For instance, Madeleine Albright (1995) claims that denying China MFN could lead to the end of regional security cooperation, cooperation on non-proliferation, and cooperation in the United Nations.

[14]Moreover, only highly committed sender nations would choose such a sanction, an issue I do not analyze here. See Eaton and Engers (1992) and Martin (1992) for fuller analyses of commitment in a sanctions game.

1989. (This aid resumed in 1990.) Bush also banned all high-level military contacts with China, a ban that Clinton ended in November 1993, when Assistant Secretary of Defense Charles Freeman visited Beijing (CRS 1995: 3). These non-trade sanctions were politically easier at home but have not been effective in changing China's behavior. The theory suggests that such sanctions are exactly those least likely to be effective.

Enforcement versus sanctions

The trade policy framework can also help us distinguish two kinds of sanctions that are important for United States policy towards China. Suppose that A and B have a trade treaty in effect. By assumption, A will punish B if B cheats on that trade agreement.[15] This punishment will often look like "sanctions," though it is analytically distinct. In contrast, the treaty hypothesis shows that sanctions in response to domestic demands are less likely when A and B have a trade treaty in effect. Phrased differently, A is more likely to punish B when B's behavior violates an existing contract than when B's behavior does not violate any such contract. This **enforcement hypothesis** implies that punishing China for violations of Sino-American agreements concerning intellectual property rights or textiles market access should be more likely than using trade sanctions to punish China for violations of human rights.[16]

Intellectual property rights violate existing agreements, most notably the Intellectual Property Memorandum of Understanding (MOU) of 1992. The United States alleged violation of the MOU in April 1994, citing twenty-six factories that produce unauthorized compact disks and laser disks. The United States also claimed that Chinese restrictions on imports of movies and other copyrighted products encouraged counterfeiting. If China did not better implement the

[15]There are serious problems of subgame perfection here. Moreover, B would never cheat in a game of complete information. I will ignore both issues here.

[16]For a similar use of sanctions against a different country, see Bastos (1994).

MOU, the United States threatened 100% tariffs on $1.1 billion of Chinese imports in February 1995. This threat led to a new agreement between the two countries in March, under which China agreed to step up its enforcement of intellectual property rights. However, the United States was also unsatisfied with implementation of this agreement, so it threatened tariffs on $2 billion of Chinese apparel and consumer goods in early 1996. China agreed to strengthen enforcement further, seizing ten million pirated disks and closing thirty-nine illegal CD factors in 1997 (Albright 1997; CRS 1995; Morici 1997).

Less well-known are similar actions in textiles, taken to enforce the 1994 Textiles Agreement with China. The United States found illegally transshipped products in 1994 and 1995, which it charged against the PRC's textiles quota. In 1996, enforcement became stricter when the United States triple-charged China's quotas for such violations, and then reduced China's quotas in fourteen categories in 1997 (Barshevsky 1997).

In contrast, administrations of both parties have been unwilling to use trade sanctions to force change in China's human rights policies. Stuart Eizenstat, Under Secretary of State for Economic Affairs, argues that while threatened sanctions have helped solve disputes in textiles and intellectual property, "revocation of MFN is far too blunt of an instrument" to influence human rights (Eizenstadt, 6/17/97, cited in USIA 1997: regional/ea/uschina/eizen.htm, p. 2). Not incidentally, this blunt instrument also comes with much higher political costs.

The strongest link between trade policy and human rights was President Clinton's Executive Order of 28 March 1993, which stated that the Secretary of State may not recommend extending China's MFN status in 1994 unless she judged that MFN would promote free emigration and if she found that the PRC had abided by the 1992 agreement not to export prison labor products to the United States. In addition, the Secretary must determine whether the PRC had made significant progress in overall human rights (CRS 1995: 1-2). However, the Clinton administration decided to delink human rights and MFN in May 1994, despite the PRC's

acknowledged failure to meet the human rights standards of the 1993 Executive Order. Clinton chose a new policy of "comprehensive engagement" in September 1993. This term echoes Reagan's failed policy of "constructive engagement" with South Africa, which Congress ultimately rejected in favor of sanctions (Thomson 1995).

This policy would be difficult to justify normatively. After all, this pattern of punishment makes it look like the United States cares about textiles quota violations and pirated CDS but does not care about political prisoners, democracy, or Tibetan rights. However, this pattern follows directly from the political logic behind both trade policy and sanctions.

Legislatures and sanctions

Domestic institutional arrangements also affect foreign policy (Milner 1997), including sanctions policy. Some countries, most notably the United States, have a clear division of power between the executive and the legislature. Because the executive and legislature are elected separately, they typically have different preferences. If the legislature can repudiate the executive's foreign policy, then "divided government"—the difference between the legislature's and executive's preferences—affects the sanctions game. In contrast, in a parliamentary system, any difference in preferences between the executive and legislative majority is endogenous to the policy game, in that the legislative majority must have chosen such an executive for a reason (Pahre 1997).

To see how an independent legislature affects the politics of sanctions, consider a case in which the legislature L has a higher ideal tariff than the President (or Prime Minister) P. This might be true because legislatures are more solicitous of local producer interests, while the President must attend to the macroeconomic health of the entire economy (Baldwin 1985 *inter alia*). In countries such as the United States, the legislature controls the domestic tariff and therefore proposes its ideal point (Milner and Rosendorff 1997). Figure 3 shows this situation,

with P's ideal point at t_A^P and L's ideal point at t_A^L. Because B and L each choose their ideal domestic tariffs, the Nash equilibrium is $N = \{t_A^L, t_B\}$.

The President (or Prime Minister) prefers a more domestic liberal tariff than the legislature, and has the power to negotiate a treaty with foreigners making reciprocal tariff reductions. In the typical democratic country, such treaties are subject to legislative approval. When the legislature's ideal point is t_A^L, there is some possible trade treaty C on the contract curve that is acceptable to the legislature. P and B will negotiate this treaty C, and it will receive legislative approval.

Figure 3 about here

In a potential sanctions case, Congress may also have a higher ideal point because it is more receptive to the domestic human rights lobby than the President is (Carleton and Stoll 1985). In these cases, Congress' ideal point will be higher still than the President's because it takes the preferences of the human rights lobby into account.[17] When its sanctioning preferences are significantly stronger than the President's, Congress may be willing to violate a tariff treaty with the target even if the executive would oppose such violations. Figure 3 illustrates this possibility. With the legislature's ideal point at $t_A^{L'}$, the legislature prefers the Nash reversion point to any treaty on the contract curve between the executive and foreigners.[18] If such a treaty is in effect, the legislature will be willing to break it, obtaining the Nash reversion point instead.

In such cases, the legislature will take a leading role in imposing sanctions against the

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[17]It would be interesting for future research to model the choices of the human rights lobby endogenously. Because Congress is more protectionist than the President, it makes sense to lobby Congress. In this way, the lobby piggybacks on Congress's protectionist leanings.

[18]The executive might negotiate a new C′ as shown in Figure 3. This kind of renegotiations might be a fruitful way to think about the mix of coercion, partial sanctions, and cooperation in some parts of US-Chinese trade relations.

target. The President may well oppose such sanctions. Indeed, for a sufficiently high $t_A^{L\prime}$, the President would prefer any point on the contract curve to the congressional reversion point. For a sufficiently high legislative ideal point, the legislature wants to break the existing treaty, while P does not. We may propose, then, a **congressional leadership hypothesis** that sanctions against GATT/WTO members are more likely to be characterized by congressional, not presidential, leadership. The logic is well captured by Senator Jesse Helms (1997: 3), a leading opponent of giving China MFN treatment: "Where the President will not lead, the Congress must act."

Testing the congressional leadership hypothesis

To test the congressional leadership hypothesis, I have coded U.S. sanctions episodes as having either no significant congressional role, a supportive role, or a leading role. In the supportive cases, Congress passed country-specific legislation alongside existing presidential actions, or in response to a presidential request for such measures. Sanctions against Cuba are a good example. When Congress had a leading role, it imposed sanctions without accompanying presidential action, and usually in the face of the president's active opposition. Most of these congressional leadership cases involved human rights, in which the executive favored "quiet diplomacy," "constructive engagement," or other forms of diplomatic influence short of sanctions (for a good overview, see Carleton and Stoll 1985).

Table 5
The Congressional Leadership Hypothesis

		Target a GATT member?	
		Yes	No
Congressional Role	Supporter	3	8

	Leader	5	3
χ^2 =2.36	p = .125		

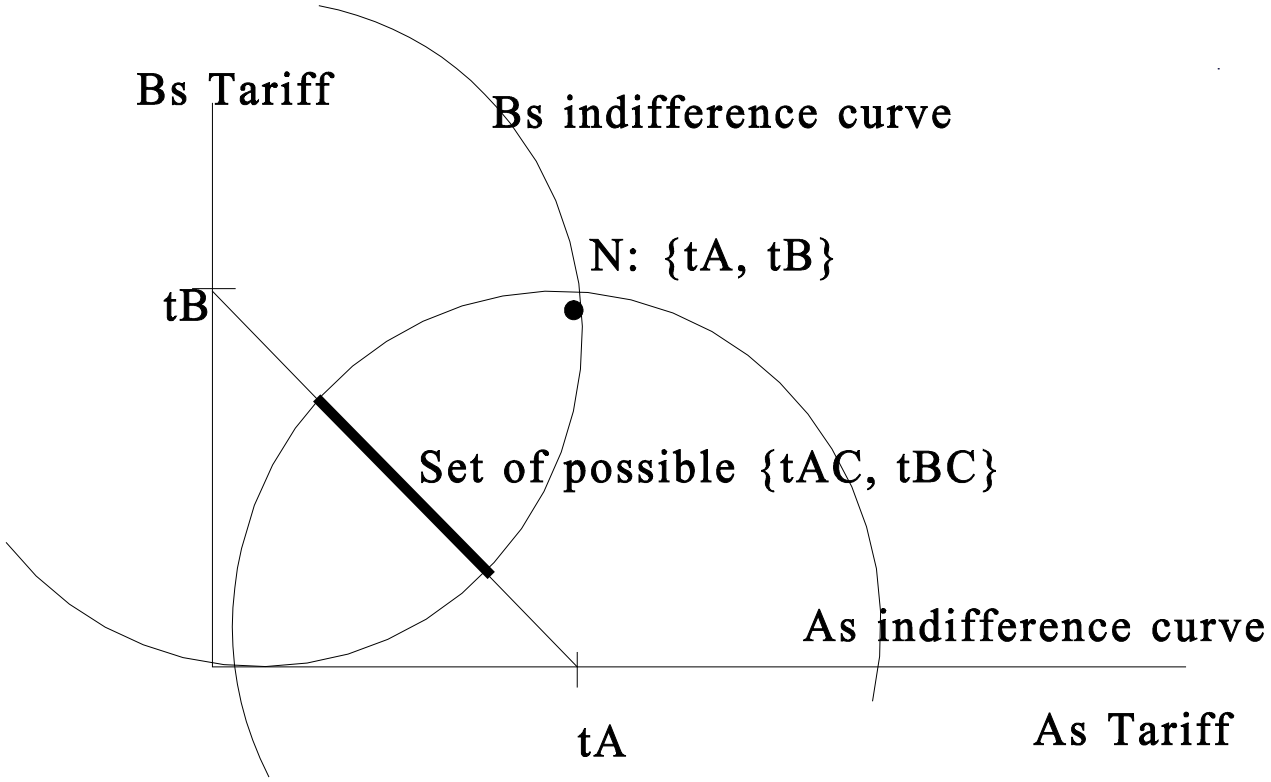
Table 5 tests the congressional leadership hypothesis, looking only at those cases in which Congress chose to play a role. The evidence is consistent with the hypothesis, though the statistical significance is substantially less than the tests of the treaty hypothesis. As expected, Congressional leadership is somewhat more common against GATT members, since Congress is more likely to have hawkish preferences that make it willing to break GATT commitments.

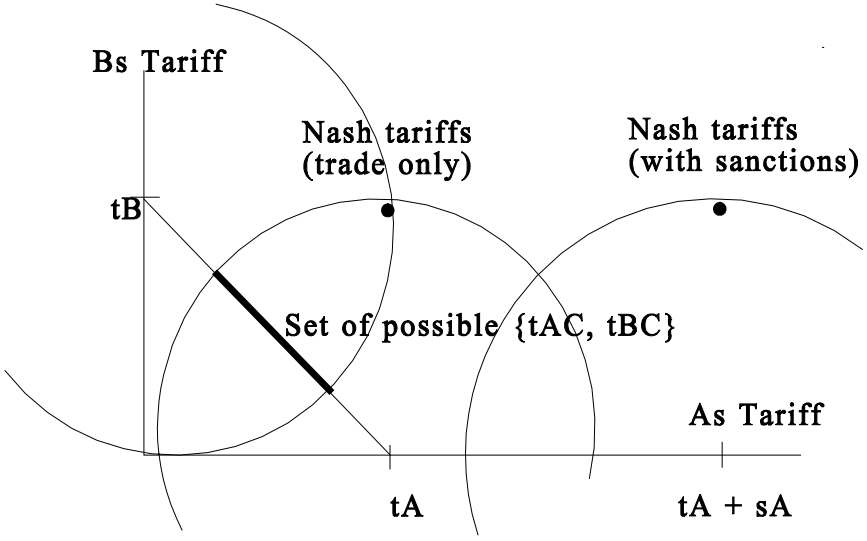
This suggests that any trade sanctions against China that impinge on MFN treatment are more likely to result from congressional, and not presidential leadership. However, an activist Congress faces significant institutional obstacles in withdrawing MFN treatment from China. To reject the President's renewal of MFN, both chambers must pass a disapproval resolution, which is subject to veto. For all practical purposes, then, congressional leadership on this issue requires a two-thirds majority in both chambers. In contrast, an activist policy is easier for non-trade sanctions, since Congress controls the purse strings of the foreign aid program. Again, such sanctions are less effective in changing the target's behavior.

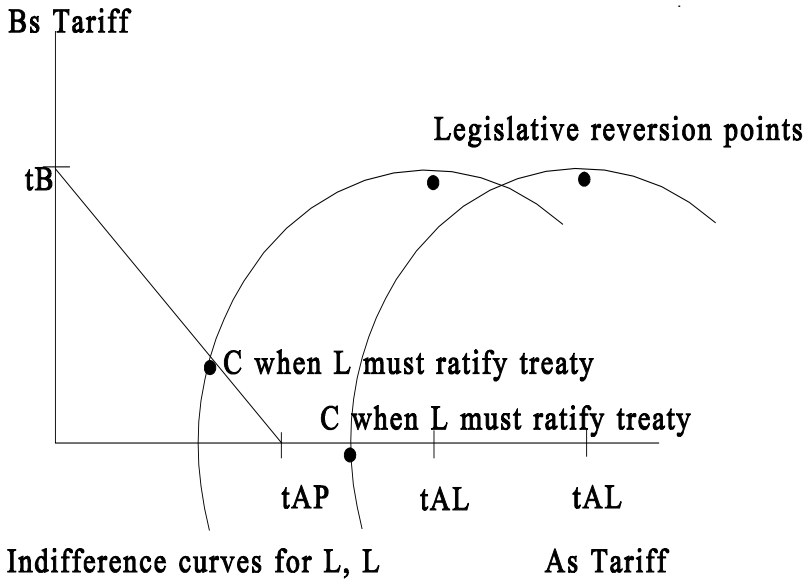
Conclusion

This paper has developed three hypotheses concerning the effects of domestic politics on sanctions. The treaty hypothesis states that trade sanctions are more likely against non-GATT members, while nontrade sanctions are more likely against GATT members. According to the enforcement hypothesis, states are more likely to punish violations of trade agreements than to impose sanctions for non-trade reasons. Finally, congressional leadership in sanctioning episodes is more likely against GATT members than countries that are not GATT members.

These hypotheses consistently find support in the population of US sanctioning episodes since the second world war. They also help illuminate United States' policy towards the People's Republic of China, particularly the choice of sanctioning instruments against a country with which the United States has signed many trade agreements. Trade sanctions intended to obtain changes in Chinese human rights policy are unlikely indeed without strong congressional leadership, while the executive is likely to choose only less effective non-trade sanctions. However, continued enforcement of trade-related agreements remains likely.


Bs Tariff
Bs indifference curve
N: {tA, tB}
tB
Set of possible {tAC, tBC}
As indifference curve
tA
As Tariff


Bs Tariff
Nash tariffs
(trade only)
Nash tariffs
(with sanctions)
tB
Set of possible {tAC, tBC}
As Tariff
tA
tA + sA


Bs Tariff
Legislative reversion points
tB
C when L must ratify treaty
C when L must ratify treaty
tAP
tAL
tAL
Indifference curves for L, L
As Tariff

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