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# **Effects of Globalization on Sanction Effectiveness**

## **全球化對制裁效力的影響**

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## Abstract

In the literature on sanctions effectiveness, scholars have discovered a large number of variables, which have an impact on the decision of a target state to succumb to sender's demands or to stand firm and deflect sanctions. However, few studies talk about the influence of globalization on sanction outcomes. Globalization is a process which connects nations and creates ties between actors. This research discovered that factors affecting sanction effectiveness from previous studies could be attributed to globalization, thus, there is a possibility that globalization may correlate with an ability of a target to resist sanctions treats and impositions.

The study assessed the effects of political, economic and social globalizations separately. Such division is used by a number of researchers, and is due to the fact that globalization is a complicated term, which includes many variables. These measurements in their turn have a different impact on the sanction outcome.

Increase in the political globalization index is predicted to help a target to successfully repel sender's demands. The trust and transparency created by the aforementioned globalization type are crucial in getting this outcome. At the same time economic and social globalizations do not change the effectiveness level, as they are comprised of variables, which if estimated one by one have either positive or negative correlation with the final outcome. Thus, mitigating the effects of these two types on the general sanction's result.

By applying the TIES and the KOF data as well as evaluating cases of Peru and Indonesia the study was able to show clearer the impact of political globalization. Both countries from 1992 to 2005 faced with several sanctions' episodes, and with the increase in their political globalization index they were able to deflect sender's demands, although before that occurred they were forced to acquiesce.

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## **List of Acronyms**

BIT = Bilateral Investment Agreements

DV = Dependent Variable

ENGO = Environmental Non-Governmental Organizations

FDI = Foreign Direct Investment

GDP = Gross Domestic Product

IMF = International Monetary Fund

IP = Intellectual Property

IPE = International Political Economy

IV = Independent Variable

KOF = Swiss Economic Institute

NGO = Non-Governmental Organization

OAS = Organization of American States

SDR = Special Drawing Rights

TIES = Threat and Imposition of Economic Sanctions

TIP = Treaties with Investment Provisions

UNTAET = United Nations Transitional Administration in East Timor

UN = United Nations

# Chapter 1 Introduction

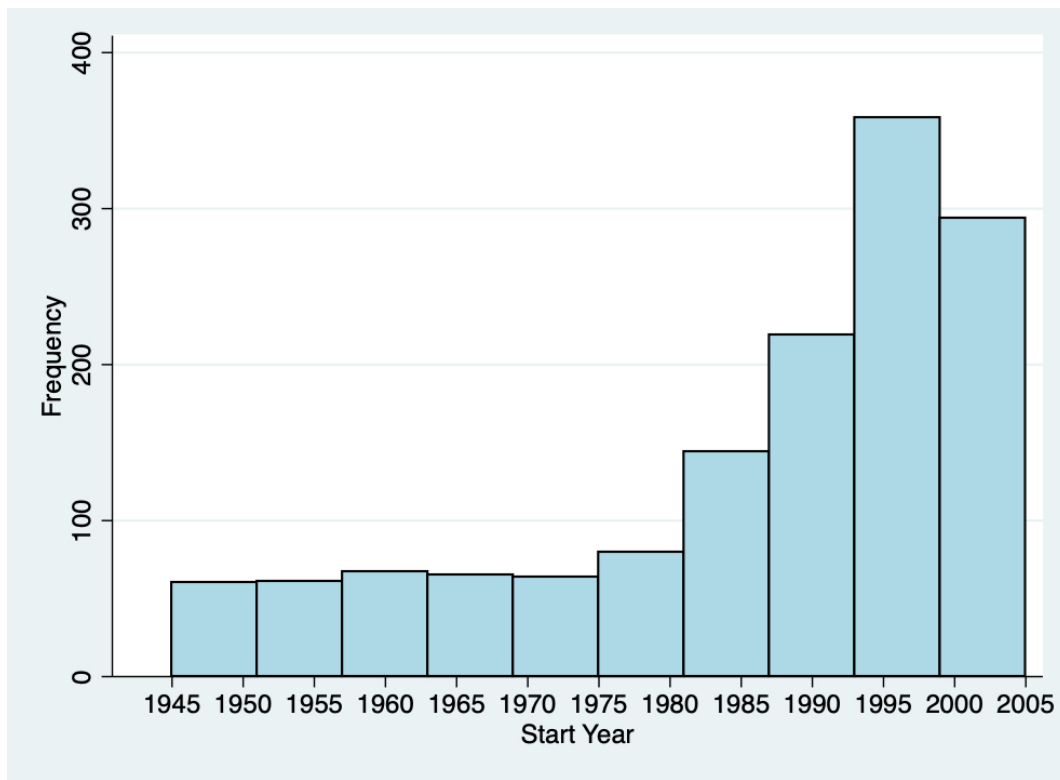
## 1.1 Research Background and Motivation

Sanctions have been used as a tool of a coercive diplomacy for centuries. The process of sanctions imposition involves two parties, namely, a Sender and a Target. It is also important to mention that both sender and target can be represented by individuals, states or different institutions. The main purpose of sanctioning an opponent includes such goal as forcing the target to comply a verity of sender's demands, which may consist of political, economic, military, or social claims.

Economic sanction is a double-edged sword and can inflict damage on both parties. Usually it is implemented for a limited period of time, but can have long-term effects. Additionally, the economies may not immediately experience the burden inflicted on them. Many negative consequences are manifested with a time lag: slowdown in GDP (Gross Domestic Product) growth, loss of jobs and opportunities for the development of business sector (Alesina et al. 1996; Morgan and Schwebach 1997; Allen 2008; Peksen and Drury 2010). In addition, sanctions are not always lifted as quickly as they are imposed.

Before 1945 military methods of achieving your goals were extremely popular. It was considered to be the main coercive tool in foreign policy. After World War II the use of force became much more restricted and sanctions started to be seen as a better alternative for brutal force. Sanctions became a savor of the world and could help to evade unnecessary wars (Baldwin 1985). This tool started to be the tool of rational actors. In Figure 1.1 sanction cases are depicted. It is clear that there is a tendency for a growth in number of sanction usage between 1945 and 2005, especially after the end of Cold War.

**Figure 1.1 Initiation of Sanctions Cases, 1945-2005**



Source: University of North Carolina (2014). *Threat and Imposition of Economic Sanctions (TIES) Data Page* [Dataset]. Retrieved March 17, 2020, from <http://sanctions.web.unc.edu>



According to history economic sanctions started to be executed centuries ago. In ancient Greece Athens targeted Megara with economic embargo in 431-404 BC (Eaton and Alan Sykes, 1998). Nowadays sanctions are still widely used in international relations. According to the Threat and Imposition of Economic Sanctions (TIES) data, throughout the period of 1945 to 2005 there were more than eight hundred sanction episodes (Morgan and Bapat, 2013). Although it is a popular instrument and has some impact on a target, but it is complicated to assess the success of this tool and its damage beforehand.

In international political economy literature, the role of sanctions is highly controversial and has not been decided yet. Scholars argue whether this coercive mechanism is efficient or it has no impact on a target. And if it does which variables are the most important in a target's decision to acquiesce to sender's demands.

In the same TIES dataset, we can observe that the majority of sanctions enforced or threatened in 20<sup>th</sup> century are the sanctions connected with such issues as human rights or trade (almost 70% of all sanctions). Thus, an objective of a sender is to alter the system of a target to address these issues. On the one hand, lack of communication, international institutes and platforms for interaction decrease the level of trust between states, thus, making sanctions to be a tool for resolving issues. On the other hand, presence of such entities should make countries to be more open for dialogue and allow them to tackle problems with different tools other than sanctions.

The target in its turn want to preserve its policy and usually is reluctant to change. Such state will try to deflect sanctions with all means possible to maintain its image, political and international statuses. However, there are many variables, which determines the effectiveness on a target country.

I shall also mention, that increase in number of sanctions used is going along with a growing globalization. We can see this clearly that the number of sanctions increased rapidly after the end of Cold War, the time when more and more states joined the world market and switched to democratic regimes. From 1971 to 1991 there were 363 sanction episodes in total, around 18 cases per year. But from 1991 till 2000 the number grew to 525, which equals to 53 sanction impositions and threats per year.

The notion of globalization consists of many components. However, globalization brings the countries together, making the world more interconnected. The closer interaction between all types of actors has effect on almost every sphere of life, including international relation. Thus, I assume that growing dependence may impact such a coercive mean as sanctions. Effects of globalization have been poorly research by IPE (International Political Economy) scholars. Assessing the effects of different types of globalization on a final outcome of sanction usage, will help to close this gap.

The motivation for the analysis derives from the fact that a large number of measurements from an abundant literature, which have an inference on sanction effectiveness, can be considered to be a part of one of the globalization types. This connection will be observed more thoroughly in the following chapters. The existing relationship can be a sign of an existing correlation. Moreover, some studies on certain globalization types were carried out and discovered a presence of interdependence between variables. For instance, Duzcu (2019) observed cultural globalization (which can be considered to be a part of social globalization), and found that there is a correlation of it on the sanction's final outcome.

## **1.2 Research Question**

In sanctions literature many researches are devoted to the topic of sanctions effectiveness. Scholars have analyzed a great number of factors, which can influence the final outcome of this coercive tool usage. Within the literature two distinct camps can be distinguished. The first camp argues that sanctions do work and their effectiveness is high, depending on situations. Second, those scholars who do not see correlation between sanctions and willingness of a state to accept senders demands, simply put, they believe that other factors have higher impact on overall results.

However, recent trend in sanction literature is that scholars do not simply put sanctions into black and white categories, but rather try to look at the preconditions, which helps senders to get a successful result from using the aforesaid mean.

Hufbauer, Schott and Elliott (1990) research provided a first systematic survey and comprehensive study on sanctions in the world. Economic sanctions give state an opportunity to coerce other state without exercising military force. With a right use they can greatly assist governments, and allow nations not to go to war. They managed to prove that sanctions work in

34% of the cases (40 out 115 cases). After this work a shift happened in sanctions literature, from pessimism and ideas that sanctions do not work to more optimistic view on this coercive tool effectiveness.

The factors, which have a significant impact on sanctions, have been researched by Bapat, Heinrich, Kobayashi and Morgan (2013). In their work by using statistical methods they analyzed a variety of variables, which may affect sanctions outcome. Such measurements as involvement of international institutions and severe costs on target states proved to have a positive correlation on sanctions effectiveness on every stage of the process. Moreover, authors not only assess the impact of sanctions by itself, but they paid much attention to the threat stage, which turned out to be subjected to the effects of the above-mentioned variables as well.

In spite of the fact that many authors, who believe in sanctions effectiveness, have already analyzed many variables and their effect on this coercive tool, literature still largely neglects to observe the inference between globalization and sanctions. Globalization is a highly popular term in 21<sup>st</sup> century. It is a process, which engages almost all spheres of life. There are many types of globalization, for instance, economic, trade, financial, social, informational, interpersonal, cultural, political and others (Gygli, Haelg, Potrafke and Sturm 2019). All those variables may have some effect on Target's willingness to acquiesce Sender's demands, or, on the contrary, might help a country to resist the negative impact.

Globalization has connection with almost everything in international relations (Walker, 2007). So, this may stay true with the assumption that globalization affects sanctions effectiveness. Moreover, previous studies researched the effects of such factors as target dependence on sender, involvement of international organizations, regime type etc. All those measurements are affected or included in globalization notion, thus, I want to look deeper and assess its influence on sanctions.

To elaborate more on this topic, I would like to mention that good communication also affects sanctions effectiveness. Presence and participation in different institutions creates a trustful relationship between two actors and this leads to a lesser need for sanctions execution. Like that countries can establish a dialogue, which will mitigate the need in other coercive tools.

However, globalization is a highly complicated concept. Therefore, scholars usually divide this process into a number of indexes and discuss them separately. According to Gygli, Haelg, Potrafke and Sturm (2019) three major types can be identified, namely, political, economic and social. Each of them may have distinct impact on the sanction outcome.

As it was said earlier, an increase in globalization index actually shows the number of those connections among sender and target states. Ties can be created by all types of globalization. Nevertheless, the greatest number of ties and platforms established is shown by the political globalization index. Such variables as number international political institutions, non-governmental organizations (NGO), treaties signed, investments made and others, directly represent the number of institutions for cooperation or indirectly indicate that such platforms will be created due to the need to conduct further discussions for better interactions.

Economic and social indexes may assist in ties creation as well. Although some measurements intersect with political globalization. Number of economic and trade partnerships, social and interpersonal interactions require a great amount of political contacts, which are being established by political index. Hence, an assumption is that globalization may mainly have an inference with the sanction effectiveness via the political globalization level.

### **1.3 Argument and Hypotheses**

The world is a system where everything is becoming linked with each other. In recent decades, an irreversible process of globalization has been boosted this interaction, which means the global process of integration and unification of the economic, political, religious and cultural aspects of society. During this process, states unite and create various international organizations, via which they can communicate in order to resolve various world problems.

The relevance of this problem lies in the fact that the process of globalization and integration continuously covers all countries so that ultimately this can lead to the state where issues in a Country A will directly or indirectly affect Country B. Due to the globalization process the world is becoming more connected. Everything that happens daily in individual states is reflected throughout the world.

If globalization increases the dependence within international community, and sanctions not only affect target, but other players, as well as a sender, then the globalization index variable might have some kind of effect on sanctions and their result. The purpose of this paper is to look at different mechanisms of globalization and how it correlates with the effectiveness of sanctions. In a nut shell, I would like to concentrate more on three types of globalization: 1. economic; 2. political; 3. social. This division into major groups was also made by Gygli, Haelg, Potrafke and Sturm (2019), who worked on the creation of the KOF (Swiss Economic Institute) dataset used in the research.

Other types of globalization will be tested as well, however, they will be considered to be part of the abovementioned groups.

Dividing the above-mentioned variable into three is highly important. The concept of globalization on its own is extremely complicated and consists of various dimensions (namely, political, economic and social). Each of them influences a connection level among parties by improving it, nevertheless, the increase happens via different spheres. Additionally, when assessing the globalization index scholars usually divide it into these categories, because each type of this concept creates a unique context. Therefore, political globalization creates an influence mainly via political institutions, social focuses more on social and psychological circumstances in the targeted society, and economic via economic structures (Duzcu, 2019).

Sanctions are a double edge sword tool, they influence both a sender and a target and lead to negative consequences in both nations. As the ties among countries increase due to the globalization variable, the connection also grows, thus, it may manifest itself in higher costs for both parties to curtail their communication and decreases a likelihood of sanctions threat or imposition.

First, according to sanctions literature there are many variables which correlates with the outcome of the coercive tool under discussion. At the same time those measurements can be linked to a certain type of globalization and closely interact with it. Here I will briefly mention those variables and their connection to globalization, and will discuss it in more detail in Chapter II. For the political globalization index these variables are: target's relationship with third parties

(discussed by Lektzian and Biglaiser, 2013 and Peksen and Peterson, 2016); ally or advisory relationship between parties (discussed by Hufbauer et al., 2007 and Drezner, 1998); regime type (discussed by Brooks, 2002 and Allen, 2005); presence of veto players (discussed by Jeong and Peksen, 2019); opportunity cost and future conflict (discussed by Drezner, 2001).

As far as economic globalization is concerned, these measurements are: economic help from third parties and target's allies (discussed by Hufbauer et al., 2007); target's economic costs (discussed by Drury, 1998 and Bapat, Heinrich, Kobayashi and Morgan, 2013); presence of restrictions to global banking assets (discussed by Rosenberg et al., 2016); impact of sanctions-busting (discussed by Early, 2011).

For the social globalization relevant variables are: presence of humanitarian issues (discussed by Pierce, 1996); public attitude toward sanctions (discussed by Pape, 1996); whether there is in-country social and political instability or not (discussed by Hufbauer et al., 2007).

Second, it has to be mentioned that the political globalization index might have a higher impact on sanctions outcome. Based on the previous studies it can happen because globalization is highly connected with politics. Furthermore, some variables from other types of globalization affect political globalization (Gygli, Haelg, Potrafke and Sturm, 2019). Also based on the literature mentioned above such variables as access to global banking; sanctions-busting; presence of ally's economic help; public opinion regarding sanctions can be linked to the political globalization, for instance, to number of mutual treaties signed and number of diplomatic ties measurements, which in their turn are the parts of the KOF political globalization index. All of the aforementioned phenomena create more ties between Sender and Target. Thus, it is the above-mentioned index, which may influence sanctions effectiveness the most. Also, it leads to the higher likelihood that globalization will have an effect on the outcome variable via the political index.

Third, political globalization increases an interaction with international organizations and institutes. Neuenkirch and Neumeier (2015) found that sanctions used by international organizations (the UN (United Nations) in this case), have much higher influence on countries economic growth and longer lasting effect, rather than sanctions implemented by a state (the US). That being said, the influence of international organizations is profound. Because the level of

political globalization affects ties with organizations. That is why it is possible that this globalization type may improve Target's image in various institutions, making the possibility of deflecting sanctions higher.

Additionally, I would like to mention the ways how globalization allows states to create a linkage via which actors communicate, and there are several issues why globalization can correlate with sanctions outcome. First, the index represents the number of ties of a target with a sender. If there are many platforms to establish a dialogue, countries will be more willing and will have more means for interaction with other nations. A better communication may lower the number of issues and circumstances, under which Sender has no other option but to implement sanctions.

Second, better communication is a powerful tool for improving trust. With a higher level of trust actors might be more incline towards a peaceful means of conflict resolution, because coercive actions will possibly be seen as a threat, which will negatively affect the trust level.

Third, because of the presence of different treaties, political, economic and socio-cultural missions, the degree of mutual dependency is going to be higher, due to this reason costs for violation any types of ties or changing the existing game rules by force may inflict more damage rather than provide more benefits to a sender. Thus, relative costs will negatively correlate with a probability of sanctions usage. States will be less tempted to use such a coercive measure as sanctions unless they executed other more peaceful tools.

All of these reasons show that globalization and its consequences of increasing level of interaction between states leads to the probable conclusion that a correlation sanctions effectiveness and globalization level may exist. As this index has been scarlessly researched a look on this variable may be needed. On top of that scholars on sanctions related literature convinced that assessing different variables separately is needed as there are too many factors, which affect or may affect this particular linkage (Bapat, Heinrich, Kobayashi and Morgan, 2013).

In sum, because political globalization can: 1. increase number of ties; 2. improves trust; and 3. raises political costs of executing sanctions, so I expect that with a spike in a target states' degree of political globalization, the chances for a negative outcome for a target will be lower. However, economic and social globalizations cannot do the same improvements. It can be assumed due to



the fact that some variables correlate positively and some negatively with the final outcome, consequently, I expect that target states' degrees of economic and social globalization will not have clear impacts on sanction outcomes. It happens because of the following points. Firstly, social variable is poorly researched by the IPE scientists, it may mean that the measurement was found insignificant. Secondly, economic globalization in its turn is a double-edged sword. On the one hand, due to the higher costs for a target, it is more likely that it will accept sender's demands. On the other hand, sender becomes more reluctant to impose sanctions, as his costs are also high. Although, the globalization indexes increase happens hand by hand, and some variables from different globalization types affect the growth of other types.

Thus, if my argument is true, I should be able to verify the following four hypotheses:

**Hypothesis 1: Target states' degree of economic globalization does not have significant influence on their probability of concession.**

**Hypothesis 2: Target states' degree of social globalization does not have significant influence on their probability of concession.**

**Hypothesis 3: Target states' who have higher degree of political globalization will be less likely to make concession when being sanctioned.**

In the next section, I will talk about how I plan to verify the above three hypotheses.

## **1.4 Research Method**

For the research I am planning on using a combination of quantitative and qualitative methods. In order to probe the influence of different globalization indexes on sanctions the main focus will be put on quantitative analysis. My primary statistical method will be a logistic regression. It will be used to assess correlation between my independent and dependent variables, as they both only take the values of 1 and 0.

As far as the data is concerned, it will be pulled from the Threat and Imposition of Economic Sanctions (TIES) database. This dataset is one of the most comprehensive and includes not only cases of sanctions impositions, but threats as well. Furthermore, TIES was used in the literature mentioned in Chapter II. Such profound studies as Bapat, Heinrich, Kobayashi and Morgan (2013);



Whang, McLean, and Kuberski (2013); and Peksen (2019) used the database to conduct their research.

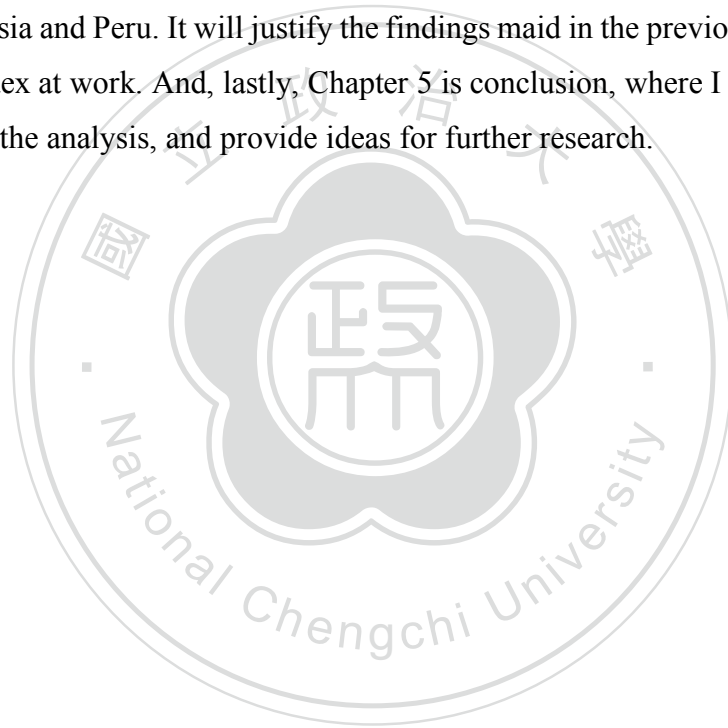
Globalization Index will be taken from KOF Swiss Economic Institute database. This particular index was chosen due to its high coverage of time and space. It provides data for most of the countries, including the de facto and de jure information. Moreover, eight types of globalization indexes are present, and they are all relevant for the research.

The timeframe for the analysis was limited to 1992–2005. The decision to start from 1992 arises from the idea that after the Cold War countries a larger group of countries liberalized their economies. Back then the globalization started to spread in a greater pace according to KOF Globalization Index. Moreover, some IPE scientists consider that previous research cannot be considered entirely objective, since most of them are based on empirical evidence from the Cold War period, during which the effective application of multilateral sanctions was difficult (Heine-Ellison, 2001). The upper frame was chosen due to the lack of data. The information regarding sanctions threats was comprehensively collected in the TIES dataset and the scope of it is up to 2005. As I include threats into the definition of a sanction episode, thus, it is important to stay consistent with the variables and not include measurements with too many missing values.

Then I will use qualitative method for further research. It will be done in Chapter 4, where I will elaborate on my topic and analyze a case study of several states. Their KOF Globalization coefficients will be compared in different periods of time. Then I will choose countries from the dataset with the greatest difference between indexes. And try to show why sanctions are effective, or ineffective, or, oppositely, have no effect on sanctions outcome. The countries which can be related to these criteria are Indonesia and Peru. I will assess the reasons behind sanctions and why they were imposed. Then I will research the sanction effectiveness in different periods of time. Both nations before the rise in globalization indexes succumb to Sender's demands, but afterwards the circumstances changed and countries were successfully able to deflect all sanctions episodes. As countries connection with the world grew stronger, so did the transparency and trust levels. The number of mutual connections increased leading to a situation when the dialogue was a preferable option and parties were able to solve all the issues peacefully.

## 1.5 Structure of the thesis

I will structure my thesis in the following way. Chapter 1 will be devoted to Introduction, where I will dwell on research motivation and a background of the study, show why the problem is there. The argument will be provided, as well as, hypothesis. Finally, the method used in the study shall be describe. Chapter 2 will introduce the reader existing sanctions literature and its analysis. A relevance of the research argument will be shown, and the conclusion on why globalization should make a difference will be provided. Chapter 3 is the Statistical analysis itself. I will describe the variables used in the research. Mention the hypothesis and build a statistical model. Moving to outlining main findings and presenting research limitations. Chapter 4 will be a case study of Indonesia and Peru. It will justify the findings maid in the previous chapter and show the globalization index at work. And, lastly, Chapter 5 is conclusion, where I will briefly mention all the key points of the analysis, and provide ideas for further research.



## Chapter 2 Literature Review

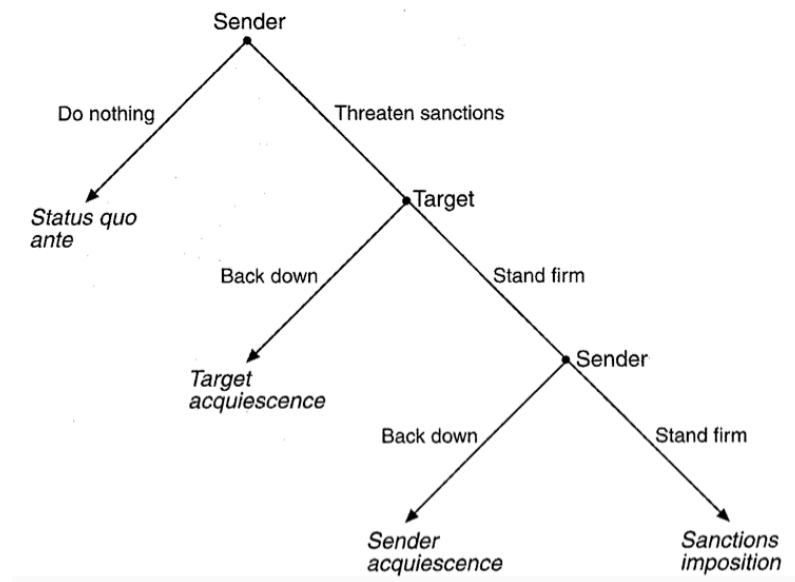
The goal of this Chapter is to explore the relationship between globalization and sanction outcomes. Specifically, how may globalization affect the probability of a target state to make concessions when being sanctioned. In this chapter, I will assess sanction literature and dwell on some previous research in order to build my argument. Based on this I will explain how different dimensions of globalization may affect the sanction outcome.

### 2.1 Whether Sanctions Work

“Economic coercion – defined here as 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 – is an increasingly prominent tool of statecraft” (Drezner, 2003, p. 643).

A great part of recent IPE literature is focuses not on the sanction imposition itself, but rather on the threat of sanctions. The sanctions process can be depicted as in Figure 2.1 Everything starts from the desire of a sender state to change the status quo and threat of sanctions against a target state unless sender's demands are fulfilled. In case of the target acquiesces, there will be no following imposition. But if the target does not want to comply then there are two ways for the sender. First, back down on its decision or, second, to stay firm and impose sanctions.

**Figure 2.1** *A model of economic coercion*



Source: Drezner (2003, p. 646).

Both the threat and imposition stages can be considered to be a sanctions episode. According to TIES data This situation can lead and be resolved in ten possible outcomes:

Six of which make the target succumbed:

1. Partial Acquiescence by Target to threat;
2. Complete Acquiescence by Target to threat;
3. Negotiated Settlement;
4. Partial Acquiescence by the Target State following sanctions imposition;
5. Total Acquiescence by Target State following sanctions imposition;
6. Negotiated Settlement following sanctions imposition.

The rest four allow the target deflect sanction episode:

1. Capitulation by the Sender(s) in threat stage;
2. Stalemate in the Threat Stage;
3. Capitulation by Sender after Imposition;
4. Stalemate after Sanctions Imposition.

Although Figure 2.1 showed only four outcomes, they still are interconnected with those from the TIES dataset. Status quo; Target acquiescence (Partial Acquiescence by Target to threat; Complete Acquiescence by Target to threat; Negotiated Settlement); Sender acquiescence (Capitulation by the Sender(s) in threat stage; Stalemate in the Threat Stage; ); Sanctions imposition (Partial Acquiescence by the Target State following sanctions imposition; Total Acquiescence by Target State following sanctions imposition; Negotiated Settlement following sanctions imposition; Capitulation by Sender after Imposition; Stalemate after Sanctions Imposition). Thus, TIES have more detailed data, than the data being used in Drezner (2003).

Sanctions imposition may happen in case a target does not comply to Sander's demands, and Sender stays firm to his claims, then sanction episode will follow.

However, if the Target is not affected by threats and Sender is not committed to the claims he made, then Sender will backdown on sanctions. Sanctions also might not be imposed if the Target agrees, or partly agrees to the demands.

In case sanctions were implemented, there are too scenarios to be reviewed, but all of them can lead to two main results: sanctions success or failure.

IPE community is distinctly divided into two camps: those who do not believe in sanctions effectiveness, and those who found that they can positively affect the final outcome. The first ones, even despite the fact, that they do not doubt sanctions pressure on target, but at the same time they assess that sanctions cannot be useful without other coercive measures, to support the sanctions episode (Pape, 1997).

Sanctions became highly popular among the world community after the end of World War II. It can be called a golden age for liberal theorists, who believed sanctions to be a full and ultimate alternative to brute force, also known as war.

I would like specifically highlight the threat stage, which is greatly important. According to many scholars most of the sanction success can be achieved in the threat stage, before their imposition. In the paper written by Drezner (2003) he tested this hypothesis and by using sample of 195 sanction cases found out that most of these episodes ended up without the following sanctions usage. To him sanctions have more usefulness, although they are not imposed, but executed as threat instead. His argument is that sanction should be reconsidered, and that such way of coercion has its right to exist in international relations.

More recent work by Whang, McLean, Kuberski (2013) contributes to the debate. On the one hand, their findings suggest that there is no support for the following hypothesis: when significant common interest is at stake, sanction threats increase the target's assessment of the likelihood that the sender is resolved. Thus, they reject informational factor. On the other hand, they found robust support for the coercive hypothesis: as the level of common interest in avoiding the disruption of economic ties increases, the target is more likely to comply. Countries use sanction threats as an exercise of power to hurt that stems from economic interdependence and one side's greater ability to exploit this interdependence to achieve certain foreign policy goals.

Although threats according to IPE literature are important, still sanctions are widely used globally. In 1990s people were truly optimistic about sanctions. Elizabeth Rogers in her studies wrote about sanction in the following way: “Economic sanctions are more effective than most analysts suggest. Their efficacy is underrated in part because unlike other foreign policy instruments sanctions have no natural advocate or constituency.... As a result, their successes are widely unreported, while their failures are exaggerated by those with an interest in either avoiding their use, or in using other instruments” (Rogers, 1996, p. 72).

There is also no consensus among researchers on how to measure only the effectiveness of sanctions if they are carried out simultaneously with other coercive political tools. In reality, there is no control group that could demonstrate what would happen in the country during the same period under the same conditions if sanctions were not introduced. Thus, it becomes practically impossible to determine what damage the target country suffered as a result of the imposition of sanctions, and what damage was caused to it as a result of changes in other factors. It can be caused by the damage that the country may suffer as a result of the existence of an ineffective political model. Therefore, the selection of criteria for the effectiveness of economic sanctions is still the subject of discussion.

## **2.2 Preconditions which Affect Sanction Success**

Therefore, a more relevant question is: under what conditions can economic sanctions achieve their goal? Researchers worldwide shifted their look to the debate on what determines sanctions effectiveness, rather than on if they are effective or not question. It is important to mention that they admit that in some cases effectiveness may be very low.

As the study concentrates on the globalization impact on sanction's outcome, I shall group the literature according to their affiliation with political, economic and social globalizations. First, I begin with political factors. Developed political connections largely give a target chances to have less painful consequences from sanctions.

Bapat, Heinrich, Kobayashi, Morgan (2013) in the article Determinants of Sanctions Effectiveness: Sensitivity Analysis Using New Data conducted an analysis of a variety of potential factors for success. It turned out that if one of senders is an international organization then the

possibility for positive outcome for a sender state is higher, rather than all participants being other entities. So, if a country have is an active member of international institutions, the chances of an institute imposing heavy sanctions may be lower.

Next point is that the number of countries participating in the sanction episode negatively affects the success of their application. Bapat (2009) showed that with a large number of countries introducing sanctions, conditions arise that smooth the overall effect (countries that have imposed sanctions, but are least interested in this, will look for ways to lift sanctions or continue cooperation with the target country to bypass them). In addition, disagreements may arise between countries that have imposed sanctions, which may subsequently lead to the failure of the sanctions policy.

Another work analyzing success from ongoing sanctions policies is a Hart (2000) study. The main hypothesis of the study was the premise that the success of the imposition of sanctions is influenced by the political regime in the initiating country. The author was able to prove this assumption by constructing statistic models, where the variable responsible for the democratic regime in the sanctioning country turned out to be highly significant. Hart (2000) believes that the result can be justified by the greater economic power of democratic countries. He also gives other explanations. In particular, that democratic countries more often use sanctions, and also impose them against those target countries where the likelihood of success of such a policy is high. Political costs of economic sanctions are also a debatable issue in international relations. Thus, it indirectly suggests that having good connections with the democratic world may lead to a better outcome for a target.

Sanctions are applied quite often in world politics to resolve international conflicts and disagreements, some studies find them to be a more attractive foreign policy tool than wars, which involve high costs and losses of lives.

McCormack and Pascoe (2015) view sanctions as a preventive mechanism, which allow makes war evasion for states possible. Sanctions in this case are used when there is no other alternative present, not considering a war. If used correctly this mean can allow sender to destabilize target's economic and political institutes. More importantly sanctions can drain resources, that otherwise may be used for war. All of that allows sanctions to be a tool for promoting peace. Although



sanctions are considered to be a mean to maintain peace, they still are used by nations in case there is not enough trust and transparency present between rivalries.

Economic sanctions, if combined with other measures (for instance, with military or political tools), may turn out to be overly successful in terms of destabilizing the political system of governments. Otherwise, not supported by other measures, they rarely lead to destabilization (McCormack and Pascoe, 2015).

The effectiveness of sanctions in achieving foreign policy goals may be limited. According to researchers, sanctions aimed at weakening the military potential or at changing a country's policy were rarely successful if the damage to the economy as a whole was ignored. The most unsuccessful sanctions are those designed to stop military intervention. The most effective are aimed at a moderate change in the country's policy (Peksen, 2019). It results in a lesser need for sanctions threats and implementations in case states have close ties. Because issues with which a sender is unsatisfied with, can be better solved by diplomatic tools. The coercive mean due to its lack of efficiency, might only be executed as a last resort, where there are no other options.

In the Early (2011) work, the author estimated the impact of sanctions-busting (an act of trading with a state with whom official trade is officially prohibited) on the final outcome. The conclusion was that sanctions-busting used by a target country decreased the likelihood of sanctions to be ended in a positive way for sender. Those ties, which target has with third parties can be determined by globalization index, and political connections in this case have a large impact on a willingness of third parties to trade with a sanctioned state.

Despite active discussions on issues related to sanctions, as well as a fairly large amount of literature on this subject, the coercive tool remains one of the most poorly understood instruments of international politics. In the IPE community, the idea of international economic sanctions as an effective way of influencing other countries is actively criticized. According to Pape (1997), statistics show that sanctions do not help achieve key international policy goals. Thus, the dialogue is a mean, which is the most successful in issue resolution. Therefore, improving it will give a target even higher probability to resist sanctions.

A similar point of view can be found in the second edition of the collective monograph *Rethinking Economic Sanctions: Economics and Modern Politics* (1990) whose authors, concluded that economic sanctions reached the goal in only in one third of the 100 analyzed cases. And although serious changes have taken place in the world over the past 25 years, the main conclusions of this book are still relevant.

This conclusion is confirmed by a study of Hufbauer, Schott, Elliott, Oegg (2007). The study showed that, on average, sanctions are effective in 34% of cases. However, if the task is to achieve relatively small concessions from the target states (for example, to release certain political prisoners), then success can be achieved in half the cases. Only more than 30% of cases managed to achieve more comprehensive changes in politics (for example, a change in the ruling regime or democratization of power). And economic and political sanctions have even less effect as a means of ending hostilities. Success was achieved only in 20% of cases.

Such points of view lead to the conclusion, which Baldwin (1998) conventionally called the “sanctions paradox”. Its essence is that politicians continue to apply economic sanctions, despite the evidence that they do not work, simply because the costs of using military force as a measure of coercion would, all other things being equal, be too high. But if advanced ties between parties exists, that helps everybody to achieve their goals easier without sanctions implementation. Based on this there may be negative correlation between political globalization and the outcome.

Scientific studies of sanctions effects based on a wide selection of countries show a significant impact of sanctions on economic growth. For example, Neuenkirch and Neumeier (2015) evaluated a sample of 68 countries for 1976-2012, and found that on average, UN sanctions reduced real GDP per capita by 2.3-3.5 percentage points. This effect lasted on average for 10 years. If the sanctions were particularly harsh (embargo, for example), a decrease in GDP of 5 percentage points was observed. Sanctions imposed only by the United States had a more modest effect over the course of seven years, the decline in GDP growth averaged 0.5-0.9 percentage points. It makes the participation in international organization for a target state crucial.

Secondly, I will consider economic factors. Those factors, in contrast with the political ones, do not result in clear positive or negative correlation with sanctions' outcome. Thus, the economic globalization index may not be significant in determining the outcome.

High target costs variable reported the robustness of the relationships with sanctions success. It makes a target to be more likely to acquiesce to the sender's demands. Moreover, target trade dependence on sender are found to be statistically significant as well, and having similar effect. (Bapat, Heinrich, Kobayashi, Morgan 2013). At the same time high trade dependence requires a number of ties and platforms in order for states to have trade agreements in place. So, it will lead to an increase in the political globalization level.

The costs of sanctions for the economy of a country that decides to introduce them are almost never calculated in advance. Firstly, it is very difficult to estimate their value. Secondly, as a rule, the damage to large sanctioning economies is insignificant and usually does not exceed 1% of GDP (Hufbauer, 1990). However, if the annual GDP growth is about 1%, then the imposition of sanctions can lead to negative growth dynamics for both sides. Thus, it does not have much effect on the effectiveness.

The duration of the sanctions should have a positive effect on the success of sanctions' imposition: the longer they operate, the more significant the costs. However, Hufbauer et al. (1990) in their book "Economic sanctions reconsidered" showed that the duration of the sanctions negatively affects their ultimate success, as the country is gradually adapting to new realities. It also happens partly because of a growth in the economic globalization index.

Lektzian and Souva (2007) estimated that higher economic costs for non-democratic countries, will not affect its decision to apply changes. At the same time if democratic regimes face with high sanctions costs, will be more likely to acquiesce. The results of this economic factor are also inconsistent, and can be influenced.

Thirdly, some social variables researched are going to be mentioned. The outcomes as with the economic globalization do not narrowed down to only positive or negative correlation with the outcome variable.

Fearon (1994) argues that public opinion in non-democratic regimes can have a significant impact on sanctions effectiveness. Because in most cases authoritarian regimes try to deflect sanctions in order to preserve the leaders in power, therefore, people will more likely force the regime to acquiesce. However, if the same coercive tool is applied against a democracy, then it does everything possible to resist the sanctions' pressure in order to maintain the democratic rights and regime. That is why citizens will be willing to tolerate sanctions more, and its effectiveness goes down.

Duzcu (2019) assessed an impact of cultural globalization on the sanctions' outcome. His main argument is as follows. With an increase in the cultural index the public opinion becomes more affected by international values. Making sanctions more effective against higher culturally globalized nations, as their citizens try to force their governments to change the regime based on the values, which dominate in the world.

Another important factor is that in order to mitigate the costs of sanctions to people within a state and gain citizens support, nations' leaders easier comply to changes in the regimes, and accept senders' demands for changes (Bolks and Al-Sowayel, 2000; Nooruddin, 2000).

All in all, it should be highlighted, that most attention started to be paid towards estimating of a variety of measurements on sanction success, and to finding more preconditions. Although a great research on sanctions has been done and many variable's effects have been evaluated by previous studies. However, the influence of globalization is mentioned seldomly. Some of the variables assessed by other scholars, have connection with globalization, so understanding their effects and knowing their impact suggest us, that there may be a connection of globalization and sanctions as well. Political globalization includes the increase in such parameters as number of embassies, UN peace keeping missions, international NGOs, international organizations within a country. Thus, I assume that this type of globalization may have correlation with sanctions effectiveness. Moreover, based on results of aforementioned papers and their findings regarding the effects of a variety of political factors, we can think that political globalization might have similar, negative correlation effect.

Same holds true towards economic and social globalization. Their components are: trade and financial globalization for the first one. And cultural, informational and interpersonal for the second one. These measurements have been assessed one by one in previous studies, but never together represented by a single globalization variable. Although the results may not be significant, as measurements analyzed by previous scholars did not have consistent positive or negative inference with sanctions' effectiveness. It shall be highlighted that my research is evaluative, so I would mainly like to look at whether correlation exists or not. Then I will use a case study of Indonesia and Peru to show why in these countries' globalization made a difference and affected sanctions effectiveness.

From the scholars who conducted studies on sanctions, it is possible to see that connections and relations between actors play significant role in determine sanctions effectiveness. Thus, such variables as relative costs, political ties, international institutions, political structure and others will correlate with the final outcome. These measurements directly or indirectly can be related to the ties between nations. If we apply the same logic to globalization, it can be seen that globalization has a clear reference to the degree of cooperation in a Sender-Target relationship. Globalization represents a great number of variables, such as diplomatic missions, cultural forums, NGOs, number of military trainings etc. A high level of interactions can create a positive environment for dialogue. It brings the states closer together and establish a higher degree of trust. Because coercive measurements may violate trust states will probably be more reluctant in using sanctions with a globalization index growth. Also connected countries will have tighter cooperation in political, economic and social spheres, this will be followed up by increase in costs of conducting any type of attack, including sanctions. Like this both Sender and Target will have more negative impact on themselves.

### **2.3 Why Globalization Should Make a Difference**

However, despite some pessimistic research in sanctions literature, still many nuances exist. Moreover, as was mentioned before, the most recent studies suggest that sanctions can be effective under certain situations, and some variables may have more or less influence in determining their successful outcome.

Many preconditions have already been analyzed by IPE scholars. Despite that many external stimuli are yet to be looked upon. In my thesis I will pay much attention to globalization. Currently it has been widely neglected by other scientists. Only some aspects indirectly have been assessed by IPE community in regard of sanctions outcome. Also, the analysis will show why it is important to divide globalization variable into separate parts, and why the connection created by political globalization in particular may be significant and affect the outcome measurement.

I should note that some research has been done by Rodman (2006). He researched the effects of new actors from the Globalization Era. His main argument is that countries can cooperate with non-state actors and influence cooperation, thus, indirectly target target's economy.

Duzcu (2019) represents another study on globalization and sanctions effectiveness inference. His main focus is attached to social globalization. According to him cultural ties between nations influence opinion of citizens and shape their views and preferences about politics. In these states' governments do not necessary switch their focuses to cooperate with other countries and it is country's people, who force their government to acquiesce sender's demands. So, under these circumstances cultural globalization positively correlates with sanctions outcome.

Globalization is a complicated index, which includes a lot of variables. There are two major reasons for the choice to divide it into three types (political, economic, social). First, the KOF globalization dataset by default has been divided into these three major groups (Gygli, Haelg, Potrafke and Sturm, 2019). Some variables in those measurements can intersect and, thus, leading to unreliable results.

Second, based on the previous research it was found that one globalization index, namely, cultural globalization does not decrease probability of target to deflect sanctions, but on contrary increase chances for target's acquiescence (Duzcu, 2019). It happens due to the fact that target's ties with other countries do not get stronger and that the main influence is directly going on people's views and believes, and it is citizens who affect government decision to carry out changes. Social globalization as a larger measurement showed very little impact on communication among parties. Thus, because ties are not created on the state level we should separate the above-mentioned variables.

KOF defines globalization as an international linkage in economic, political and social dimensions. Globalization makes nations closer to each other by creating certain platforms for cooperation. In this case peaceful interactions are of a better choice for both parties and conflicts can be regulated with other tools usage. I would like to mention the democratic peace theory, which suggests that democracies tend to resolve issues without implementing coercive measures, due to sufficient cooperation and trust level (Polachek, 1997). Globalization does similar thing. It improves trust and make a communication a favorable option. But it should be highlighted that globalization and democracy are not the same processes. Which is even more important among scholars it is unclear whether causality exists between these two notions. Moreover, some studies show that globalization can slow down or even halt a democratization processes happening (Li and Reuveny, 2003). Although it is possible that democratization or liberalization can coexist and be ongoing in a same country at the same time, however, we cannot say that one process causes another and vice versa.

Because globalization consists of political, economic and social factors, then some inference of it with sanctions might take place. All the types essentially improve sender and target states dependency on each other and create a wide connection linkage, which improves a reliability in both partner states. As was mentioned before, in the analysis most focus will be given to political globalization. The globalization itself should work via the political index based on the following assumptions. The first and foremost reason is that many variables from economic and social measurements can be related to some key variables from the political index: number of treaties signed and ratified between nations; number of NGOs; amount of bilateral investment. Such variables as economic help from third parties and target's allies (Hufbauer et al., 2007); global banking restrictions (Drury, 1998; Bapat, Heinrich, Kobayashi and Morgan, 2013); number of humanitarian missions (Pierce, 1996) will increase the number of treaties signed between states and establish a number of platforms for better interaction, therefore, the political index will increase as well. Which will lead to a change in the final outcome.

Another reason is the following, from the sanction literature it is clear that political institutions such a large communication platforms or forums can influence the final outcome. These organizations are created during the increase in trade or various financial interactions among nations. Usually economic cooperation leads to the increase in political globalization at the same



time. Economic ties increase economic costs between a sender and a target, however, these variables based on the previous research are insignificant (Bapat et al., 2013; Peksen, 2019). Thus, it may only be political globalization which will lead to the higher probability of target deflecting sanctions (Hart, 2000).

In the case study which will be presented in the Chapter IV two countries will be taken, namely, Indonesia and Peru. In both countries the raise in the political globalization level went along with democratization and liberalization. Clearly in these particular cases these two processes amplified and doubled the effects of each other. However, even if the effects on the sanction's effectiveness are the same, it does not mean that those notions are identical. Because of these factors I consider the research to be relevant.

## **2.4 Hypotheses to be tested**

The main aim of this analysis is to assess whether there is a presence of inference of globalization on sanction final outcome. To test it the globalization variable will be divided into three major types (political, economic and social). This paper argues that political globalization should be connected with the sanction effectiveness. The influence happens via established by this variable, therefore, sender countries with a help of a constructive dialogue can resolve the issues with their counterparts peacefully, without any coercive means.

The other two globalizations although possess an ability to influence the trust level, nevertheless a general impact may be lower. As these types are comprised of many different variables, the impact of each of them will be different. For example, higher economic cost for target will make it more likely to acquiesce to the demands. Number of FDIs (Foreign Direct Investments) on the other hand, will have an opposite effect. Because certain measurement has an inconsistent outcome, the influence on the effectiveness variable may not be present.

In the next chapter I will carry out a statistical analysis in order to test the hypotheses.



### Chapter 3 Statistical Analysis

The research assumes that the globalization variable may have a correlation with sanction's effectiveness. Political globalization due to its ability to create political connections, therefore, establishing higher level of trust and transparency, will possibly help a target to easier mitigate sanctions' negative impact. The other two major types of globalization, namely economic and social are predicted to not have such an inference, because of the inconsistent outcome on the effectiveness variable, of the measurements these two globalization types comprised of.

In this chapter I will introduce the methods I used in my statistical analysis. In the first section, I shall start with identifying the research question and stating hypothesizes. Then I will move to my data description with identification of dependent and independent variables. During the research certain limitations were faced with, thus, they will be listed separately. Finally, the analysis and the model itself will be shown, as well as the final results.

As was mentioned in previous chapters, the analysis aim is to assess the effect of globalization on sanctions effectiveness, and whether three types of globalization have different impact on it. The assumption for this research is that globalization variable will influence the final outcome due to the enhancement in trust and reliability bases. The political variable may have a higher impact on the outcome due to the fact that the connections created via it, increase the number of platforms for dialogue the most. Political globalization consists of many measurements, and one of them, namely, number of treaties signed and ratified might have the greatest consequences. It occurs because spikes in a number of estimates from economic and social globalization will lead to the same spike in the amount of treaties among countries, therefore, positively affecting the political index.

Based on the aforementioned factors the following hypothesizes were formulated:

Hypothesis 1: Target states' degree of economic globalization does not have significant influence on their probability of concession.

Hypothesis 2: Target states' degree of social globalization does not have significant influence on their probability of concession.

Hypothesis 3: Target states' who have higher degree of political globalization will be less likely to make concession when being sanctioned.

To carry out the quantitative analysis, I will identify the dependent and independent variables, and describe my research model.

### **3.1 Data and Research Design**

#### *Dependent variable and statistical model*

In my research, I used data from Threat and Imposition of Economic Sanctions (TIES) Dataset (Morgan, Bapat, Kobayashi, 2014). Measures for globalization index were put together from KOF Swiss Economic Institute. Additional data for control variables was pulled from World Bank webpage, Polity IV Individual Country Regime Trends Database (Marshall, Gurr and Jagers, 2016).

All measurements were merged together via STATA statistical software. Moreover, the quantitative analysis was carried out through this app.

As far as timeline is concerned, values before 1991 and after 2005 were put aside. Margin of 1991 was chosen due to the reason that the analysis wanted to exclude the influence of the Cold War. Additionally, globalization and openness indexes of a verity of countries changed after Soviet Union collapsed. As for 2005, after this year much statistics has still remained unobserved, and due to the presence of a great amount of missing values, my thesis will be kept in this framework.

For my dependent variable I use a variable, which describes the decision of a target to concede and accept target's demand or not and do not conduct any changes. It is a dummy variable, where the decision of a state to partly or fully fulfill Sender's demands is coded as 1, and if not, then it turns 0. The measurement was recoded from the final outcome variable of the TIES data. Values for 1 were put if a Target decided to acquiesce during the treat stage or after sanctions imposition episode. 0 values were for the situations, when Sender backed down in both treat and sanctions stages. Same holds true for the cases, where settlement has never been reached.

According to the TIES data, the variable "outcome" has ten different values and represents the nature of the termination of the sanction's episode.

I code values equal to 1, which means that the target succumbed:

1. Partial Acquiescence by Target to threat;
2. Complete Acquiescence by Target to threat;
3. Negotiated Settlement;
4. Partial Acquiescence by the Target State following sanctions imposition;
5. Total Acquiescence by Target State following sanctions imposition;
6. Negotiated Settlement following sanctions imposition.

I code values equal to 0, which means that the target deflected sanction incident:

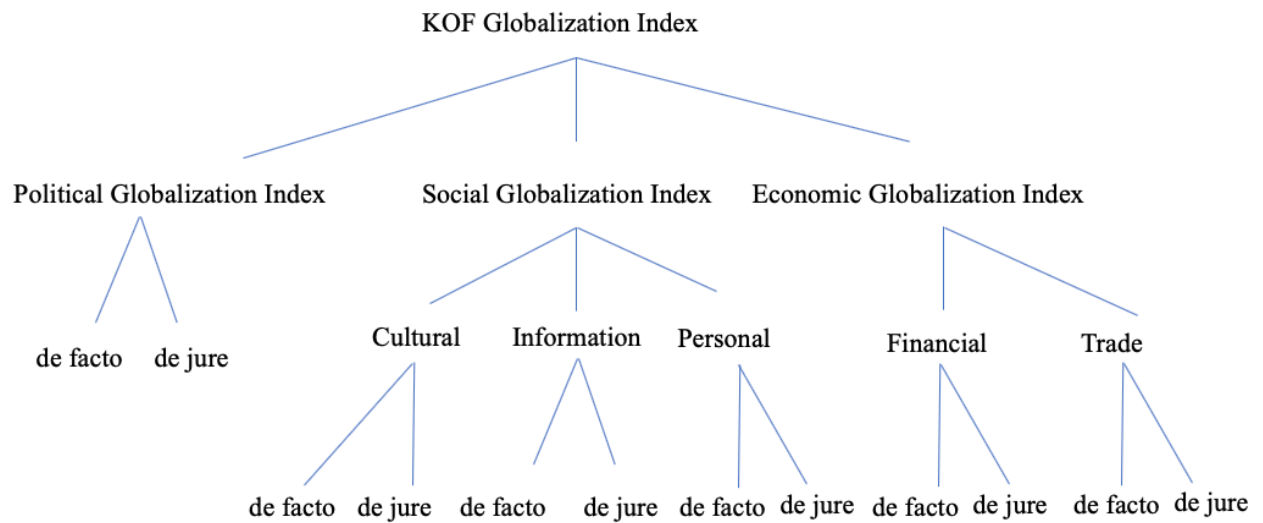
7. Capitulation by the Sender(s) in threat stage;
8. Settlement in the Threat Stage;
9. Capitulation by Sender after Imposition;
10. Stalemate after Sanctions Imposition.

As far as model is concerned, I will use a logistic regression model to assess if there is correlation of my independent and dependent variables. The choice for using this logistic function comes from the fact that the dependent variable is a binary variable.

#### *Independent Variables*

First of the main independent variables is KOF globalization index. It consists of a panel dataset including 203 countries and territories. Because there are many types of globalization, measurements are also different.

**Figure 3.1 KOF Globalization Index division**



Source: KOF Swiss Economic Institute. (2019). *KOF Globalization index* [Dataset]. Retrieved January 19, 2020, from: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

In Figure 3.1 dimensions of globalization are represented. Gygli, Haelg, Potrafke and Sturm (2019) divide the overall globalization index into three general categories: political, economic and social globalizations. Economic globalization consists of financial and trade ones. Social from cultural, personal and informational. All the indexes in their turns are distinguished into de facto and de jure levels. However, for the analysis only general indexes will be used.

To have a closer look at these indexes I will show what comprises these variables.

1. **KOF Political Globalization Index** it is a major index, which shows how many political interactions a country has with other nations, governmental and non-governmental actors. (Absolute number of embassies in a country; Personnel contributed to UN Security Council Missions (% of population); Number of internationally oriented nongovernmental organizations (NGO) operating in that country; Number of international inter-governmental organizations in which a country is member; International treaties signed between two or more states and ratified by the highest legislative body of each country since 1945; Number of distinct treaty partners of a country with bilateral investment treaties);
2. **KOF Economic Globalization Index** it is a major index, which intersects with smaller indexes as Trade and Financial indexes. Shows on which scale a country is connected globally (Trade in goods, trade in services, trade partner diversity);
3. **KOF Trade Globalization Index** (part of economic globalization) summarize how actively a state is engaged into the world trade (Exports and imports of goods (% of GDP); Average of the Herfindahl-Hirschman market concentration index for exports and imports of goods (inverted); Average of two subcomponents: Prevalence of non-tariff trade barriers and compliance costs of importing and exporting; Income from taxes on international trade as percentage of revenue (inverted); Unweighted mean of tariff rates; Number of bilateral and multilateral free trade agreements);
4. **KOF Financial Globalization Index** (part of economic globalization) shows how actively a state is engaged into the world financial system (Sum of stocks of assets and liabilities of foreign direct investments (% of GDP); Sum of stocks of assets and liabilities of international equity portfolio investments (% of GDP); Sum of inward and outward stocks of international portfolio debt securities and international bank loans

- and deposits (% of GDP); Includes foreign exchange (excluding gold), Special Drawing Rights (SDR) holdings and reserve position in the IMF (International Monetary Fund) (% of GDP); Sum of capital and labor income to foreign nationals and from abroad (% of GDP); Prevalence of foreign ownership and regulations to international capital flows; Chinn-Ito index of capital account openness; Number of Bilateral Investment Agreements (BITs) and Treaties with Investment Provisions (TIPs));
5. **KOF Social Globalization Index** it is a major index, which intersects with smaller indexes as Interpersonal, Informational and Cultural globalization indexes. Summaries a level of country's openness to foreign cultural and informational influences (Sum of international incoming and outgoing fixed and mobile telephone traffic in minutes per capita; Sum of gross inflows and outflows of goods, services, income or financial items without a quid pro quo per capita; Sum of arrivals and departures of international tourists as a share of population; Number of foreign or foreign-born residents as percentage of total population.);
  6. **KOF Interpersonal Globalization Index** (part of social globalization) shows policies and resources, which allows people to interact internationally (International incoming and outgoing fixed and mobile telephone traffic in minutes (% of population); Secondary income paid and received. Gross inflows and outflows of goods, services, income or financial items without a quid pro quo (% of population); Arrivals and departures of international tourists (% of population); Inbound and outbound number of tertiary students (% of population); Number of foreign or foreign-born residents (% of population); Fixed telephone and mobile subscriptions (% of population); Percentage of countries for which a country requires a visa from foreign visitors; Number of airports that offers at least one international flight connection (% of population));
  7. **KOF Informational Globalization Index** (part of social globalization) summarize an ability to distribute information abroad (Total used capacity of international internet bandwidth in bits per second (% of population); Patent applications by nonresidents filed through the Patent Cooperation Treaty procedure or with a national patent office (% of population); Exports of high R&D intensity products in current US\$ (% of

- population); Share of households with a television set; Individuals using the internet (% of population); Quantification of the legal environment for the media, political pressure that influence reporting and economic factor that affect access to news and information);
8. **KOF Cultural Globalization Index** (part of social globalization) represent a country ability to adopt international cultural influence (Exports and imports of cultural goods defined as in UNESCO (2009) (% of population). Exports and imports of personal, cultural and recreational services (% of population); Applications to register a trademark with a national or regional Intellectual Property (IP) office by nonresidents in percent of all applications; Number of McDonald's restaurants (% of population); Number of IKEA stores (% of population); Ratio of girls to boys enrolled in primary education level in public and private schools; Human capital index based on the average years of schooling and an assumed rate of return to education; Quantification of aspects on freedom of expression and belief, associational and organizational rights, rule of law and personal autonomy and individual rights).

The index mainly assesses the globalization at the national level. The higher the value for any of the aforementioned values, more open the country is and vice versa."

The decision to use the KOF index derives from the way how political globalization is represented. Measurements as international treaties signed; number of NGOs; participation level in international organizations; bilateral investment treaties signed may reflect in the best way the amount of ties a target have with the rest of the world. Therefore, it will show how good the dialogue between states is, and it will help to assess whether the communication level have an impact of the sanction's outcome.

### *Control Variables*

If I use only independent and dependent variables the possibility of a high omitted variable bias remains. In order to reduce it, I will control for the following parameters that are often used as control variables in literature, which does not change dramatically over long periods of time.

The first is trade dependence of Sender on Target and Target on Sender. It is measured in total trade volume of Target and Sender divided by Sender's GDP (Sender's partner trade dependence).

And total trade volume of Target and Sender divided by Target's GDP (Target's partner trade dependence).

Second, relative power, which was calculated by dividing Sender's GDP by Target's GDP.

Third, countries GDP in million USD. The log was taken to reduce the huge difference.

Fourth, is the partner trade dependence, which measured in bilateral total trade volume divided by total trade volume of Sender, and total trade volume divided by total trade volume of Target.

Fifth, freedom scores for Sender and its Target, which assess political liberties and civil rights within a country were taken from Polity IV Project database (Polity IV Individual Country Regime Trends, 1946-2013). It was created by using questionnaires with hungered of questions to analyze these measures. Scores were numbered from 10 to -10, from countries with the most liberties to the least ones. The data was inverted for the research to be interpreted easier.

### **3.2 Research Limitations**

First, due to the autocratic nature of some regimes, some data is missing for the countries, and is not included in the dataset used for the analysis. It may increase omitted variable bias<sup>1</sup> and affect the final outcome. Because some relevant measurements may be left aside and not included in the model, the effects of such independent variables will not be seen, however, they might still correlate with a dependent variable.

Second, while using logistic regression, the USA was excluded from it if the USA was in a role of a target. I decided to do it because the US was a major user of sanctions, and countries, which were targeted by it, in most of the cases executed "retaliation" methods, simply put, implemented their own sanctions against the sender state. Those sanctions took almost one fourth of all sanctions episode usage, and in the most cases did not lead to concrete results, negatively impacting the results.

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<sup>1</sup> Omitted variable bias – occurs when one or more relevant variables were left out from a model, therefore, the final result may be influenced.



### 3.3 Results

For my analysis I firstly ran binary logit regressions for four different models:

1. Model 1 independent variable is the overall globalization index;
2. Model 2 independent variable is the economic globalization index;
3. Model 3 independent variable is the social globalization index;
4. Model 4 independent variable is the political globalization index.

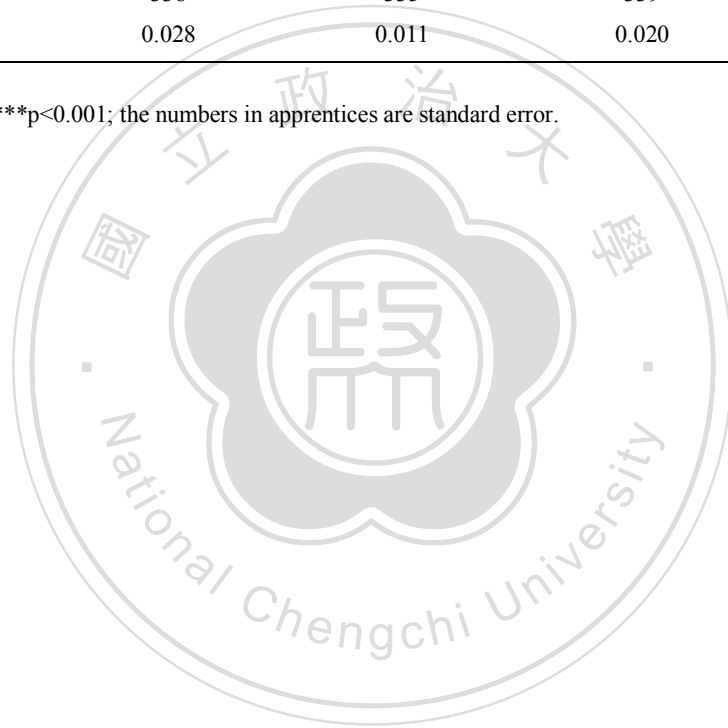
As I mentioned before I would like to assess effects of all globalization indexes on sanctions effectiveness, that is why these four models are crucial. To see whether different types have an impact on their own. Another important fact is that I am planning on looking, which globalization mechanism is more influential.



**Table 1.1 Inference of Globalization types on sanctions effectiveness (without control variables), 1992-2005**

Variable name	Model 1	Model 2	Model 3	Model 4
	(Overall Globalization)	(Economic Globalization)	(Social Globalization)	(Political Globalization)
Target's globalization index	<b>-.026***</b> (.008)	<b>-.017*</b> (.008)	<b>-.014**</b> (.005)	<b>-.019***</b> (.006)
Sender's globalization index	-.011 (.012)	.001 (.013)	-.015 (.009)	-.006 (.010)
Constant	2.316 (1.01) *	.777 (.867)	1.823 (.763)	1.468 (.970)
Number of observations	338	335	339	339
Pseudo R <sup>2</sup>	0.028	0.011	0.020	0.025

Note: \*p<0.05, \*\*p<0.01, \*\*\*p<0.001; the numbers in parentheses are standard error.



After doing so the results were the following. According to Table 1.1 it turned out that all four types of globalizations within a target country turned out to have negative correlation with the willingness of Target to acquiescence to Sender's demands. Moreover, Target's globalization indexes are statistically significant. Overall globalization and political globalization levels are significant based on p-values of 0.008 and 0.006 respectively. Economic and social indexes in their turn are significant based on p-values of 0.008 and 0.005. It means that all the four variables correlate with sanctions outcome. However, the calculation in this model were carried out without control variables.



**Table 1.2 Inference of Globalization types on sanctions effectiveness (with control variables), 1992-2005**

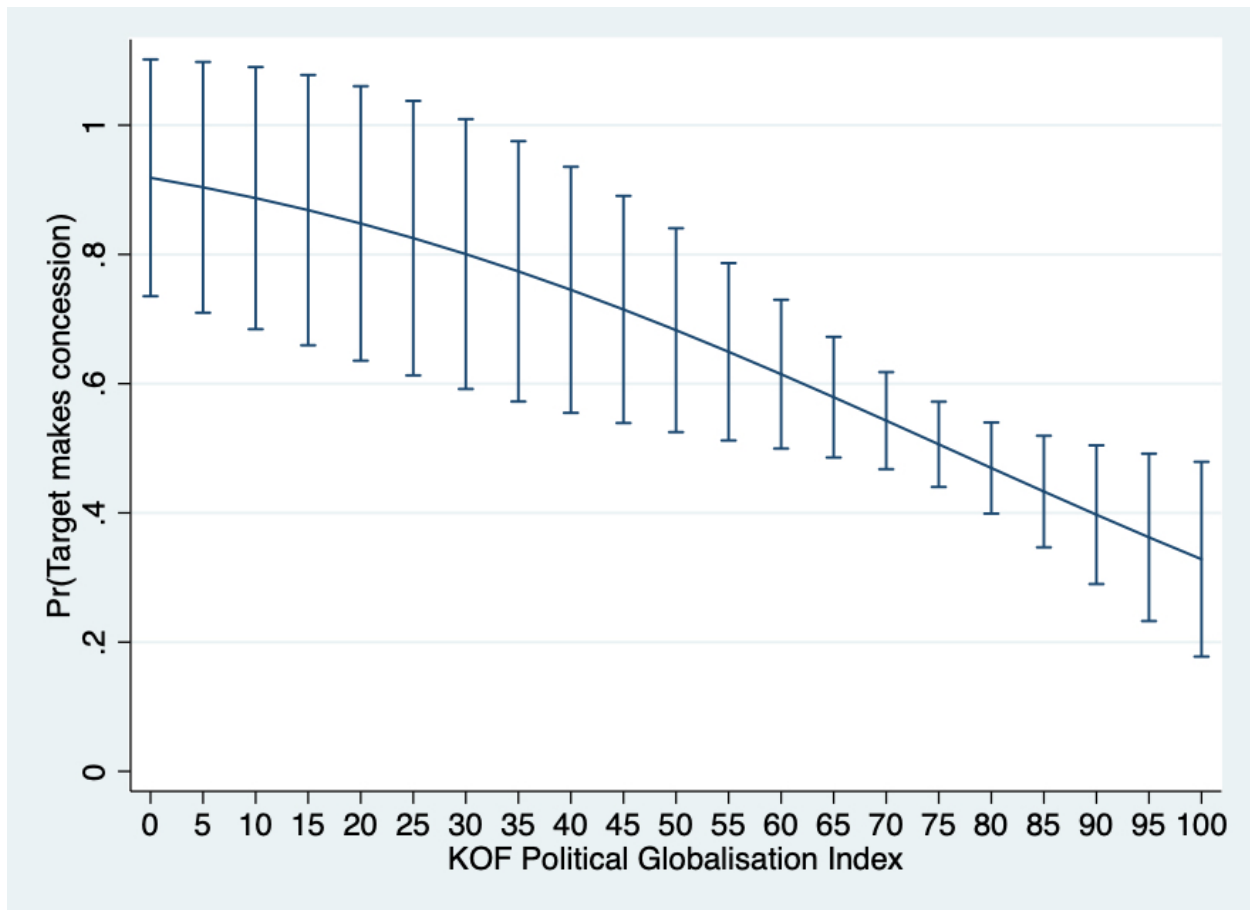
Variable name	Model 1	Model 2	Model 3	Model 4
	(Overall Globalization)	(Economic Globalization)	(Social Globalization)	(Political Globalization)
[independent variable]				
Target's globalization index	<b>-.035*</b> (.015)	-.010 (.012)	-.019 (.012)	<b>-.032**</b> (.010)
[control variables]				
Sender's globalization index	.005 (.031)	-.013 (.024)	-.031 (.032)	.045 (.027)
Trade dependence of Sender	37.906 (21.590)	30.303 (20.460)	36.911 (21.655)	31.629 (21.489)
Trade dependence of Target	.438 (1.433)	.526 (1.407)	.328 (1.431)	.541 (1.438)
Relative power	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Sender's GDP	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Target's GDP	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Sender's partner trade dependence	.009 (.014)	.0160 (.016)	.0182 (.017)	.011 (.013)
Target's partner trade dependence	.005 (.004)	.004 (.005)	.005 (.005)	-.001 (.005)
Freedom score of Sender	-.138 (.155)	-.088 (.127)	.015 (.174)	-.291 (.165)
Freedom score of Target	-.024 (.051)	-.093 (.043)	-.032 (.061)	-.062 (.040)
Constant	2.351 (1.594)	1.719 (1.445)	1.498 (1.435)	1.532 (2.006)
Number of observations	282	282	282	282
Pseudo R <sup>2</sup>	0.077	0.065	0.071	0.094

Note: \*p<0.05, \*\*p<0.01, \*\*\*p<0.001; the numbers in parentheses are standard error.

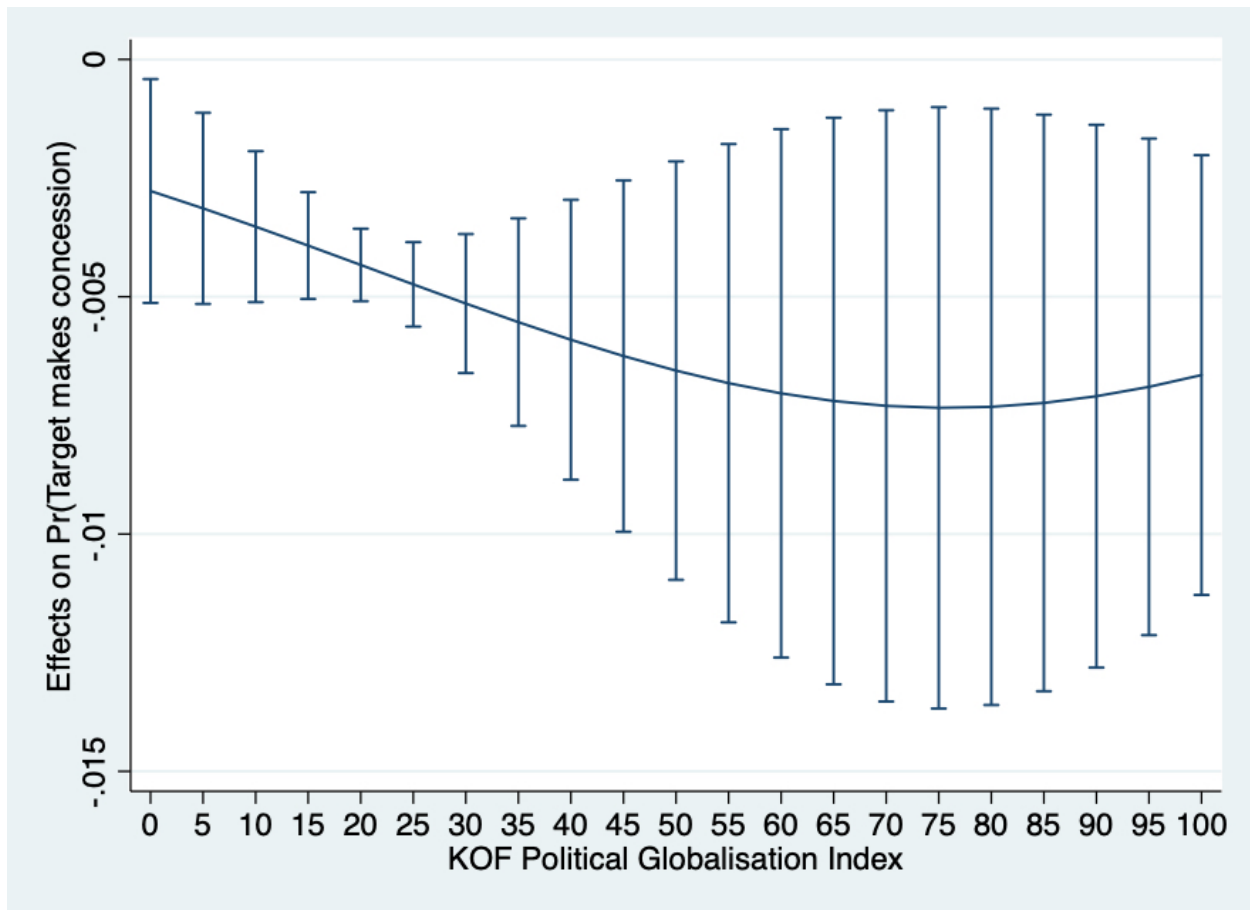
To reduce omitted variable bias, I shall include some control variables in Table 1.2. After doing so, the results changes. Overall globalization and political globalization levels remains significant based on low p-values (0.015 and 0.010 respectively). However, economic globalization and social globalization became insignificant. We can see that overall globalization does work, but only through political globalization it impacts sanctions effectiveness.



**Figure 3.2 Probability of a Target's decision to make a concession at different level of Political Globalization**



**Figure 3.3 Influence of Political Globalization on Target decision to acquiesce at different level of Political Globalization**



In order to have a better look at the correlation between political globalization level and sanctions' outcome, predicted probability and conditional marginal effects plots were plotted. Information in Figure 3.2 and Figure 3.3 is based on the results from Model 4 presented in Table 1.2. In Figure 3.2 probability of a target's decision to make a concession at different level of political globalization is depicted. It is clear that with an increase in political globalization a probability of a target to acquiesce is going down.

Figure 3.3 represents an influence of political globalization on a target decision to acquiesce at different level of political globalization. Along with a growth in a political globalization variable, the chances to successfully deflect sender's demands rise as well.

It is true that political globalization creates ties and trust among Sender and Target. By creating new platforms and institutions countries tend cooperate more and became more transparent. However, according to the model used in the research economic and social indexes turned out to be less substantial. With the growth of the political globalization index the chances of a positive outcome for Sender are getting lower, and the probability of Target to defend its interest rises. This happens due to the fact that political links are being created so the number of interactions grow. It is followed by improvement in a confidence level that a partner state will be more prone towards peaceful conflict resolutions.

It is important to underline that globalization variable also correlates with the sanction's outcome variable. According to the results political variable affects the overall globalization the most. The number of ties and level of connection are the measurements through which the overall index works, and it is political index which establish the communication necessary to decrease sanctions effectiveness. Social and economic indexes in their turn do not provide such basis, which leads to no absence of any effects.

### **3.4 Conclusion**

In this chapter a quantitative analysis was conducted. The results shown that there is a correlation between overall and political globalization levels and the outcome variable. The social and economic indexes were proven to be not significant if the controls are added. Overall globalization works largely via political globalization. Its increase has the greatest impact.



Dialogue platforms created by the aforementioned variable allows senders to see a target as a more trustworthy state, thus, usage of coercive tools becomes a secondary option. The trust level may go up along with political globalization and the problems resolution can be conducted via communication.

In the following chapter I shall provide the reader with a case study to show political globalization inference on the outcome, and which measurements of the political index have the most influence. For my case study I will focus on political globalization and its effects on sanctions outcome in those states, because it was proved by the model to have the most impact, and by the theoretical argument as well. The globalization level in almost all the countries has increased since 1992. There is no country where this index decreased for more than three years in a row. Thus, I will look more closely on two states, where the globalization index increased the most. These cases will show clearer the effect of globalization on the outcome. First, will be Indonesia. After 1992 to 2005 there were eight sanction threats or sanction episodes against this country. Before 1997 the globalization level in the country remained on the level of 69-70 and all sanctions attempts resulted in the success of the US. However, after 1997 the globalization was above 76 points. And all sanctions cases were repelled by target state, and Indonesia did not fulfill any of the US demands.

Second, is a similar case of Peru. From 1992 to 2005, out of five cases of both sanctions' threats and impositions, before 1994 with the political globalization level lower than 63, sanctions implemented by the US forced Peru to surrender, but after this year all sanctions did not have any impact. At the same time the political globalization index grew to 79 points.



## Chapter 4 Case Study of Indonesia and Peru

The previous chapters gave me a chance to develop the argument and carry out a statistical analysis. Globalization as a complicated process, was divided into political, economic and social globalizations. Therefore, it allowed to have a clearer view on possible interaction of them with the sanction's effectiveness variable. It turned out that a spike in a globalization level will help a country to resist sanctions. Nevertheless, this happens mainly via the political globalization. The hypothesis regarding political globalization held true. Targets where this index was higher, were more likely to get a positive outcome for themselves. As far as economic and social globalizations are concerned, the sanction's effectiveness does not correlate with any of them. These two types affect the growth of political globalization, however, the chances for a better outcome for a sender will not increase.

In order to further check the causal mechanism my argument claims, in this chapter I will do a case study of Indonesia and Peru. The first section will justify the selection of the countries for the analysis. The second section will be fully devoted to a case study of Indonesia. The third section will have a close look at the Peru sanction episodes, and how globalization affected it. Overall, in this chapter I demonstrate that globalization level, political one in particular, had a significant impact on the ability of the two states to deflect sanctions. Economic and social globalizations also influenced the nations in a way that some of the measurements of these indexes had an impact on political globalization, therefore, increasing it and assisting in connection creation between a sender and a target.

### 4.1 Case Selection

In this chapter I would like to go into more detail on why increase in the political globalization index can decrease the probability of a target to succumb. By comparing situations in Indonesia and Peru I will identify the reasons why those states were successful in deflecting sanctions after a certain period of time (after 1997 and 1994 years respectively).

I shall first explain my decision for choosing these two countries for my comparison. Then the study method will be outlined, following by the case study itself.

There are several points which determined my choice for Indonesia and Peru. First, both countries had a significant increase in political globalization index during a short period of time. Due to the non-existence of countries examples with the globalization level decrease during a long term period of time, the analysis shall look at states with the highest spike in the globalization level. According to the KOF Globalization Index, Indonesia from 1992 to 2001 saw a jump in the index value for 8.4 points (from 69.4 to 77.8). Peru in its turn has a rise for 16.8 points (from 62.8 to 79.6) in a period between 1993 and 2001. Such a change in numbers is considered to be high for this amount of time. As was pointed out in the previous chapters that increase in globalization level is important as it increase transparency between Sender and Target therefore making a constructive conversation more likely to happen. Bonds and interdependence are another major factor, which let Sender leave the option of sanctions implementation and to use institution as a platform to conduct a dialogue.

Second, the countries under observation experienced changes in political and economic systems. On the one had we have Indonesia with its dramatical change in political situation within the country. After 1998 the country managed to conduct a democratic transition. This includes new liberal government, changes in constitution, market liberalization, new social and economic orders etc. Transition to democracy made Indonesia the largest democratic regime in Asia. Because of this the country began taking active actions in building ties with the liberal orders, which increased the existing number of ties created by political globalization level (Abdulkaki, 2008). It also improved the level of trust with the democratic community. It is of a high importance due to the fact that the democracies are usually the ones to impose sanctions and being able to create a better image of itself let Jakarta to being more likely to defend against sanctions.

On the other hand, Peru where after the economic crisis in 1980s political elites decided to liberate the economy and conducted sires of structural liberal reforms. Economic reforms were manifested in neoliberal form of market restructuration. At the same time government of Peru encouraged privatization process. All of these was followed by Lima allowing free trade (Bart-Jaap Verbeek, 2009). Although democratic elites did not come to power until 2001 still such substantial changes were crucial for the country and increased its level of liberalization making connections with Peru more tempting for other liberal states.

Democratic changes did not lead to globalization and vice versa, hence, democratic transition can be considered as a factor which amplifies the effects of globalization and works together in a tandem (Li and Reuveny, 2003). Variables do not correlate with each other. But because they have a similar same effect on sanctions outcome, they give the research an opportunity to show clearer the variables interaction.

Third, both countries were able to successfully to protect themselves against sanctions after a certain year. According to the TIES data Peru before 1994 was forced to comply the Sender's demands, but after that period all sanctions had no success. Same holds true for Indonesia with all sanction episodes being repelled after 1997, despite the fact that before this time, sanctions forced Indonesian government to surrender to Senders.

As far as the method is concerned for my analysis I will use the multiple case study, which are as mentioned above, will analyze Indonesia and Peru. I see this method to be the most practical for my research due to a number of factors.

First, it allows me effectively conduct a cross analysis between cases. To see similarities and contrasts between variables. An increase in a number of cases allows to improve a study's reliability (Lijphart, 1971).

Second, the scope of the problem under discussion is small and touches upon the issue of one particular variable (Political Globalization) on sanctions effectiveness. Moreover, for the research a large sample was used. Thus, carrying out a multiple case study is more beneficial (Yin, 2003).

Third, the results of the cases are similar, before the spike in political globalization both states succumb to sender's demands, and after successfully deflected sanctions. Therefore the evidence from doing this type of analysis will be stronger and more reliable.

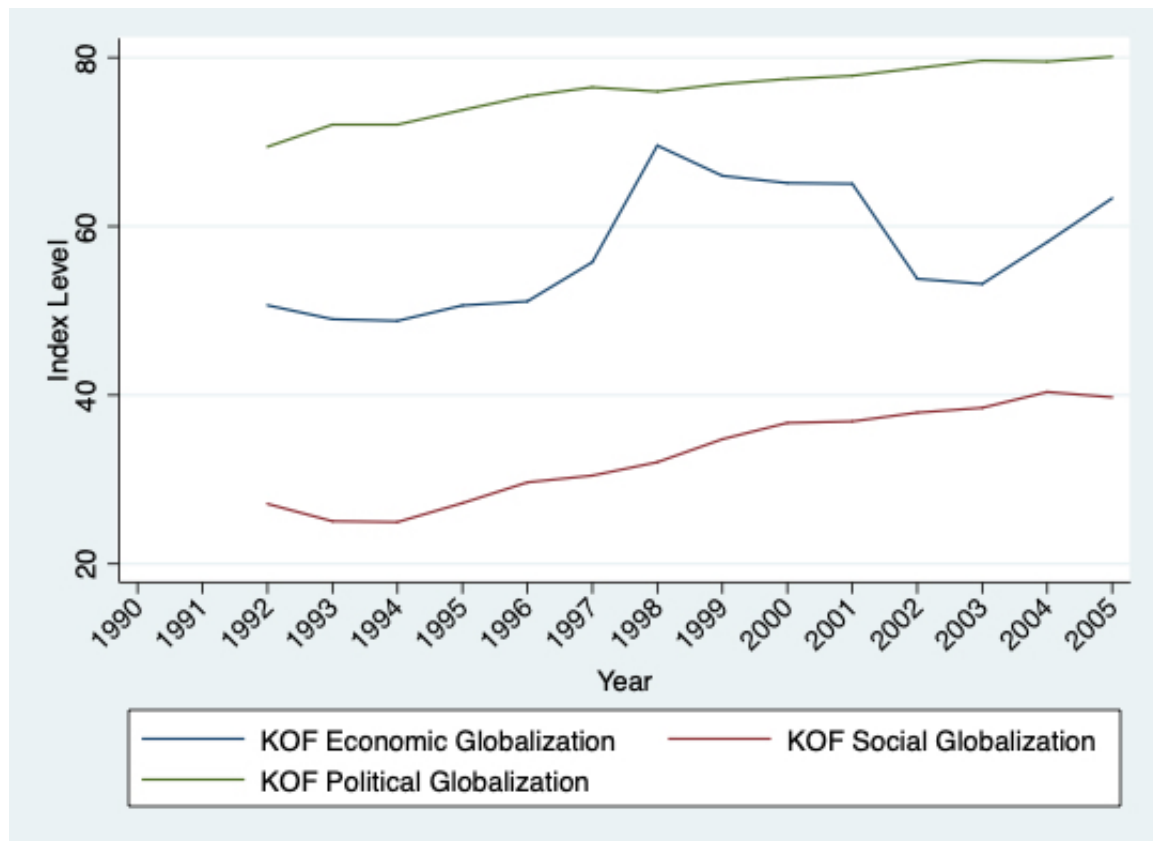
## **4.2 Case of Indonesia**

Due to the fact that the political globalization index consists of many factors, I would like to find out which changes within the countries may spark its increase. As the variable value is defined by Absolute number of embassies in a country; Personnel contributed to U.N. Security Council Missions (% of population); Number of internationally oriented nongovernmental organizations

(NGO) operating in that country; Number of international inter-governmental organizations in which a country is member; International treaties signed between two or more states and ratified by the highest legislative body of each country since 1945; Number of distinct treaty partners of a country with bilateral investment treaties. I would like to have a closer look why did these changes happened in the country and explain in more detail why the political globalization positively correlates with sanctions success.



**Figure 4.1 Increase in KOF Globalization Indexes in Indonesia, 1992 – 2005**



Source: KOF Swiss Economic Institute. (2019). *KOF Globalization index* [Dataset]. Retrieved January 19, 2020, from: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

From Figure 4.1 it is clear that political globalization increased significantly from 1992. The two other indexes seem to grow as well, however, their level was still less than the first one. Political globalization growth was facilitated by economic and social globalizations. Based on the KOF dataset measurements of economic and social globalizations variables as number of Number of BITs and TIPs; number of FDIs; number of cultural goods imported indirectly affected political globalization due to the number of treaties and NGOs growth (Gygli, Haelg, Potrafke and Sturm 2019).





**Table 2.1 Cases of sanctions usage against Indonesia, 1992-2005**

Year	Sender	Issue	Cause	Begin of Sanction	End of Sanction	Sanction duration (months)	Sanctions Outcome
1992	US, EU	Human rights	Human rights in East Timor	1/16/1992	6/9/1992	5	Yes, Total Acquiescence by Target State following sanctions imposition
1992	US, Australia, Netherlands	Human rights	Fire at a pro-independence demonstration	6/26/1992	2/18/1994	20	Yes, Partial Acquiescence by the Target State following sanctions imposition
1994	Malaysia	Human rights	Abusing workers' rights	12/16/1994	12/16/1994	0	Yes, Complete Acquiescence by Target to Sanctions
1997	US, IMF	Trade	Denied to implement IMF conditions	10/30/1997	2/2/1998	4	Yes, Partial Acquiescence by Target to threat
1999	US, UK	Human rights	Independence for East Timor	9/9/1999	11/22/2005	74	No, Capitulation by Sender after Imposition
2000	US, UN	Human rights	Terrorist attack on the UN office	9/18/2000	10/3/2000	1	No, Capitulation by the Sender(s) in threat stage
2000	US, UN	Human rights	Independence for East Timor	2/10/2000	NA	Ongoing	No, Settlement in threat stage
2001	US	Trade	Demands for Trade liberalization	12/3/2001	NA	Ongoing	No, Stalemate after Sanctions Imposition

Source:

1. University of North Carolina (2014). *Threat and Imposition of Economic Sanctions (TIES) Data Page* [Dataset]. Retrieved March 17, 2020, from <http://sanctions.web.unc.edu>
2. Peterson Institute for International Economics. (2008). *Summary of economic sanctions episodes, 1914 – 2006*. [Online Database]. Retrieved March 17, 2020, from: <https://www.piie.com/summary-economic-sanctions-episodes-1914-2006>

First and foremost it is important to look at the sanction's nature imposed against Indonesia. From Table 2.1 it is clear that these sanctions were mainly imposed in response to human rights issues and trade practices. Most sanctions were coming from the democratic community. Sanctions imposed during 1992 were in response of surge of terroristic activity in East Timor, fires at demonstrators, and support of Jakarta from non-democratic regimes. In 1997 sanctions targeted the state's economy, IMF was forcing the country to liberalize itself. As the degree of the cooperation between Indonesia and liberal states remained low and institutions where a dialogue could be established were scares, due to this reason the interaction level between states remained low. Indonesia as a target was less likely to defend itself against sanctions, and before 1997 there were no successfully deflected sanctions.

However, after 1997 sanctions episodes were also in presence and were also connected with the same range of issues. Human rights violations, which was largely because of terrorist activities (the biggest example are attacks in East Timor and Bali), lead to imposition of sanctions. Although, this time they were successfully deflected by Jakarta. It happened as a result of better ties with the democratic world and more active participation in a variety of institutions. Including activities in anti-terroristic movements.

It is important to describe each sanction case one by one. These are the cases when the state succumbed to the sender's demands:

1. The first case occurred in 1992 due to human rights issue in East Timor. Terrorist activities conducted in the region attracted the world's attention. Sanctions were threatened by the US and the EU with a demand to improve and stabilize the situation. The Suharto administration stayed silent to the senders' demands (Taylor 2004, p. 53). The coercive tool was implemented, but instead of establishing connections Indonesia refused all foreign aid from certain European countries and did not engage into discussions on the topic. Poor communication led to the target's total acquiescence later in 1992.
2. The second case happened in 1992 due to human rights issues in East Timor. During the Santa Cruz events in Dili more than 400 pro-independent demonstrators were killed in clashes with Jakarta military corps. It led to a negative reaction from the international community and the US, Australia and the Netherlands started threatening and then

imposing sanctions. Indonesian government at that time decided to refuse all the foreign critiques and did not engage in political discussions, calling the incident to be its internal affair (Baehr, 1997). Political dialogue was not established, thus, it led to immediate sanctions imposition, followed by Indonesian partial acquiescence in 1994.

3. In 1994 abuses of workers' rights by Indonesian military groups the US threatened and then imposed sanctions. Military equipment was banned from selling to the country. The mechanism for communication over the issue was not established, therefore, political miscommunication happened, which led to the target's total acquiescence (Eyler, 2007, p. 184).
4. In 1997 IMF made a demand in order for Indonesia to liberalize its economy. The sanctions threat was made and Suharto's government due to a hard 1997 crisis consequences was forced to partially acquiescence to the Sender's demands (IMF Letter of Intent, 1997). Sanctions were not imposed.

After the increase in the political globalization level Indonesian government was able to deflect all sender's demands after sanction treats and impositions.

1. The sanctions episode from 1999 occurred based the same reasons as the first two cases. East Timor's human rights violations continued. Due to the Jakarta's military charges against pro-independence people, the US, the UK, Australia imposed military embargo and partial trade restrictions on the nation. However, this time a political dialogue with the new Wahid administration and the sender countries was better. The new government actively participated in the UN discussions over the case and a new NGOs for refugee help were crated (Dadm project, 2003, sec. 53). An open communication over the issue improved Indonesia image in the eyes of the liberal world and made it seem a more reliable partner. Thus, sanctions were not as severe. Finally, the country was able to resist and Sender capitulated.
2. The case from 2000 year happened after a terrorist attack on the UN office in West Timor. Three members of UNTAET (United Nations Transitional Administration in East Timor) were killed during the incident. The US threatened the Jakarta government with new sanctions. The sender accused the target in neglecting the possible terrorist activity (Dadm project, 2003, sec. 53). Large number of anti-terrorist treaties and dialogue platforms,

which had recently come into existence, let the US and Indonesia to solve the issue without any coercive measures. The outcome was as follows, capitulation by the Sender in threat stage.

3. In the same year the democratic community again demanded the Indonesian government to provide East Timor with independence. It was said that the country needs to provide security and allow the elections for new administration. Additionally, all civil rights should be guaranteed (Hohe, 2002, p. 74). From the previous years the communication means were in place, and countries could discuss the issue in the UN. New sanctions were not needed and Settlement was reached in a threat stage.
4. In 2001 the US imposed economic sanctions against the country to force the country to carry out liberalization reforms. However, due to the nature of trade connections between Indonesia and the US, the trade volume is high and the US accounted for almost 20 percent of Indonesian exports and imports (Eyler, 2007, p. 184). The number of treaties between states and platforms for dialogue was high, so all the issues were resolved via them. Stalemate occurred after Sanctions Imposition.

After looking at each case closely we can see how political globalization improved trust between states and helped in sanctions deflection. However, I would also like to mention that the political globalization process took place in Indonesia along the democratization process. It is important not to confuse both notions as they have relatively similar effects on sanctions outcome, however, in Chapter 2 and 4 I explained why these two terms are different and do not lead one to another. However, these two processes are going closely related, and it is harder to distinguish whether a communication between states improved due to the democratization or due to globalization.

Nevertheless, a surge in political globalization index happened earlier than initial stages of liberalization. It occurs because of the Suharto policy in 1990s, when the state started experience economic growth (Mietzner, 2006). At that time countries began to establish connection with Jakarta and political globalization index started to spike.

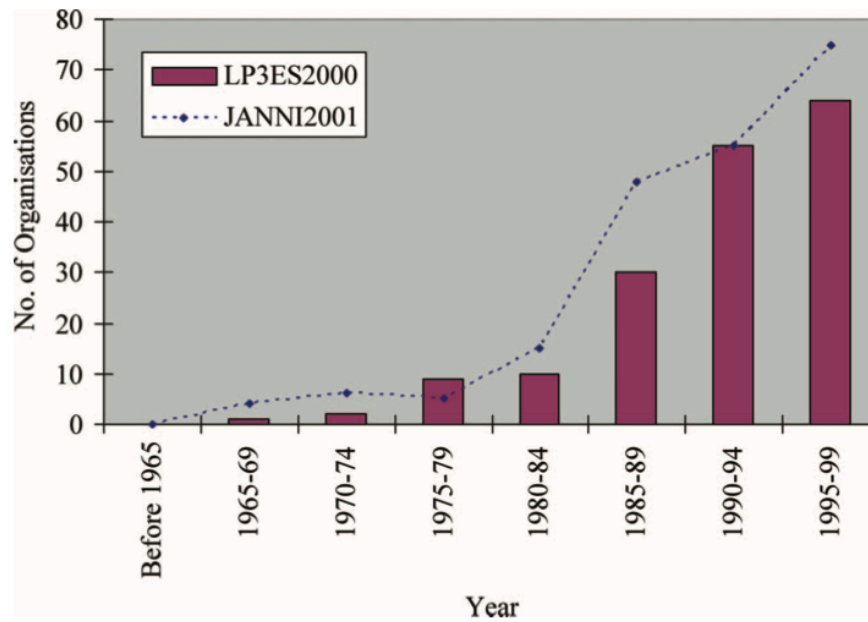
Indonesia promotion of democracy in the world was made in order to improve its perception by other nations. There were cases of East Timor and Bali terrorist acts, which hugely affected the image of Indonesia and lowered its democratic score (Dewi Fortuna Anwar, 2013).

The shift in attitude towards Indonesia happened along with the globalization growth. But it is important to note that the growth in globalization index started to occur earlier. During the last years of Suharto presidency Indonesia economy started improving and that was the time when nations saw a need in getting better ties with Jakarta government (Mietzner, 2006). It was connected to increase in number of institutions, diplomatic missions, political exchanges, treaties signed and other political interactions. In its turns it gave a boost to nation's political globalization index growth. As it was mentioned above the index under discussion contains many variables and all of those variables experienced changes with democratic regime arrival.

Now it is important to assess which variables gave Indonesia an opportunity to increase the political globalization level and improve connections with the rest of the world.

Political globalization index increased after liberalization of Indonesia. There are many measurements which should be mentioned. First of all, participation rate of Indonesia in different NGOs. Nomura (2007) showed the way NGOs, environmental non-governmental organizations (ENGOS) in particular, were promoted within the country. The quantity of such organization rose significantly. In the Figure 4.2 number of ENGOS is depicted. The process of increase started in 1980s and proceed with countries internal system alterations. According to KOF index these organizations improve the index and take role of a dialogue platform.

**Figure 4.2** *ENGOS growth in Indonesia*



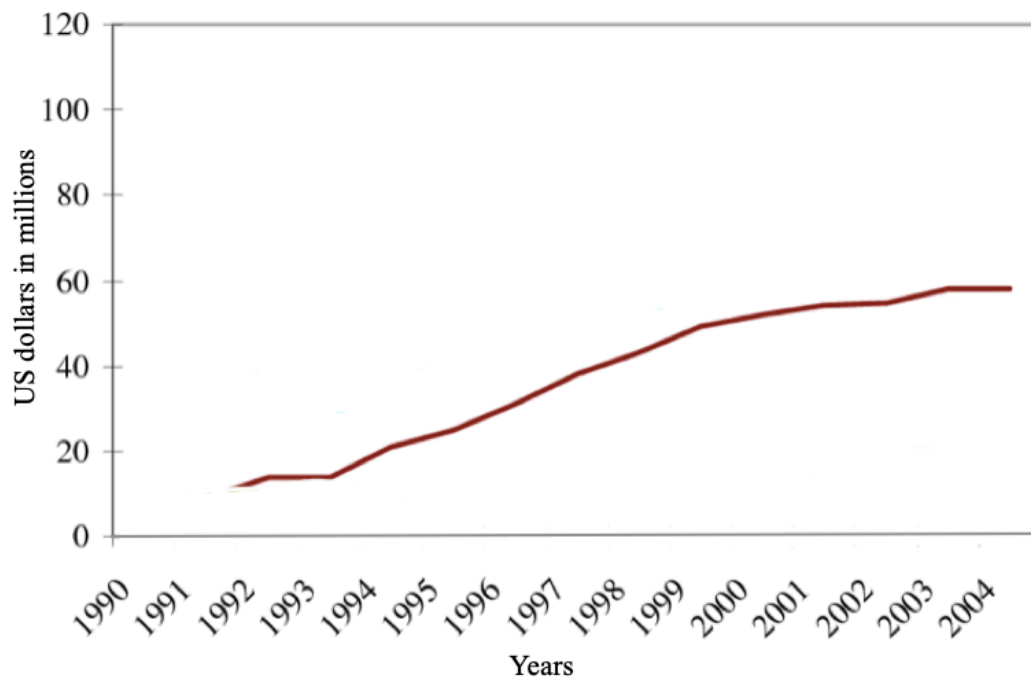
Source: Nomura (2007, p. 503).



Second, number of distinct treaty partners of a country with bilateral investment treaties grew dramatically with the liberalization of Indonesia. It is true that this measurement is attributed to the economic globalization, nevertheless, increase in this variable leads to the spike in number of investment treaties, which in their turn increase political globalization. From Figure 4.3 it is clear that the amount of FDI rose significantly within a decade. New regime of Jakarta made the country more attractive for foreign investors (Murphy, 1999). Liberal reforms, open market and transparency in business gave the country new opportunities to improve ties with striking contracts the democratic world. This had a directly effect on the state political globalization index.



**Figure 4.3 FDI in Indonesia from 1900 to 2004**



Source: Pusat Data Bisnis Indonesia. (2009). *Foreign Direct Investments in Indonesia* [Online Database]. Retrieved May 14, 2020, from: <https://databoks.katadata.co.id/datapublish/2019/11/20/berapa-nilai-investasi-tiongkok-ke-indonesi>



Indonesian market became highly lucrative for foreigners, that Partnership for Governance Reform in Indonesia (Governance Partnership or Partnership) was created. This new phenomenon of interactions with Jakarta was introduced as a help of liberal community to influence the reforms conducted by Habibie the head of new administration. The Governance Partnership consisted of two parts. One was related to coordination of governance reforms by lenders and international investors. The other was high level of control of Indonesia in the control of Partnership. This mechanism appeared to become a system with check and balances between Jakarta and the liberal world. Connections through the Governance Partnership made it safe for liberal community to carry out intergovernmental activities. Moreover, the control over reforms made the democratic world believe that the course of Indonesian transition will be right, and there will be additional platforms to discuss arising issues (Crawford, 2003). Additionally, closer connection, increased number of bilateral and multilateral treaties signed led to the situation where the conflict between states was unwanted and unprofitable. Sanctions as a coercion measures could inflict more damage on mutual relations. Thus, the dialogue became a way to resolve issues. Sanctions became a secondary option.

Third, the number of international treaties signed between two or more states went up as well. It is even more relevant for those treaties related to counter terrorist cooperation. After the Cold War ended and the East Timor crisis of 2000 was resolved cooperation on eradicating terrorist groups started between Jakarta and liberal countries, predominantly cooperation with the US (Murphy, 2012). Many military assistance programs were resumed as the liberal world was striving to influence the way democratic reforms were unfolding.

Fourth, participation in international institutions did not change dramatically over this period of time. It can be connected with the political and economic weight of Indonesia in South-East Asia in particular and on the international arena. Despite that fact the activity of Jakarta in such organizations increased. The troops sent by Habibie administration to the UN to help in elimination terrorists in countries in need went up.

Fifth, same holds true for the number of embassies in the country. Although the Suharto's regime manifested itself as a dictatorship, however, it was not a sufficient reason not to have diplomatic relationship with the state. But it should be mentioned that the number of diplomatic

missions increased. This was due to the experts on democratic transition were sent to help the nation with this process. Another reason is that the Partnership mentioned above required more representation in the state under discussion.

With globalization and the transition to the new regime government started to be more open to the world. During Suharto regime Indonesia incline towards globalization was possible but largely happened in the following years. Indonesia's nationalistic policy was in place to legitimize the rule of Suharto. Economic was developing at a high pace, however, capitalism could not be associated with that period. Liberalization and open market were not a part of that regimes policy (Murphy, 1999).

Starting from the end period of Suharto regime, followed by Habibie administration liberal reforms took place. It would not be possible without democratic transition due to the nationalistic policies domination. New open rules created the basis for growing Jakarta's political ties with the rest of the democratic world.

If we take the period before and after democratization of Indonesia into consideration, we will see that the sanctions type threatened or imposed were connected with Total/Partial Economic Embargo (restrictions on import from the target state) or Asset Freeze (seizing assets of the target state under the sender jurisdiction). Those measures were important in coercing the state to undergo some human rights changes, as Indonesian government was a dictatorship. However, with its transition to democracy democratic community got more means to get their demands for changes enforced upon the country. More diplomatic missions, increased number of NGOs, higher number of economic forums became additional platforms for various issues discussion. Thus, although sanctions mechanism was still possible to be executed, but it was not the first mean of coercion any more.

Besides Indonesian values became aligned with the Western ones. It is true that the democracy still was not ideal and had many flaws, but Jakarta was on the way to became a part of the liberal world. Through the Partnership the democratic community was able to influence the nation. These factors made Indonesia a reliable partner and the need for severe sanctions was reduced.

There are also several rival explanations, which try to explain positive sanctions outcomes for Indonesia. First, is that the US did not want to hurt it ally in the South-East Asia. Sanctions which were executed were not heavy and did not put much burden on the target (Murphy, 2012). Therefore, due to the fact that sanction's costs were low for Indonesia, it was successfully able to deflect them. Nevertheless, this explanation does not explain, why sanctions before 1997 were not resisted in the same way, because the costs measurement according to TIES dataset did not change drastically from 1992 to 2005.

Second, the US needed a military partner in the region, and it started to conduct more bilateral military exercises. Moreover, Jakarta's anti-terrorist claims made the US (a primary sender) trust the country more and not to impose harsh restrictions on Indonesia Abdulkali (2008). However, this explanation interconnects with the argument of the analysis made by this paper, and can be related to the improvements in political ties, making this a part of a larger explanation.

As we can see Indonesian democratic transition made political globalization to develop with a higher speed. It was mainly increasing via such variables as number of bilateral and multilateral treaties signed; number of NGOs; amount of FDIs; and participation in international institutions. By conducting the democratic reforms, a country joined the democratic club and improved ties with the liberal community. Broader communication, openness, transparency and willingness to improve, made Habibie administration a reliable partner and made the dialogue a preferable mechanism for resolving issues. At the same time probability of reflecting sanctions increased due to the fact that sanctions became less severe. The Hypothesis 1 and Hypothesis 2 are rejected due to the lack of influence of them on the sanction effectiveness. But these types help to improve the general and political indexes.

In the next section of this chapter, I would like to analyze a case of Peru. Similar to Indonesia the country was able to resist all sanction episodes after a certain year. Similar reasonings can be applied to the Peruvian case. The political globalization level grew dramatically in the state and it helped Lima government to mitigate the sanctions consequences. The difference with Indonesia and Peru is that the latest was impacted more by sanctions threats, and not sanction impositions.

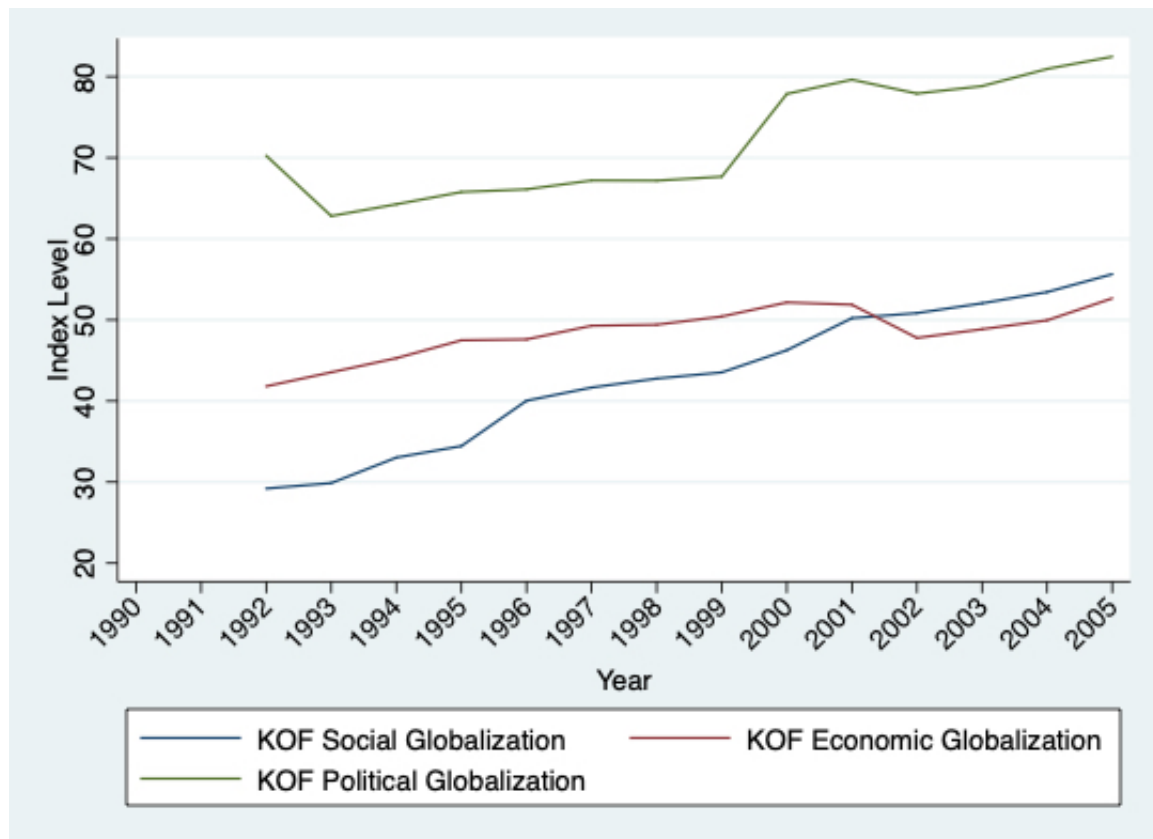
### **4.3 Case of Peru**

The other country I want to use for my case study research is Peru. It was highlighted that the country's political globalization index skyrocketed in 1990s and I believe that this factor had an influence on Lima's ability to defend against sanctions senders demands to alter its domestics policies. Let us take a closer look at the situation during that time.

As it can be seen from Figure 4.4 Globalization level in Peru increased dramatically from 1990 to 2005. Along with it, economic and social globalizations grew as well. Same trend could be observed in Indonesia. The two indexes are lower than the political one, but according to the analysis by Gygli, Haelg, Potrafke and Sturm (2019) these two indexes indirectly assist the growth of the first one.



**Figure 4.4 Increase in KOF Globalization Indexes in Peru, 1992 – 2005**



Source: KOF Swiss Economic Institute. (2019). *KOF Globalization index* [Dataset]. Retrieved January 19, 2020, from: <https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html>

**Table 2.2 Cases of sanctions usage against Peru, 1992-2005**

Year	Sender	Issue	Cause	Begin of Sanction	End of Sanction	Sanction duration (Months)	Sanctions Outcome
1993	US	Human right	Human right issues, liberalization	9/27/1993	12/10/1993	3	Yes, Partial Acquiescence by Target to threat
1994	US, EU	Human right	Urges for democratization	2/12/1994	7/7/1994	5	Yes, Negotiated Settlement
1995	US	Human right	Border conflicts	2/3/1995	3/2/1995	1	No, Capitulation by the Sender(s) in threat stage
2000	US	Human right	Urges for democratization	5/21/2000	6/3/2000	1	No, Capitulation by the Sender(s) in threat stage
2001	US, EU	Drug trafficking	Border conflicts	11/11/2001	3/12/2009	88	No, Capitulation by Sender after Imposition

Source:

1. University of North Carolina (2014). *Threat and Imposition of Economic Sanctions (TIES) Data Page* [Dataset]. Retrieved March 17, 2020, from <http://sanctions.web.unc.edu>
2. Peterson Institute for International Economics. (2008). *Summary of economic sanctions episodes, 1914 – 2006*. [Online Database]. Retrieved March 17, 2020, from: <https://www.piie.com/summary-economic-sanctions-episodes-1914-2006>

In Table 2.2 cases of sanctions usage against Peru are depicted from 1992 to 2005. All the sanction episodes were initiated by the liberal nations. There were no particular sanctions implemented besides 2001, however, they still are considered to be five cases of sanctions. The main issue for threats were the urge of Lima to vote for a democratic government and liberalize. Furthermore, drug trafficking also became a cornerstone for the international community. Three cases before 1994 forced the Target to acquiesce and the rest of the sanction's episodes were not effective. It all occurs at the time of increase in the country's political globalization index.

As it was done in the previous chapter's section, I shall evaluate each case one by one. By doing so, the effect of the political globalization level on sanctions effectiveness can be observed and assessed.

First, the cases where Peru succumbed sender's demands will be evaluated.

1. The sanction episode from 1993 occurred due to the US demands to conduct democratic changes and give the citizens more freedoms. Fujimori, the authoritarian president of Peru, refused to establish a dialogue. However, after repeated threats of executing a full trade embargo against the state, the administration agreed to conduct certain changes. In October the constitution was changed by limiting the presidential rule to two terms (Vallas, 2003). At that time the US was lacking necessary trust and connection with Lima, thus, the strong coercion measures were ready to be implemented (Final Report of the National Democratic Institute/Carter Center Joint Election Monitoring Project, 2000). All of the above-mentioned lead Peru to a partial acquiescence.
2. In 1994 according to the Amnesty International report more than 4,000 political prisoners were ready to face trials by the Peruvian government. However, during this process many violations of human rights took place. Tortures and death were wide spread actions. The US and the EU accused Fujimori administration and threatened economic sanctions (Amnesty International, 1994). Nevertheless, the nation still did not earn the trust of the international community by refusing take immediate actions and negotiate ("Peru: On the Very Fast Track," 1995). Eventually the democratic community forced Peru to negotiate settlement and agree to certain demands.

Second, let us take a closer look at the cases after 1995, where with an increase in globalization level, country was able to resist sanctions impact.

1. The 1995 case was due to the Peru – Ecuador war. During this time several human rights violations took place, which led to the negative reaction of the US and sanctions threat as a result. Instead of rejecting all the demand two countries established a significant level of transparency and a strong dialogue via Rio Protocol. Rio countries by political means signed and ratified a large number of treaties (Ronald Bruce 1999, p. 34). Thus, the political globalization index increased, as well as a trust level improved. All these gave a possibility for “Capitulation by the Sender in threat stage” outcome.
2. In 2000 another sanction episode occurred. After April elections Fujiori won his third term in the office. But this was achieved only due to the vast violations and a big fraud, because according to the constitution 1993 only two terms were allowed. These events were followed by protests, where the government used force to disperse the crowd. The democratic community reaction was straight forward, sanctions were threatened (Final Report of the National Democratic Institute/Carter Center Joint Election Monitoring Project, 2000). However, because of the need of the US to maintain good ties to promote Andean countries cooperation, especially via Andean Trade Promotion and Drug Eradication Act sanctions were dismissed (Verbeek, 2014). This is a manifestation of political globalization and how it increases ties and makes sanctions less effective. Peru was able to deflect sanctions and the sender capitulated.
3. The last case is the case from 2001. The main issue was connected with drug trafficking, which happened along with human rights violations (TIES). The US executed arms embargo, and the EU froze humanitarian aids (Portela, p. 118). The immediate sanctions did not affect Peru policy much. Peru actively participated in anti-terrorist movements and had recently started cooperation with the US via Andean Trade Promotion and Drug Eradication Act sanctions were dismissed (Verbeek, 2014). Lima was able to improve its image and force senders to capitulate.

By looking into each case, we can see how political globalization works, and that ties are indeed created, which improves chances for a state to successfully resist sanctions episodes after a spike in the aforementioned index.



An interesting finding is that after Peruvian democratization in 2001 till 2005 no sanctions episodes took place. Six main areas which were transformed were the political party system, the electoral process, the justice system, the decentralization process, the administrative capabilities and the corruption (Nissen, 2008).

Although democratization did not occur in Peru until 2001, but liberal reforms conducted by its government gave other countries an impression that great changes took place within the state. According to Polachek (1997) trade variable is highly significant in determining the number of conflicts occurred between nations. The author argues that by using peaceful tools to solve conflicts democratic nations aim at protecting wealth which was gained through open trade. That all made countries to cooperate more and seek for ways for conflict avoidance. But also, these economic activities gave a way to Lima government to create more platforms for carrying on dialogue. The spike in political ties made this country to be more reliable and trustworthy, so the change in sanctions outcome variable is logical.

Political connections were also improving with liberalization. It changed a state's relationship with the global community. Economic liberalization boosted the existing process of ties creation with the democratized world. Stallings (2001) argues that liberalization ties the countries to global economy by opening up their economy and making it more transparent. All of these changes result in increase in number of bilateral agreements, FDIs, loans and etc. To control the situation the countries, have to establish new platforms for interactions regarding economic issues and sign bilateral agreements, which in its turn affects the globalization index.

The areas of democratization mentioned above were essential pillars of Peru democratization. However, the regime transition conducted by Toledo government was not perfect. The situation was similar to the Indonesian case, where reforms happened, but a lot of work was needed in order to democratize all spheres of life. It is important to mention that in the early stages of transformation, it was a hope for future regime improvements, which gave the liberal community willingness to assist and improve relations with Lima (Nissen, 2008).

The next point, the case study is aimed to evaluate are variables, by which political globalization creates ties and influences sanctions effectiveness. Moreover, some measurements

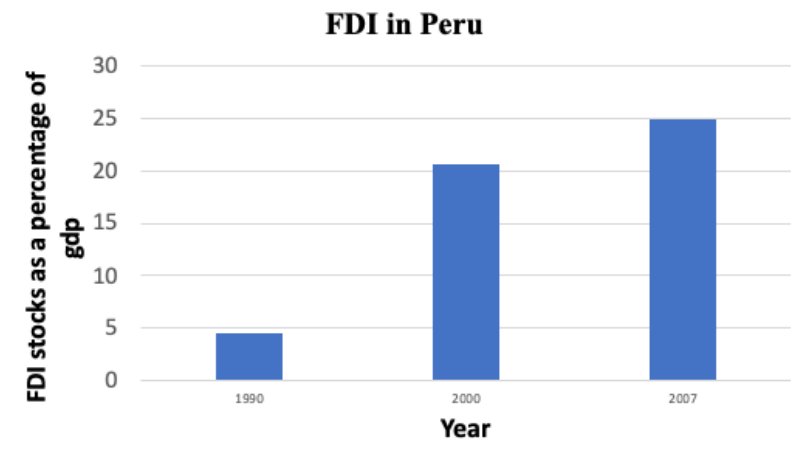
from social and economic globalizations will be assessed as well, as they affect the political index, thus, increasing the number of connections among sender and target.

The spike in political globalization level largely happened due to the following reasons. First, changes in political party system created a necessary basis for civil society appearance. This in its turn was followed by creation of new institutionalized political groups and creation of new NGOs. NGOs multiplied, primarily those organization were financed from abroad (Alasino, 2008). Despite their ineffectiveness (Celis, 2006) those institutions created a link to the liberal countries to interact with Peru more. Furthermore, the reason of presence of NGOs gave a hope for democratization in the future and made coercive tools a less favorable mechanism.

Second, growing numbers of treaties signed. I would like to specifically mention that the relationships with the USA as a representative of democratic world and the primary sanctions Sender in the world plays an important role in interaction with other liberal countries. As Toledo administration came into power in 2001 the relationships with the US improved significantly. Latin America has always been a major sphere of interest for Washington and with the change of Lima's regime the country became even more lucrative as a partner. Countries started discussing promotion of trade agreements and started to create new forums. The US encouraged Andean countries to interact more under Andean Trade Promotion and Drug Eradication Act from 2002 (Verbeek, 2014). For years to come this treaty played a big role in decreasing likelihood for Lima to be sanctioned due to such a profound connection among all parties. As it was shown, this treaty played an important role in deflecting two sanctions episodes of 2000 and 2000.

Third, improved engagement within Organization of American States (OAS). After the end of Cold War, the organization adopted resolution 1080, which was aimed at improving member states democracies. Starting from this time this platform was used also for establishment of new political and trade treaties. This mechanism ensured transparency and mutual cooperation for 21 countries. It also influenced the cases of 2000 and 2001.

*Figure 4.5 FDI stocks as a percentage of GDP in Peru, 1990 to 2007*



Source: Higginbottom (2013).



Fourth, FDI also can be related to the amount of treaties signed between states. Liberalization and followed up democratization let the government of Peru to attract more investments. In Figure 4.5 a big spike in FDI's stocks can be observed (Higginbottom, 2013). Therefore, it also led to a spike in number of investment treaties, which according to KOF index, are a part of political globalization.

Fifth, the number of foreign aids received from democratic countries grew significantly. For example, the USA aid to Lima between 1985-1989 grew by 4 %, whereas from 1994 to 1999 the number raised by 17 percent (McClintock and Vallas, 2003). This number shows the trust and willingness of nations to cooperate and assist Lima. Thus, if the trust level is high then a majority of issues can be tackled via a dialogue mechanism.

Similar with the Indonesia case a rival explanatory of Peru deflecting sanctions exists. It is said that the country was able not to acquiesce to senders' demands because the target was only threatened to be sanctioned, but they were never imposed. This explanation has some flaws to it. Firstly, it does not clarify why before 1995 threats were able to change policies conducted by Lima, but after this year it did not succumb to sanctions. Secondly, according to Drezner (2003) sanction threats work better than sanction impositions itself.

To sum up, I should say that one of the variables that allowed Peru not to acquiesce to Sender's demands is political globalization. There are 3 major measurements within political globalization via which it rose. These variables are number of treaties signed and ratified; number of NGOs created; amount of humanitarian help received.

Increasing level in the political globalization variable was equal to the growth in interactions frequency of a target with the liberal part of the world. In this particular case liberalization and democratization were triggers, which had an effect on building trust and security. Although the level of democratization was still far from ideal, nevertheless states saw an opportunity in being able to affect Lima's government way of transition and started building necessary means to maintain a dialogue. These platforms and engagement of Peru in new institutions made its political globalization index to skyrocket. It can be said that the variable under discussion represents the engagement level with the world and other democracies in particular. The more political

connections, the more means for cooperation with democratic countries. As this community ideas are aligning together the better communication channels are developed. So, there is less need in executing other tools of coercion than a dialogue. Hypotheses 1 and 2 are rejected by the study as the economic and social globalizations do not have a significant impact on the sanction outcome. Nevertheless, these types of globalization facilitate the growth of the political index.





## **Chapter 5 Conclusion**

### **5.1 Summary of the Research**

This research aimed to identify if there is an inference of globalization variable on sanctions effectiveness. By using both quantitative and qualitative research it was found that globalization mainly works via the political globalization index. The correlation between those two measurements is negative. With an increase in political connections the chances for a Target to deflect sanctions increase.

Reasons for most of the sanctions in the sample are related to human right and trade issues. The role of a sender in most cases is played by country or countries from the democratic community. Their lack of trust and curtailed ways of communication with the non-liberal world actors is one of the impetus for sanctions threats or imposition.

Political globalization assists target country to establish better political ties with the international community. These ties become an essential basis to build trust and establish dialogue. When states see a certain degree of transparency and the ways to engage in discussion then the execution of coercive measures lose their importance.

### **5.2 Main Research Findings**

Political interactions turned out to be a building trust tool. With an increase in political globalization the number of platforms and institutions via which a stable interaction can be introduced grows. Leading to more productive discussions and easier problem resolution, which gives a target more opportunities to deflect sanctions.

The other two major indexes, namely, economic and social globalization were evaluated separately and were found to be insignificant in the inference on sanctions outcome. However, the increase in one of the above-mentioned measurements was accompanied by the same spike in political globalization. This occurs due to the fact that variables which economic and social levels are consisted of are related or considered to be a part of political index as well.

The case study of Indonesia and Peru clearly introduced the reader to the process of how the political globalization actually works and lessen the chances of a target to acquiesce to the sender's

demands. The political globalization index skyrocketed in these countries, which led to an ability of countries to resist sanctions.

Such processes as democratization and liberalization only boosted the number of ties and better showed the way political ties establish mutual trust and a dialogue without the need for other less peaceful tools.

Getting a closer look on both cases gave an opportunity to clearly see which variables within the KOF political Globalization index are more relevant and affect sanctions outcome the most. On the one hand, in Peru number of bilateral and multilateral treaties signed; participation in international organizations; size of humanitarian aid had the most profound effect on the sanction's final outcome. On the other hand, Indonesia variables influencing effectiveness the most are the same with an exception the humanitarian aid variable and with an addition of the amount of FDI measurement.

Even with a huge leap in the political index and the establishment of a large number of political links their transparency and the trust levels did not become perfect. The process was slow, nevertheless, for the democratic world it is enough to spot the changes and dismiss a heavy usage of coercive tools.

### **5.3 Research Limitations and Future Studies**

As far as limitations are concerned, it is important to highlight several points. First, is that the globalization variable is a huge concept and dividing it into three parts can be considered to be a big assumption due to the fact that within political, economic and social indexes there are some variables that can both positively and negatively correlate with the sanction's outcome. Thus, for the future study separate analysis of all eight KOF globalization indexes is needed. Moreover, it may be useful to assess all the variables from the indexes separately.

Second, the time frame of the research was limited to 1992 – 2005 period of time, because of the absence of the most relevant and comprehensive data after 2005. Which opens a possibility to carry out further investigation once new data is released.



Third, due to the autocratic nature of some regimes, some data is missing for certain states, and was taken out from the dataset. It might have an influence on the omitted variable bias level and had an impact of final results of the study. Besides, based on the same reasons some data for the case study was also not found and, thus, not assessed.





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