

generis nature of the euro. It may be a faulty blueprint for regions unwilling to make the political union that Europe has moved towards. In that case, the “barbarism” Mill castigated may continue to last for a great deal of time to come. No book can provide definitive answers to such speculative questions, but this book goes a long way to helping us understand the issues involved.

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Economic Sanctions Reconsidered, Gary Hufbauer, Jeffrey Schott, Kimberly Elliott, Barbara Oegg, 3rd edition, Peterson Institute for International Economics (2007)

Introduction

For more than two decades the Peterson Institute (and its predecessor the Institute for International Economics) has engaged in a long-term study of the efficacy of economic sanctions. Since the publication of the original study more than 25 years ago the economics and political science literature on sanctions has grown dramatically. The Peterson Institute's project is the intellectual grandfather to nearly all of this blossoming literature and in my view remains the preeminent study on the subject.

It has been 17 years since this pioneering study was last updated; the new edition is a worthy and much needed successor to the previous two installments. The book chronicles and evaluates more than 170 episodes of economic sanctions since 1914. Each case study contains a concise chronology; the sanctioning country's objectives and the target country's response; the roles played by important third countries; relevant economic data; a calculation of costs; and an assessment of the outcome. The book is extremely readable; the main findings expressed in a straightforward, non-technical fashion. The book is clearly aimed at a policy-oriented audience and the book's format reflects this target audience.

Let me begin by addressing what I believe is the value added of the new edition. Or, said differently, what material is in the new edition that was not in the earlier editions? As was the case with the earlier editions this new edition includes an excellent discussion of how one might measure the success and failure of a particular sanction episode and offers some basic descriptive statistics of the variables in their database. But, the book is not just a reprint of the second edition. There are four main “new” contributions in this edition. First, the authors have systematically updated their old database. This is important because a large number of sanction episodes were ongoing in 1990. Some of these are now resolved (e.g., trade and financial restrictions on Iraq); these were subsequently reviewed and reclassified as required by events. Other episodes are still ongoing and the authors have updated the facts as needed. Second, the authors have added dozens of new sanction episodes that were imposed during the 1990s. While there is more than one way to count the number of episodes (e.g., does each sender get a unique count, etc.), my sense is that the new database has almost 40% more episodes than the previous edition. In addition, interested researchers will be happy to know that an electronic version of the database can now be purchased from the Peterson Institute. Third, at many points in the text the authors have interwoven discussions of the vast literature that has grown around and because of their database. I found this effort very helpful. This added discussion significantly deepened my appreciation of the research agenda. Like many readers, I have only informally followed this literature. I now feel I have a much better sense of the evolution of ideas and approaches over the past decade. Fourth, the authors have made a large effort to apply some more formal econometric techniques to their data. The more statistical discussion is relegated to the appendices as the much of their policy audience will find these sections to dense. Nevertheless, it gives academic researchers formality and rigor missing from the main text. Overall, it is hard to imagine that any researcher interested in understanding economic sanctions would not begin his/her study by reading this book.

With that overview, let me now discuss a few specifics. The authors begin by defining what they mean by economic sanctions. They define economic sanctions as the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations. The countries or international organizations which impose the sanctions are called “senders,” and the countries subject to the sanctions are called “targets”. There are three key motives behind international uses of sanctions: to punish, to deter, and to rehabilitate. While countries (and institutions) that impose sanctions may be satisfied with the limited punishment and deterrence that follows from a particular episode, the authors focus on observable changes in the target's policies, behavior, or regime. Whether one disagrees with the authors' assessment regarding the efficacy of an episode, their evaluation is not driven by

political motives. The grounding in empirical evidence is what distinguishes this project from the casual, selective discussions that preceded (and occasionally have followed) their pioneering study.

The authors also note that individual countries, particularly major powers, often impose economic sanctions even when the probability of forcing a change in the target country's policy is small. Beyond demonstrating resolve and signaling displeasure to the immediate transgressor and to other countries, politicians may also want to posture for their domestic constituencies. U.S. and European sanctions against China in the wake of the Tiananmen Square massacre is cited as an example of such behavior. The effect on China was secondary. The fact that such episodes are deemed failures might therefore reflect the inability to measure the actual policy goal — or that the policy goal was internal rather than external.

The authors next layout the analytical framework and discuss the variables used to quantify each sanctions episode. The authors emphasize that sanctions can only be evaluated in the context of the policy objectives. A policy aimed at regime change will be evaluated differently than a policy aimed at changing the target's human rights behavior. Said differently, the ease of evaluation and the variables required to do the evaluation will vary substantially from episode to episode. In one way or another, this insight echoes throughout the book. An important lesson is that when it comes to understanding and evaluating sanctions a "one size fits all" approach is inappropriate and naive.

The policy outcome is not the same as the sanction event. The authors classify policy outcomes as (1) failed outcome, (2) unclear, possibly positive, (3) positive, partial success, and (4) success. The contribution of sanctions is classified as (1) negative impact, (2) small impact, (3) substantial contribution, and (4) decisive contribution. A policy — regime change — might be successful even though the sanction event — a trade embargo — was ineffective. Conversely, the policy outcome may never transpire but the sanctions greatly affect the target's economy and welfare.

In an attempt to boil their finding down easier to summarize sound bites the authors create a success index by multiplying the two elements together. This index can be used to judge the ultimate successfulness of the policy and allows for easy comparisons. For instance, in Chapter 5 the authors show that the success rate of sanction has fallen over time, from about 50% (prior to 1970) to about 33% (in the 1990s). What this summary tells us about modern sanction episodes is unclear. It might mean that recent sanction efforts have been unusually ambitious or perhaps were never really intended to be succeed (e.g., Tiananmen Square), poorly designed, or easily circumvented, or even all of the above. Given the authors' repeated emphasis that each episode has its own characteristics that make it unique, I found this single metric at odds with the subtlety that characterizes most of the analysis. Giving the authors the benefit of the doubt, I presume that such an overly simplistic summary is necessary for widespread acceptance by a policy audience. I would argue, however, that the authors would be doing an even greater public service by letting the politicians and generals know that policy analysis cannot be adequately summarized as "mission accomplished" or "mission failed."

The authors offer five broad categories for the goal of the sanctions: (1) change target-country policies in a relatively modest and limited way, (2) change the target country's regime, (3) disrupt a military adventure, (4) impair the target's military potential, and (5) change target-country policies in a major way. These categories hint at the complexity of using too broad a brush to paint the picture of the effectiveness of sanctions. A sender seeking modest changes to the target's policies will almost surely be found to have more successful sanctioning policies than a sender that aims for regime change or major changes in the target's policy. Any comparison of sanctions must largely be confined within a given policy goal. Understanding when and why sanctions aimed at disrupting military adventures may only have fairly weak implications for designing a policy to produce regime change.

The authors also emphasize the importance of the extent of international cooperation in designing sanctions. A country acting on its own will generally not be able to impose high costs on the target. In many cases a single non-cooperating country can make sanctions ineffective. For example, an oil embargo is merely a nuisance if a pipeline also flows through a neighboring country. Having nearly all other countries joining the embargo may be a meaningless gesture in this example.

The authors also spend considerable time discussing the methods for imposing sanctions. The sender inflicts costs on its target in two main ways: (1) with trade sanctions that limit the target country's exports or restrict its imports, and (2) with financial sanctions that impede finance (including reducing aid). Sanctions on target countries' exports hope to reduce its foreign sales and deprive the target of foreign exchange. Sanctions directly limiting the sender's own exports impose higher costs on the sender and may have little net impact on the target's purchases. If the sender country is important in world markets, such a policy may cause the target to pay higher prices for substitute imports; but is this likely to really engender change? Financial sanctions seek to interrupt commercial finance and/or reduce loans to the target country. When a poor country is the target, the government imposing the sanction can use official financing or other development assistance to gain further leverage.

The authors do draw a few general conclusions from their database. First, senders need to clearly identify the goal and shape the sanctions to achieve that goal. It sounds simple but often fails in practice. Sanction episodes often involve multiple parties. If governments that impose sanctions embrace contradictory goals, the authors find that the sanctions will usually be weak and ultimately ineffective. In such cases the country or group imposing sanctions will neither send a clear signal nor exert much influence on the target country. Second, sanctions that are imposed primarily for "signaling" purposes must be very carefully targeted. If not, they may entail substantial costs for the sender country, overwhelming the signal that was intended. Third, sanctions should be imposed as quickly and comprehensively as possible. Gradualism gives the target time to adjust by finding alternative suppliers or markets, by building new alliances, and by mobilizing domestic opinion in support of its policies.

Overall, based on an analysis of their more than 170 case studies, the authors find economic sanctions tend to be most effective at modifying the target country's behavior under the following conditions: (1) when the goal is relatively modest; (2) when the target is much smaller than the country imposing sanctions, economically weak and politically unstable; (3) when the sender and target are friendly toward one another and conduct substantial trade; (4) when the sanctions are imposed quickly and decisively to maximize impact; and (5) when the sender avoids high costs to itself.

Throughout the book the authors interweave results from empirical studies that have utilized the earlier incarnations of their database. The blending of the growing literature on sanctions is one of the main added value contributions in this new edition. Throughout this new edition are discussions of academic literature that has used the Peterson sanctions database to more formally analyze political and economic hypotheses. As it is now written *Economic Sanctions Reconsidered* is a superb example for graduate students how to incorporate existing literature into their writing.

Economists will find the appendices required reading. In the first appendix the authors present binary logit regressions where the dependent variable is a measure of the success of the sanctions episode. The independent variables are political and economic variables the authors have used to characterize the episodes. While this discussion gives readers a sense of what one can do with their data, I did not find that I learned anything beyond what the prior (in-text) discussion had conveyed.

I found the second appendix much more compelling. Here the authors estimate a bilateral trade gravity equation modified to include measures of the sanction episode. The U.S. is the sole sender in this empirical analysis. This appendix provides real value as it gives concrete evidence of the trade costs of sanctions. While the parameter estimates for the variables measuring sanctions are generally the correct sign and statistically significant, the point estimates imply that sanctions have a small economic effect. It should be noted that when the authors isolate the impact of "high intensity" sanctions, the impact grows considerably. Nevertheless the econometric exercise indicates that the bark of sanctions is generally greater than the bite. The estimates imply that sanctions reduce two-way trade by somewhere between 5% and 10%, clearly less than policymakers suggest. Sanctions limiting financial flows have even a smaller impact.

Overall, I believe this book is quite valuable. It provides policymakers an easily accessible summary of major sanction episodes over the last 100 years. Students and policymakers interested in the understanding the how, why, and what happened when economic sanctions were imposed would be well served to begin by reading this book.

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Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan, Robert C. Feenstra, Gary C. Hamilton. Cambridge University Press (2006)

By now, explanations of East Asia's rapid growth are rather clichéd. Explanations usually center on the "supply" side, rapid factor accumulation and TFP growth, driven by aggressive government policies. Usually there is some nod to how government policies stimulated the export sectors in these countries, and how these export sectors have significant external economies.

This remarkable book by Feenstra and Hamilton is fresh and innovative, and avoids the usual clichés regarding the miracle economies of South Korea and Taiwan. The book focuses on the industrial organization and international trade in these countries. Korea and Taiwan have been phenomenally successful from the mid-1960s to the mid-1990s, growing at an average rate of over 10%. However, the two countries have very different industrial structures. While Korea is characterized by large oligopolistic firms, the so-called *chaebol*; Taiwan is characterized by many small firms. The central question of the book is this: how could two economies with such different industrial structures both grow so fast?

The book represents an unusual collaboration between an economist and a sociologist. The authors apply the theory of general equilibrium under increasing returns to try to explain the industrial structures of Korea and Taiwan. It is well-known that general equilibrium models under increasing returns can give rise to multiple equilibria. That is, the differing industrial structures of Korea and Taiwan can both be efficient equilibria, arising from the system.

Increasing returns in the Feenstra–Hamilton model arises from their assumption that inputs procured through vertical integration are cheaper than inputs procured externally, giving firms strong incentives to vertically integrate, that is, to form "business groups." "Business groups" are collections of companies that trade a high fraction of intermediate inputs among themselves, and often arrange financing for each other. Feenstra and Hamilton construct a stylized economic model consisting of upstream sectors producing intermediate inputs, and downstream sectors using those inputs to produce final consumer goods. If a set of companies trade intermediate inputs exclusively among each other, then those companies are deemed part of the same business group.

In the model, manufacturing firms decide whether to buy intermediate products at zero markups from a firm within a group, or at full markups from unaffiliated firms. Solving that model based on pricing decisions of firms in general equilibrium reveals multiple equilibria in the form of two distinct and economically stable solutions to business groups: a high and low concentration sets of groups. Of course, the economy with a high concentration of business groups is Korea, and that with a low concentration of business groups is Taiwan.

Why did Korea end up with the high concentration equilibrium, that with a small number of very large business groups, and Taiwan end up with the opposite equilibrium? The answer, as with the case with these types of models, is that the two countries varied in