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# **U.S. Economic Sanction Threats Against China: Failing to Leverage Better Human Rights**

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Recent literature argues that economic sanction threats should be more successful because both sender and target have an incentive to resolve their dispute before entering into costly sanction. Testing this assertion is somewhat problematic because threats are essentially nonevents—sanctions that were never deployed. This paper quantifies the U.S. threats to condition or revoke China's most favored nation status and shows that Washington's threats were not only ineffective but also counterproductive—Chinese accommodations decreased when the U.S. made acute threats but increased when Washington was cooperative. We conclude that for highly salient issues, sanction threats tend to be ineffective.

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Much has been written on the effectiveness of economic sanctions, and with good reason—they are a frequently used foreign policy tool. In the 1990s alone, 67 economic sanctions were initiated, up from 40 in the previous decade. As the literature is quick to point out, however, sanctions fail the vast majority of the time. Success rates run from as high as 30% to as low as 1–2% (Hufbauer, Schott, and Elliott 1990a; Pape 1997, 1998; Elliott 1998). Recent scholarship has begun challenging this conclusion and suggesting that there is a significant selection bias in the sanction data that leave out those sanctions that are merely threatened but not deployed (Morgan and Miers 1999; Nooruddin 2002; Drezner 2003; Lacy and Niou 2004). Essentially, these scholars argue that sanctions (threatened and deployed combined) should have a higher overall success rating because threats of economic sanctions will succeed more often and consequently do not appear in data that focus almost exclusively on deployed sanctions.

Although this sanction threat argument is logical, testing it is problematic. Sanction threats are essentially nonevents or nonsanctions. Even threats that are not private (and one should expect that many are) do not incur any visible material

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costs to the target or sender. That is, there is no disruption in trade or financial holdings. This characteristic makes assessing the efficacy of sanction threats rather difficult. That is, the intensity of the threatened costs, as well as the threat itself, are difficult to measure. In this paper, we attempt to provide an analysis of economic sanction threats. To accomplish this, we build on previous qualitative work (Li and Drury 2004) to evaluate quantitatively the U.S. decision to renew most favored nation (MFN) status for the People's Republic of China from 1989 to 1995. During this period, the U.S. contentiously debated to revoke, or renew with serious conditions, China's trading status. This debate constituted a serious threat of economic sanctions. At first blush, Beijing reacted to these threats by releasing several high-profile dissidents over the 6-year period, suggesting that, perhaps, the threats were effective. We will show, however, that these threats were not effective and in fact, were counter-productive to the goal of securing better human rights in China.<sup>1</sup>

Of course, using a single case to evaluate sanction threats can be problematic. As we discuss in detail below, however, we take steps to alleviate the possible problems. First, the issue is not uncommon—the U.S. and other developed democracies often pressure nations over human rights concerns.<sup>2</sup> Further, these concerns often imply a threat to the target's sovereignty, an issue to which all nations are sensitive. Finally, we utilize disaggregated data over several years, which allow us to assess the process through which the threats were made. We are confident, therefore, to make some modest, general conclusions.<sup>3</sup>

We develop our argument in five sections below. First, we discuss the logic behind sanction threats as well as the current understanding of sanction effectiveness. Next, we describe the actual case—the U.S. threats to revoke or condition MFN status to the People's Republic of China. Third, we build on previous theorizing to develop a model of the U.S. threats toward China and develop two hypotheses: Beijing reacts to heightened U.S. threats by being (1) less repressive and (2) more accommodating. Fourth, we turn to a discussion of the data and empirical test of the hypotheses. In this section, we discuss the appropriateness of using the China MFN case to test the effectiveness of sanction threats. Finally, we discuss the results and make some conclusions about sanction threats.

### **Economic Sanction Threats**

A typical sanction episode involves two actors—the sender (the sanctioner) and target (the sanctioned)—and begins with an initial dispute over some issue between the two countries.<sup>4</sup> Relations between the two nations decline with the rise of a precipitant—a new action or policy that is offensive to the sender (Snyder and Diesing 1977; Drury 2000:625). This precipitant leads the sender to demand an end to the target's offensive policy or action. At this point in time, the sender has only engaged in diplomatic coercion. If the target stands resolute, the dispute escalates, and the sender threatens harsher action, namely, an economic sanction. If the target continues to reject the sender's demands, then economic sanctions are deployed and the level of hostility increases further.<sup>5</sup> Although some subtle differ-

<sup>1</sup> Throughout this article, we use the Western notion of human rights—those pertaining to civil and political rights—because that was the stated goal of the U.S. threats. Although social and economic rights are clearly important human rights, they were not a part of the goals we are attempting to assess in this article.

<sup>2</sup> During the 1970s, for example, the U.S. instituted sanctions against almost 20 countries because they regularly violated accepted human rights.

<sup>3</sup> It is also worth noting that most sanctions are deployed by the U.S. (Nooruddin 2002; Drury 2005), so our case includes the most frequent sanction user—the U.S.

<sup>4</sup> Although clearly more than two nations can be involved in a sanction episode, we consider this two-nation model for the sake of simplicity.

<sup>5</sup> At this point, the sender and target may cease escalating the dispute, causing it to end in some stalemate or at least protracted economic sanction episode (e.g., U.S. vs. Cuba and U.S. and UN vs. Libya, respectively). However, if the escalation continues, military action may follow (Baldwin 1985; Drury 2000, 2001).

ences exist in how a sanction episode unfolds, most theories follow the basic chain of events laid out above (Drezner 2003).

If the target prefers acquiescence to sanctions, it is at the threat stage that one would expect a rational target to give into the sender's demand so that it can forgo the sanctions. That is, if the target is going to comply with the demand, it will prefer doing so before it feels the pain of the economic sanctions. Conversely, targets that expect to rebuke the sender's demand are willing to accept the sanctions, making their deployment more likely to fail. Therefore, as several game theoretic models conclude, economic coercion will be more successful when observed at the threat stage than at the implementation stage (Smith 1996; Drezner 1999; Morgan and Miers 1999; Lacy and Niou 2004).<sup>6</sup>

A few studies have provided some empirical evidence for the assertion that threats are more successful. Using regulatory issues, Drezner (2003) shows that threats to sanction noncomplying countries tend to have a much higher success rate than do the deployed sanctions from the Hufbauer, Schott, and Elliott (1990a, b) data. Nooruddin (2002) uses a selection-corrected model to show that a selection bias exists and affects the success rate. Ancillary evidence of a different success rate between threats and deployed sanctions comes from Drezner (1997, 1998, 1999). Drezner shows that targets that expect future conflict with the sender are less likely to comply because they are concerned that compliance would harm their future relations with the sender—they would develop a reputation for giving into demands. Therefore, targets that expect such conflict will not give into the sanctions, and thus, the sanctions deployed against them will count as failures.<sup>7</sup> This finding indicates that at least some sanctions that are deployed are predestined to fail.

These theoretical and empirical studies suggest that there is significant reason to believe that economic sanction threats are more often effective than those that are deployed. Although there is little empirical evidence, logic suggests that sanction threats should be more successful and more frequent in use. Although we do not attempt here to evaluate how many sanction threats exist or even supply a definitive assessment of their effectiveness, we do draw upon a case of persistent and acute threats over a period of several years. Our analysis differs from the previous empirical analyses of sanctions threats in two ways. Unlike Nooruddin's (2002) selection bias study, our analysis directly assesses the effectiveness of several sanction threats. Second, our case is expressly political. Drezner's (2003) analysis looks at money laundering, while we focus on human rights demands—demands that Beijing perceived as a challenge to its sovereignty. Therefore, the nature and consequence of the U.S. demands make the case a harder one for the threats to succeed. The hard test that the case provides along with the direct nature of our analysis provides novel information about sanction threats. We now turn to a discussion of the case and lay out our argument and hypotheses before turning to the data and analysis.

### China and the MFN Debate

The annual discussion of the MFN status for China did not start until after the Tiananmen Square incident in 1989. After trade relations were established in the 1980s, the U.S. and China granted MFN status to each other on an automatic, reciprocal basis. As Steve Chan (2000:110) points out, most favored nation status "characterizes the norm rather than the exception in international trade," making

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<sup>6</sup> The more limited the target's information is, the more the sender's credibility and expected cost of the sanction will matter in the target's decision. Typically, multiple threats are made as the sender and target determines each other's preferences. Our analysis includes these multiple threats, and therefore provides more leverage to assess the efficacy of the sanctions.

<sup>7</sup> Drury's (2000) findings concur with this conclusion.

the term quite misleading. Thus, the extension of MFN status means normal, not special, tariff consideration. Between 1989 and 1995, the period this research covers, the U.S. attempted to coerce China with a series of threats to revoke or significantly condition its MFN status.

Since the mid-1980s, there had been several pro-democracy protests in China. The democracy movement reached its peak in 1989 with the death of Hu Yaobang—a prominent symbol of China's political reform (Ginkel and Smith 1999). Demonstrators had continued to pour into Beijing since April 1989. In the evening of June 3 and morning of the June 4, 1989, the Chinese government ordered the People's Liberation Army to disperse protestors in Tiananmen Square, killing hundreds, maybe thousands of protestors (Ginkel and Smith 1999).

Although President Bush suspended all arms sales to China on June 5, 1989, "there was no serious debate about withdrawing from normal trade relations" (Willkie 1994:141).<sup>8</sup> These sanctions affected \$600 million in government contracts and approximately \$100 million in commercial sales.<sup>9</sup> However, the White House soon began to reverse its stand on the sanctions, preferring a policy of engagement over coercion (Ding 1991:1160). In July, only a month after the Tiananmen Square violence, the *New York Times* reported that the White House had altered the sanctions to allow for the previously prohibited sale of several Boeing jets. The U.S. continued to gradually lift the Tiananmen Square sanctions.

The debates about China's MFN status became a real issue in 1990, when they became an annual congressional event. Congress began to impose new conditions on MFN in trade, security, and human rights areas according to the Jackson–Vanik amendment (Willkie 1994).<sup>10</sup> If the Chinese government (1) failed to meet certain conditions and (2) the president failed to waive these requirements, the MFN status would not be renewed for the next year. Consequently, "[t]he withdrawal of normal tariff treatment would mean that the Chinese goods would be charged the high tariff of the 1930s imposed by the Smoot–Hawley legislation" (Chan 2000:113).

Between 1989 and 1995, 12 bills were introduced to the Congress to either revoke or condition the MFN status for China. Except for 1989, the MFN debate would continue throughout a given year, but typically, the most extensive debates were from April to August. The deadline to renew China's MFN treatment was June 3 each year.<sup>11</sup>

MFN debates became most intense in 1991 when five bills were introduced. The first four attempts by Congress failed to be enacted. On May 2, 1991, however, Nancy Pelosi introduced a bill (H. R. 2212) that would prohibit the president from continuing the waiver of human rights and emigration requirements for MFN status unless certain conditions are met. These conditions included releasing prisoners who dissented in Tiananmen Square on June 3–4, 1989, preventing human rights violations, easing restriction on freedom of press and assembly, and so on.<sup>12</sup> Although the bill received enough votes to pass, it was vetoed by the president.

After that attempt, five more bills were introduced and the debate over China's trade status continued. None of these made more headway than the original Pelosi bill. Throughout this period, Congress aimed less at revoking MFN status for China and more toward placing conditions on the annual renewal. Issues raised in the anti-MFN debate ranged from human rights to unfair trade practices and missile

<sup>8</sup> In this article, all references to President Bush refer to George Herbert Walker Bush.

<sup>9</sup> See *Washington Post*, June 6, 1989: A18, July 2, 1989 and *Business Week*, June 19, 1989: 29

<sup>10</sup> The 1974 Jackson–Vanik amendment requires countries to have reasonable free emigration policies if they want to receive MFN trade status as well as access to other financial institutions such as the Export–Import Bank (Thurston 1994).

<sup>11</sup> The debates continued past the initial deadline because legislation could still have an impact on the president's decision to issue the waiver and renew MFN.

<sup>12</sup> Other issues were added to gain greater congressional support. Some of these amendments dealt with non-human rights issues. See Wang (1993) for a discussion of these.

technology transfers. Chan (2000:117) argues that the debate on China's MFN status had become an occasion for different U.S. groups to advance their favorite causes:

The political pluralism and institutional competition characteristics of the U.S. almost ensure that many multiple voices will be heard on this issue. Labor organizations use this debate to voice their concerns with "unfair trade," church groups use it to demonstrate support for their co-religionists in China, right-to-life advocates use it to condemn China's policy on population control, pro-Tibet and pro-Taiwan groups use it to lobby for the independence to these territories, and anti-proliferationists use it to criticize Beijing's arms transfers. Congress uses it to assert its institutional prerogatives . . .

Despite the intensive debates going on in the Congress, Bush renewed China's MFN status every year. During the 1992 presidential campaign, Bill Clinton threatened to revoke the MFN status for China if elected. However, after he won the election, he continued Bush's MFN policy toward China, and trade between the U.S. and China continued to grow during these years. Two years after his inauguration, Clinton announced that the future renewal of China's MFN status should be made independent of human rights issues. Between 1989 and 1995, China released several high-profile dissidents in conjunction with the MFN debate (Baum 1992:495). Although these dissidents were arguably important to China's democracy movement, there is little evidence to suggest that China made dramatic improvements in the human rights area. Instead, it occasionally and visibly released prisoners in response to the U.S.' sanction threats. China's overall human rights situation and political structure remained the same, however.

### **Theory and Hypotheses**

We now apply the theory of sanction threats to the China MFN case in order to derive testable hypotheses. First, we develop more fully the logic through which sanction threats operate. We then apply that logic to the China MFN case and conclude with an expectation of Chinese behavior.

#### *Factors Producing a Coercive Threat*

There are three basic factors that determine the coerciveness of a threat: communication of the threat, the target's perception of the sender's capabilities and resolve to use them, and the target's perception of the sender's intentions (Baldwin 1971). First, the target must understand the threat. This requires not only an appreciation of the consequences of noncompliance but also a clear understanding of the demand itself. The demanded change in behavior must be clear, tangible, and preferably measurable. That is, threats that demand specific actions (or nonactions) are clear and tangible. These clear threats have "substantive" goals, such as ceasing production of chemical weapons. Conversely, threats demanding less specific, general changes in behavior have "transcendent" goals, such as promotion of human rights. These goals "are so abstract that their mundane meanings cannot be clarified" (Li 1993:352). Additionally, if the changes in the target's behavior are easily codified or measured, then understanding what counts as compliance is understood by both sender and target. For example, a demand to lower tariffs on a specific product can easily be measured while an increase in personal freedoms cannot.

The clarity of the threat allows the target to evaluate its options more accurately. Without a clear understanding of what the sender is actually demanding, the target has a disincentive to attempt complying with the threat. In the case of an unclear

threat, the target may correctly guess what policy option the sender prefers, but such a guess may be wrong (Nagel 1975). Subsequently, the target will have given up an accommodation that does not help it comply with the sender's demand. It therefore loses both the accommodation and gains nothing from it. Similarly, if the change demanded cannot be measured, then the target does not know how much it must give up before the sender is satisfied. The same disincentive applies here as before—the target will be less willing to change if it does not know how much change is required. Clearer demands make for more successful sanction threats.<sup>13</sup>

The second basic factor is the target's perception of the sender's capability and willingness to use said capabilities. Most fundamentally, the sender's capability is derived from some advantage over the target, such as a larger economy and significant trade links between the two nations (Wagner 1988). Additionally, the target must believe that the sender is willing to forgo its advantage and also suffer some pain if the threat must be acted upon (Schwebach 2000). Without the advantage and willingness, the sender has no ability to make a legitimate threat (Chan 2000). Therefore, if the target does not believe that the sender is capable and willing to carry out the threat, the threat has little chance of succeeding.

Finally, the target must perceive that the sender's intentions are directed at attaining its stated goal in the demand and not linked to some domestic rent-seeking or international reputation goal. That is, if the target thinks that the sender is simply trying to satisfy domestic demands or desires, it will not consider the threat as valid. Instead, it will correctly realize that any actions it takes are inconsequential to the sender's actual intentions. Put simply, the target may acquiesce, but the sender will still enact the sanctions, albeit for a different reason, to please the domestic demands. Similarly, if the sender is perceived to be concerned with setting an international precedent, the target must realize that a modification in its behavior is not what the sender is truly interested in. If the sender is responding to some direct action by the target, for example, then the target can be more certain that the sender's intentions are directed at the target and not some other goal. Similarly, if the demand cannot easily be linked to the sender's domestic interests, the intentions are more likely genuine (Baldwin 1971; Li 1993; Chan 2000).

#### *Evaluating the MFN Threat to China*

With the basic factors of a coercive threat defined, we need to evaluate the coercive potential of the MFN threat.<sup>14</sup> Throughout the case, the basic factors remained relatively constant.<sup>15</sup> The greatest variance in the case was the intensity of the threat as conceptualized by: (1) how likely was the U.S. to follow through with the threat to sanction China, and (2) how acute was the threat (i.e., what was the severity of the conditions placed on renewal). Before we can turn to an analysis of the threat intensity and its impact on Chinese behavior, we must discuss the factors that did not change (communication, capability and willingness, and intentions).

We begin with the communication of the threat. Although it is clear that China realized that the U.S. was attempting to coerce it with the threat to revoke or condition its MFN status, the demands made by Washington were far from clear. Some relatively specific demands were made, such as those concerning weapons

<sup>13</sup> The target can always ask the sender for clarification of the demand, but there are two drawbacks to this strategy. First, the request for clarification signals the sender that the target is willing to concede something, and second, the sender may simply lie in attempt to get the target to concede more.

<sup>14</sup> In addition to the three factors we specify above, outcome is also determined by the target's preference vis-à-vis the demand (Baldwin 1971; Chan 2000). See Chan (2000) and Li and Drury (2004) for a qualitative evaluation of the effectiveness of the MFN threats. Wang (1993) makes a somewhat counter argument for the effectiveness, although across more issues than just human rights.

<sup>15</sup> We are not suggesting that these factors remain constant throughout all threat episodes, but that they do in the China MFN case.

proliferation, trade openness, and intellectual property rights (Wang 1993). However, most of the demands were centered on human rights. Ranging from demands to end the use of prison labor, free Tibet, and grant greater religious tolerance, the demands coming from America were not clear, tangible, or their compliance measurable (Chan 2000). This multitude of demands falls into the “transcendent” category and as such, is very difficult for the target to either comply with or even understand what is being demanded (Li 1993:352).

Adding to the ineffective communication, each of these demands came from different interest groups and different members of the House and Senate. Further, the White House often contradicted what Congress proposed, not to mention the shift from Bush to Clinton. Bush was clearly pro-MFN, but Clinton’s position started as anti-MFN during the 1992 campaign, after which he shifted to pro-MFN (although not as strong as Bush’s), moving again to a conditional renewal policy, only to finalize his opinion after three years by de-linking China’s MFN status from their human rights record. In sum, partisan contradictions within Congress and the White House as well as between the two made the communication of the threat quite muddled. Beijing did not have a clear picture of what the U.S. wanted, what was required for compliance, or who was delivering the threat.

The question of capabilities is also important to consider and not overly clear in the China MFN situation. The U.S. does have a much larger economy, and its sale of high-technology products to China as well as its purchase of a great deal of Chinese goods give it a more influential position in the trading relationship. However, Beijing does not see the advantage as clearly as the U.S. (Chan 2000). First, the U.S. would suffer significant economic dislocation from revoking MFN. The U.S.’ fastest growing market for exports is China, and many American manufacturers depend upon cheap Chinese imports (Chan 2000:115). European firms competing with their American counterparts would quickly gain from the lack of U.S. competition in China if MFN were revoked (Cable and Ferdinand 1994:256). Second, there would be considerable economic damage done to U.S. allies in Asia. For example, trade with Taiwan and South Korea would suffer a negative impact, and while not an ally, economic relations with Hong Kong would fall under the sanctions. Thus, the damage done by the U.S. sanctions would be to both target and sender. As Schwebach (2000) notes, if the sender is willing to suffer economic pain for the sanctions, their credibility goes up.<sup>16</sup> However, this effect is present once sanctions are put into place. After initiation, the sender has shown that it is willing to suffer along with the target to attain its goals. Before deployment, the threat of mutual suffering must be backed up by reputation (Morgan and Miers 1999) or some other guarantee. The U.S.’ record on this was mixed. It has endured significant economic loss in many cases, such as the loss of business in Cuba and South Africa. However, the Reagan administration proved that it was more interested in gaining support from farmers than holding on to the grain embargo against the Soviets (Doxey 1987; Drury 2000). In the end, Beijing is left with mixed information as to the U.S.’ capabilities and especially willingness.

Even with such mixed evidence, however, China did appreciate the probable American ability and possible resolve to revoke or condition MFN based on the (1) split powers of government, (2) congressional past record, and (3) actual votes in the House and Senate. First, Beijing almost surely felt safe with the White House’s preference for unconditional MFN status, especially under Bush. Congressional legislation requiring certain conditions to be met before China’s MFN status was renewed, however, could have forced the president to carry out significant sanctions; thus, the Chinese leadership could not be sure of maintaining normal trade

<sup>16</sup> See also, Schelling (1960, 1966), Baldwin (1971, 1985), and Morgan and Miers (1999).



relations.<sup>17</sup> The sanctions against South Africa make this point well. After Reagan initiated a set of rather weak economic sanctions, Congress overrode his veto to pass very strong economic measures. There was strong public support for more exacting antiapartheid sanctions, not unlike the American public revulsion to the Tiananmen Square violence. Severe economic coercion directed at Beijing was not entirely out of the question. Finally, the actual voting record of Congress toward MFN renewal and election of Clinton to the White House indicated that while there did not seem to be as strong a support for revoking MFN as there was for the embargo against South Africa, enough support existed to pass the legislation and perhaps more could develop. We can conclude, therefore, that Beijing had good reason to believe that the U.S. had the ability and perhaps the willingness to use economic coercion. Although American resolve could be legitimately questioned, it was still possible that it would enact the sanctions, and such a risk, even if rather small, was serious.

Lastly, U.S. intentions did not appear pure. Demands for better working conditions and no prison laborers were supported not only by human rights activists but also American labor—a group that would directly benefit from less competition from cheap Chinese labor. Most of Washington's demands were supported for reasons other than their direct goals. Therefore, Beijing had good reason to suspect American demands and question their motives. While this suggests that the U.S. may have been less likely to sanction because their motives were so mixed that sanctions could not gain sufficient support (Lampton 1997), it is also possible that the cooperation of such diverse U.S. groups (e.g., labor, environmentalists, and human rights activists) could make sanctions more likely. Further, whether the intentions were pure or not would be cold comfort to China if MFN were revoked.

Drawing together all of these factors, we conclude that Beijing perceived U.S. sanctions to be possible, and that such a risk, even if unlikely, was nontrivial. Considering this risk, it seems quite rational that China would be willing to make some accommodations to U.S. demands. As Drezner (1997, 1998, 1999) points out, the lack of future conflict expectations would suggest that some conciliation toward Washington would not harm China's future bargaining position.<sup>18</sup> Although major concessions—such as permitting a free press—would have been unwise from Beijing's standpoint because the U.S. may not recognize the Chinese attempt to placate U.S. concerns and those placating actions could lead to more demands, some minor cooperative actions (e.g., releasing a few political prisoners) or rhetoric would not have been foolish.

Given these threats from the U.S., however weak or poorly communicated, what can we expect the Chinese to do? Ultimately, we know that Beijing did not dramatically reform its human rights policies, it did not “free Tibet,” nor did it grant wide religious freedoms. However, we also know that China took proactive action to cut off U.S. criticism; it released several highly visible dissidents in various attempts to sway the Americans away from conditioning MFN (Baum 1992). We therefore hypothesize that Beijing would be (1) less repressive and (2) more accommodating during periods of heightened U.S. threats. Although there are many reasons to expect no relationship between these factors, it is also reasonable to expect and there is some evidence of Chinese conciliation. We now develop a model that includes the expectation of some appeasement from Beijing as well as its reciprocal effects on U.S. threats.

<sup>17</sup> Another point not lost on Beijing was Congress's more local, political interests. Congress was more likely to be pressured successfully by rent-seeking constituents who would benefit from the change in trading status (Kaempfer and Lowenberg 1988).

<sup>18</sup> Although Beijing probably expected future pressure on human rights, the overall U.S.–Sino relationship was not hostile as defined by Drezner.

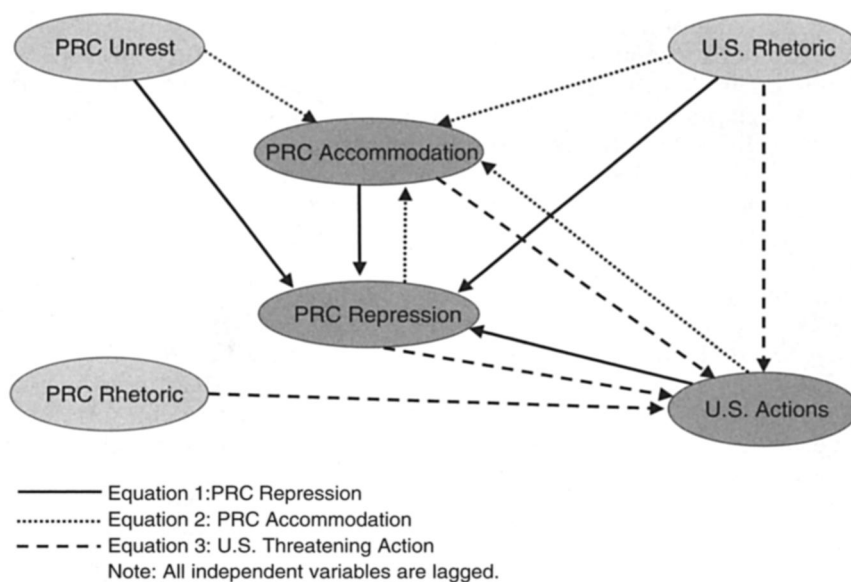


FIG. 1. U.S. Most Favored Nation Threats

*A Model of U.S. Threats to Revoke or Condition MFN Status for China*

The process through which the threats were made was not simply unidirectional. U.S. threatening actions (e.g., introducing or passing a bill) and rhetoric (e.g., speeches, public comments) were aimed at Chinese internal behavior. Beijing could respond by altering a number of different policies, and those changed policies would subsequently affect the U.S. threats. That is, as the U.S. threatened to revoke MFN status for China, Beijing could (1) lift some type of political repression (release a prisoner, lift a curfew), (2) decrease the level of active repression (limit political arrests or executions), or (3) do nothing. These actions would in turn inform U.S. leaders as to China's disposition vis-à-vis their threat. For example, if after a U.S. threat China released several political prisoners, then the U.S. may be satisfied and reduce the level of their threats. Conversely, the U.S. could see this accommodation as a sign that Beijing was willing to concede and then demand even more concessions from China. Either way, Chinese behavior will affect U.S. threat behavior. Figure 1 represents our model of U.S. threats and Chinese behavior.

We specify two different actions China can take in the face of American threats: (1) altering their level of repression and (2) altering their level of accommodations (Moore 2000).<sup>19</sup> We define repression as acts against the Chinese populace that restrict their freedoms. We define accommodations as the reversing of repressive acts. We conceptualize these as different decisions by Beijing. When deciding to repress, Beijing must consider current levels of unrest in China. Although this consideration will also go into any accommodations, Beijing could, for example, simultaneously increase its repression of prodemocracy dissidents to maintain order and release several political prisoners to placate Washington's threats. Ultimately, the U.S. is interested in both a decrease in the level of repression as

<sup>19</sup> As mentioned above, Beijing can also not take any action. We assume this in our model as zero values for both the repression and accommodation variables.

well as accommodations that offset past repression. However, separating these two behaviors allows us to better understand the effect of the MFN threats. We assert that repression is determined by unrest (as a control for the Chinese domestic situation), accommodations, U.S. rhetorical threats, and U.S. threats. Current accommodations may affect Beijing's repressive behavior as discussed in the previous example—China may offer accommodations to offset the repression they feel is needed to maintain order. Rhetorical threats are only verbal threats with no action attached. U.S. threats are actual threatening actions, such as passing a bill or an amendment that conditions or revokes China's MFN status.

Accommodations should be China's preferred method of placating Washington's demands because they do not directly affect Beijing's domestic control, and they send a clear signal to America. For example, it would be very clear to China's domestic audience that a prisoner release was directed at placating America, while the recent increase in political arrests signaled strength and intolerance for dissent. Therefore, we model Beijing's decisions to release prisoners, lift curfews, and so forth, as a function of repression and unrest (again, as controls) and U.S. threatening actions and rhetoric.

Finally, we expect that these two behaviors (repression and accommodations) will have a reciprocal effect on American threat behavior. Namely, as Beijing increasingly provides accommodations and limits repression, Washington should be satisfied that China is responding to its threats (Ding 1991:1160). Therefore, repression and accommodations should have an impact on U.S. threats. Similarly, Chinese rhetoric will also have an effect on U.S. threats—the more cooperative Beijing is, the less threatening the U.S. will be. Finally, we also expect that U.S. rhetoric may influence U.S. threats. Simply put, we expect rhetoric to match behavior.

Because these relationships are largely reciprocal in nature, they must be modeled accordingly. At first, the model may appear to be simultaneous; it is not, however, because all of the explanatory variables must be lagged. This lag is necessary because of the real-world delay that occurs when two states interact. For example, there is a delay between the time that the U.S. makes a threat and the reaction of the Chinese leadership. For the purposes of the statistical model, lagged variables—even those that are endogenous in their nonlagged form—are exogenous “because for determination of the current period's values of the endogenous variables they are given constants” (Kennedy 1998:169). Although a simultaneous model is not appropriate, neither is a system of three independent estimations. The disturbance terms for each of the three dependent variables (PRC repression, PRC accommodations, and U.S. threats) are partly a function of the same process: the threat and reaction/counter-threat relationship between Washington and Beijing. As a result, the disturbances are correlated and thus their variance-covariance matrix is not diagonal (Kennedy 1998; Greene 1997). To correct for this problem, we estimated the model as a seemingly unrelated regression (SUR). The SUR model estimates the disturbance correlations and diagonal elements “by using the residuals from each equation estimated separately” (Kennedy 1998:175).

## **Data and Analysis**

### *Appropriateness of the China MFN Case*

Before we turn to a discussion of our data and the analysis, we must first discuss the suitability of the China MFN case to test the proposition that threats succeed more than deployed sanctions. As we attempted to make clear previously, the MFN debate constituted a serious threat of economic coercion toward China, and therefore, the case certainly qualifies as a threatened economic sanction. We argue next that

the 6-year debate over MFN renewal provides ample evidence toward assessing sanction threats.<sup>20</sup>

An immediate question arises when one attempts to test a proposition with a single case: does the analysis of one sanction threat's effectiveness provide information about whether threats are effective in general or whether threats are more effective than actual sanctions? We address this question by disaggregating the data. Instead of a single threat, or even a series of threats each year (then constituting six cases), we break each threat down to the actual process by which it occurred (King, Keohane, and Verba 1994; Gerring 2004). That is, we code each individual action or comment that threatens to revoke or condition MFN status for China. Thus, each bill introduced, amendment passed, or speech given that deals with MFN renewal are included in the analysis. Together, these subthreats or threat components create a time series running from 1989 to 1995. Because there is a great deal of variance at the level of these threats, we can judge how well different threat levels perform. That is, as the U.S. became more threatening, did China become more conciliatory? Although this does not allow us to test a threat against another foreign policy action (such as a payoff), it does permit one appraisal of how effective economic sanction threats are.

Although we cannot completely ameliorate the concerns raised above, the data are strong enough to permit some conclusions and generalizations to be made about economic sanction threats. Further, the threat to revoke MFN does speak to the wider use of sanction threats to coerce changes in human rights practices in the target, an increasingly common goal of economic coercion. China guards its sovereignty with near fanaticism but has also based its growth and future on international trade (Cable and Ferdinand 1994:247). As such, China is a country that has opened itself up to coercion attempts, but defends against such attempts with as much effort as it does creating more trade. Although only some countries emphasize trade as much as Beijing, the widening global economy is opening all but the most reactionary countries to international trade and, consequently, coercion. Although few countries are as openly defensive of their sovereignty as China, none openly wish to permit other nations to dictate their policies, especially when more powerful, industrialized democracies like the U.S. are making the demands. As a representative case, therefore, China may be more likely than other countries to concede to demands because it places such an emphasis on trade, but this factor will be balanced by the country's greater power, something most other states do not have.

Given the strong desire of developed democracies to solve human rights problems as well as the often related internal conflict (e.g., genocide) with the nonmilitary means that economic coercion provides, it is important to understand whether sanction threats can effectively realize this goal (van Bergeijk 1994). Thus, although the China case is not perfect, it does provide important information toward understanding the process through which sanction threats function when aimed at securing better human rights, a goal that is becoming much more common.

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<sup>20</sup> Although China's leadership consolidated a transition in leadership during the MFN threats, the domestic politics were actually quite consistent vis-à-vis the human rights and MFN. Following Tiananmen, liberal reformer Zhao Ziyang and his supporters were removed from office and replaced by Jiang Zemin (Ding 2002). Jiang, a moderate, consolidated his authority with the People's Liberation Army and the hard-line conservatives such as Li Peng (Baum 1992; Lam 1995; Suettinger 2003). During this period, however, Jiang, the PLA, and the conservatives all held the same position toward human rights policies and MFN. The PLA wanted access to technology for the military and so wanted open trade with America. The conservatives realized that economic growth was necessary for China's stability and continued military strength. Both opposed the political reforms that had been attempted under Zhao (Whiting 1995). Jiang's government was composed of "modernization-minded technocrats not given to all-out Westernization, relatively liberal in economic matters but conservative in the ideological arena" (Lam 1995:332). An additional factor promoting this consistent position is the omnipresent Chinese belief that human rights are a domestic policy matter, not a foreign policy matter. Thus, there was a unified position toward trade and human rights—MFN should be renewed and Chinese political liberties should be contained.

*Variables*

We now turn to a discussion of variables and measures. Two variables tap Chinese domestic political behavior. Because we are interested in human rights, we focus on both repressive and accommodating actions. To measure these concepts, we use political unrest and repression data collected by Drury and Olson (2001). These data are nominal events that are weighted from an expert survey and aggregated daily to create interval-level data.<sup>21</sup> Repression is defined as any of the following events: demonstrations met by police violence, armed attacks by the state, imposing censorship or other political restrictions, political arrests, political executions, and the imposition of martial law. Accommodations include relaxing censorship, martial law, or other political restrictions, releasing political prisoners, and granting amnesty. Using the same data, we also measure the level of domestic political unrest (e.g., strikes, protests, bombings, etc.) in China. Applying the survey weights to these data provide us with a daily level of repression, accommodations, and unrest for China.

We use three variables—PRC rhetoric, U.S. rhetorical threats, and U.S. threatening actions—to show the interactions between the PRC and the U.S. PRC rhetoric data are collected from the Xinhua News Agency (English Edition). Xinhua is the official foreign language news service in China and frequently used by the Chinese government to communicate its rhetoric to the rest of the world. Thus, data collected through Xinhua best represent the Chinese government's position. We coded Beijing's rhetoric using a  $-3$  to  $3$  scale, with negative indicating anti-MFN and positive pro-MFN positions, respectively.<sup>22</sup> The numbers 1, 2, and 3 represent low, medium, and high levels of intensity, where low is exemplified as fence sitting, medium as a strong position, and high as holding a rather extreme position.

U.S. rhetorical data are based on the Congressional record and presidential comments reported in Xinhua.<sup>23</sup> Through the Lexis/Nexis congressional database, all congressional speeches between 1989 and 1995 were coded. U.S. rhetoric intensity is coded the same as PRC rhetoric, with a scale that ranges from  $-3$  (anti-MFN) to  $3$  (pro-MFN).

U.S. threatening actions were collected from Xinhua and congressional bills. The majority of the data is from Xinhua. These data range from  $-4$  to  $4$ , with negative 4 being passing of an anti-MFN bill in the House or Senate and positive 4 being presidential veto of a bill or the granting of MFN to China.<sup>24</sup> Congressional bills on China's MFN status introduced during 1989 and 1995 are coded as U.S. actions. The same value range is used.<sup>25</sup>

In order to best assess the threats made toward China, aggregating the data by year or even month was unacceptable. Using daily data, however, can lead to gaps

<sup>21</sup> Following Goldstein (1992), Drury and Olson (2001) asked survey respondents to first order fifteen generic events and then assign a numerical weight to each event, ranging from 1 to 100. The median of each of these weights was then applied to the specific events in the data. For a complete description of the data and weighting, see Drury and Olson (2001).

<sup>22</sup> For example, a statement such as "conditioning MFN constitutes a violation of the principle of reciprocity in trade between China and the U.S. It is absolutely unacceptable to China" is coded as a negative rhetoric. A statement such as "a Chinese foreign ministry spokesman today welcomed and expressed appreciation for U.S. president George Bush's veto on a Congress bill for a conditional renewal of China's most-favored-nation (MFN) trading status" is coded as a positive rhetoric.

<sup>23</sup> Although Xinhua may not pick up all comments originating in the White House, it will pick up all those directed at China and concerning MFN. Additionally, if it appears in Xinhua, Beijing is aware of its existence. While this source may introduce some bias making Beijing more aware or reactive to U.S. rhetoric, our use of the Congressional record (an independent source) provides data that are unbiased, and these unbiased data make up the majority.

<sup>24</sup> A negative value indicates a punishing action, while a positive value indicates a rewarding action.

<sup>25</sup> The appendix contains a table listing the different variables, their sources, and codes.

between events and threats. Also, U.S. and Chinese decision makers do not simply react to an event on a given day without also considering the recent past—there is an evolving context for any decision. Instead, decision makers would consider the sum of the other nation's rhetoric and actions over a period of a few weeks. To reflect our conceptualization, we created 28-day moving sums for each of the variables. Thus, each datum represents a sum of the past 28 days for its given variable.

In addition to the explanatory variables, we include two control variables in the repression and accommodation equations. First, one period during the debates stands out from the others—the 13 months during which President Clinton explicitly linked MFN renewal to China's human rights policy. It is possible that Beijing perceived the U.S. threats as more credible as the White House claimed that they were serious about following through on the threats. To control for this possibility, we include a dummy variable for this period, May 3, 1993 to June 1, 1994. The second variable controls for the time since the Tiananmen crackdown. Assuming that time does heal most wounds, it is likely that Beijing became less repressive as the time since Tiananmen passed. The same would be true of accommodations because there would have been fewer arrests, curfews, and so on, and therefore, fewer releases, lifting of curfews, and so forth.

#### *Analysis*

The data are estimated as a three-equation SUR model as represented by Figure 1.<sup>26</sup> The results appear in Table 1 below.<sup>27</sup> The first equation represents the Chinese level of domestic political repression. The  $r^2$  (.591) is quite strong, suggesting that the model is reasonably accurate in its estimation of repression. Only our control variables for past unrest and accommodations and the date control variable reach statistical significance. The results do not support a connection between U.S. threats and Chinese repression. Instead, Beijing seems to make its decisions to repress based on the domestic situation in China, not what Washington says or does.

The second equation represents the level of accommodations provided by Beijing. Unlike the level of repression, Beijing's release of prisoners and lessening of political restrictions is significantly influenced by U.S. threatening actions and rhetoric. This impact, however, is not in the hypothesized direction (recall threats appear as negative values while cooperative behavior has positive values)—threatened actions and rhetoric from Washington do not increase Chinese accommodations; they are associated with a decrease in such actions. Thus, the more cooperative and less threatening America is, the higher the level of accommodation in China. Contrary to their intended effects, Beijing resists the American threats. The controls for repression and unrest act as expected. The date control variable is significant and has an inverse relationship with accommodations. This is probably a result of their being fewer accommodations to offer over time as the restrictions from Tiananmen Square are eventually lifted. The control variable indicating the period in which President Clinton explicitly linked human rights to MFN renewal is both significant and positive. This result suggests that Beijing took this threat seriously and reacted by releasing more prisoners or granting more rights. These accommodations were not in reaction to a direct threat—those actually led to fewer accommodations. Instead, Beijing seems to have felt that it should provide some

<sup>26</sup> A Breusch-Pagan independence test of the residuals revealed that they were significantly correlated (not independent). This test confirms the need to estimate the model with a seemingly unrelated regression. Stata 8.2 was used for all estimations.

<sup>27</sup> We also considered altering the specification so that a multinomial regression could be used as a robustness test. However, combining the Chinese actions into nominal categories (repress, accommodate, no action) makes it impossible to assess the reciprocal nature of these variables.

TABLE 1. Seemingly Unrelated Regression: U.S. Threats and Chinese Behavior

	<i>Coefficient</i>	<i>SE</i>	<i>p-value</i>	<i>r</i> <sup>2</sup>	<i>N</i>	$\chi^2$ <i>p-value</i>
Eq 1: repression				.591	2,555	0.000
Lagged unrest	0.801	0.014	.000			
Lagged accommodation	0.448	0.053	.000			
Lagged U.S. threats	1.079	0.782	.168			
Lagged U.S. rhetorical threats	- 0.200	0.220	.364			
5/3/93-6/1/94 dummy	2.002	4.230	.636			
Date	- 0.015	0.002	.000			
Constant	195.240	25.732	.000			
EQ 2: accommodation				.050	2,555	.000
Lagged unrest	- 0.034	0.008	.000			
Lagged repression	0.058	0.007	.000			
Lagged U.S. threats	1.486	0.287	.000			
Lagged U.S. rhetorical threats	0.372	0.081	.000			
5/3/93-6/1/94 dummy	12.872	1.534	.000			
Date	- 0.004	0.001	.000			
Constant	58.321	9.483	.000			
EQ 3: U.S. threats				.195	2,555	.000
Lagged repression	0.000	0.000	.626			
Lagged accommodation	0.009	0.001	.000			
Lagged PRC rhetoric	0.468	0.020	.000			
Lagged U.S. rhetorical threats	0.020	0.005	.000			
Constant	0.079	0.041	.050			

concessions to limit the potential that Clinton was serious and would support one of the Congressional initiatives to condition MFN renewal.

Although the equation does not explain as much variance in Chinese behavior ( $r^2 = .05$ ), the parameter estimates are robust and highly significant. Therefore, we can conclude that there is a significant and contrary linkage between direct U.S. threats and rhetoric and Beijing's behavior.

In the third and final equation, we model the reciprocal nature of Beijing's actions and rhetoric on American threats. The equation predicts a modest 20% of the variance ( $r^2 = 0.195$ ). The level of Chinese repression does not have an impact on U.S. threat behavior, but the level of accommodations does, and its effect conforms to the expectations. The more political prisoners Beijing sets free and the more they relax political restrictions, the less demanding American threats become. This same effect is evident in Beijing's rhetoric, but it has an even more powerful substantive effect. The more positive China is about its relations with America, the less threatening the U.S. becomes. However, what makes this reciprocal relationship particularly interesting is how the U.S. is responding to relatively little from Beijing. That is, American leaders are responding to Beijing's rhetoric and a few accommodations, while the U.S. completely ignores the level of repression in China. If Beijing was trying to simply placate the U.S. with a few prisoner releases and positive rhetoric while continuing to repress its people, it seems to have worked.

### Discussion and Conclusion

The question of effectiveness of these sanction threats depends largely on how we conceptualize China's behavior. If change in China's behavior is measured by the level of repression, then there is no link between U.S. threats and Beijing's behavior. Instead, repression is seemingly driven by the domestic situation in China. Beijing decides to repress in order to maintain its control of the population. It does

not take cues from America—whether they are verbal or active threats. It is worth noting that positive or cooperative moves by Washington also have no impact. Beijing simply does not respond to external factors when deciding to repress.

The same is not true for Chinese accommodations. In this case, American threats do influence Chinese behavior, but not in the manner intended by the sender. Both threatening actions and rhetoric are significantly associated with fewer, not more, accommodations. Alternatively, Beijing responds favorably to positive, cooperative U.S. rhetoric and behavior, and this relationship is reciprocal. Positive rhetoric and increased accommodations lead to positive behavior by Washington. China is able to sell (and America buys) the idea that releasing a few prisoners or relaxing some restrictions can compensate for higher levels of Chinese repression and ameliorate Washington's concerns.<sup>28</sup>

In the end, the U.S. threats to revoke or condition MFN status for China had a paradoxical effect. Actual repression levels were unaffected by all of Washington's gyrations, while accommodations decreased as the threats became more intense. Only cooperative actions and rhetoric led to more positive behavior by China. These results raise questions about the effectiveness of sanction threats, the importance of conflict expectations, and target responses affecting the sender's behavior. They also raise questions about whether coercion or engagement is better suited to making gains on human rights issues in China and perhaps elsewhere. As a conclusion, we turn to these questions now.

Our analysis suggests that the MFN threats were not only ineffective but also *counterproductive*. We argued earlier that these results could be generalized to other sanction threats, at least those targeting human rights abuses. We hold that the findings herein do speak to other human rights sanctions, as well as any sanction threats concerning similarly salient issues. As we argued above, the communication, capability, willingness, and intentions of the American threats were very murky, and so they could be expected to ultimately fail. However, this result does not explain the inverse reaction from Beijing to the intensity of the U.S. threats—that fewer accommodations were offered. We believe that the public nature of the threats helps explain the counter-intuitive findings. The American MFN threats were extremely public; they were mostly constituted in public debates and open votes in Washington. For Beijing to comply, even with trivial accommodations, meant that it was *publicly* bowing to U.S. pressure. Thus, China had a disincentive to offer any positive behavior to the U.S. (Li and Drury 2004).

This conclusion raises the question of why China's expectation of future cooperation, not conflict, did not lead them to acquiesce to some degree. Drezner (1999) argues that targets that expect future conflict with the sender will resist any economic pressure for fear that it will decrease their future position vis-à-vis the sender. Using Drezner's data and coding rules, as well as a simple understanding of U.S.–Sino relations, China clearly has no expectation of significant, general future conflict with Washington. Just the opposite is true—China wanted increased trade, financial ties, and crucial American support needed to gain entrance into the WTO. The most likely explanation focuses on the nature of the demand. Although China wanted and expected positive future relations with the U.S., it was cognizant of America's concern for human rights and disapproval of Beijing's policies. Therefore, Beijing expected future conflict with the U.S. over human rights issues, and therefore was unwilling to give any ground.

This finding has implications for other attempts to influence a nation's human rights policies. As a sender attempts to coerce the target state's human rights, the target must realize that while future conflict may not be expected with the sender, future conflict over human rights may very well continue indefinitely. Therefore,

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<sup>28</sup> There is some resemblance here to Leng's (1993) analysis of crisis behavior. Although we do not explicitly use his model, the importance of reciprocity and the willingness of each side to escalate the dispute is clear.



threats and deployed sanctions should meet with the same resistance shown in the data herein—the target has every reason to resist the sender's demands.

That China's positive behavior and rhetoric was associated with reduced American threats raises a question of how the target can influence the sender. Although the MFN threats did not have their intended effect, it is possible that some appeasing behavior may have better served China. That is, when Beijing did offer positive rhetoric and some accommodations, the U.S. responded with lower threat levels. However, this may have been an artifact of China's initial resistance to U.S. threats. Washington's first reaction to Beijing's intransigence was to increase threats. However, after China made the point that it was unwilling to submit to the threats, the U.S. responded to positive behavior. What is most intriguing about this finding is the evidence that the target's behavior could significantly influence—namely deter—the sender's decision to apply the sanctions. Although Drury's (2000, 2001) findings show that the U.S. tends to back down in the face of serious provocations from the target, more research should focus on possible tactics that the target can use to affect the sender's willingness to deploy economic sanctions.

Finally, the counter-productive effects of the MFN threats suggest that American coercive policy toward China was misplaced, and a strategy of engagement may have been more effective in promoting human rights within the world's most populous country.<sup>29</sup> Deployed sanctions aimed at promoting human rights have a very poor track record (Hufbauer, Schott, and Elliott 1990), and the evidence presented herein suggest that sanction threats have the same (or worse) ineffective, detrimental outcome. Therefore, it seems possible that active engagement with China may be the most effective way to secure better human rights. Before generalizing this conclusion to other countries with poor human rights records, a very significant condition must be applied. Beijing made increased levels of international trade and economic development one of their primary goals (Cable and Ferdinand 1994). This level of openness indicates that the nation is willing at some level to conform to some international regimes, for example, financial reporting and trade liberalization as required by the WTO. Therefore, we suggest that engagement of regimes that have begun to accept international norms may prove more effective than threatened or deployed coercion. We cannot speak to those countries, such as North Korea, that have not started accepting the norms typically associated with international institutions. Future research should address such questions.

## Appendix

TABLE A1: Data Sources

	<i>Source</i>	<i>Code</i>
PRC behavior		
Rhetoric	Xinhua News Agency	– 3 to 3
Accommodations	Drury and Olson (2001)	Weighted event data
Repression	Drury and Olson (2001)	Weighted event data
Unrest	Drury and Olson (2001)	Weighted event data
U.S. behavior		
Presidential rhetoric	Lexis/Nexis congressional database, Xinhua News Agency	– 3 to 3
Presidential action	Lexis/Nexis congressional database, Xinhua News Agency	– 4 to 4
Congressional rhetoric	Lexis/Nexis congressional database, Xinhua News Agency	– 3 to 3
Congressional action	Lexis/Nexis congressional database, Xinhua News Agency	– 14 to 4

<sup>29</sup> Ding (1991) makes this argument.

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