Economic Sanctions and Bilateral Trade: A Literature Review[1]

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Abstract

The economic sanctions are multilevel phenomena that not only affects both sides of the action but also have implications for third parties, reshaping the political and economic relations of the sender and target countries with the other states. The primary focus of this literature review is to summarize the main ideas related to the concepts of economic sanctions and bilateral trade.While most of the studies focus on the sender country, its goals, its success or failure, rather less attention has been paid to the responses of the target country or the after sanctions period of the target states.Most studies have not explained whether a target country chooses to diversify its trade relations to ease up the pressure of the economic sanctions that are imposed by a sender country that has a large trade share in the target country.

Keywords: economic sanctions, trade diversification, bilateral trade, smart sanctions, export diversification, trade diversion

[1]This literature review is constructed from my master's thesis called "*The Reshaped Economic Relations Between Russia And Turkey After Western Economic Sanctions*".

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1. Introduction

In a world where we constantly hear in the news that some countries are sanctioned by others and therefore overall economy and free trade lost its stability, research on sanctions and trade create itself. Therefore, the literature is very rich in terms of studies related to sanctions. To be more precise, economic sanctions are more of a key portion of the overall sanctions since it triggers concerns of other disciplines such as economy, political science, and international relations. Economic sanctions which include trade restrictions have a close theoretical and conceptual connection with bilateral trade. There are significant studies that melt economic sanctions and bilateral trade in the same pot. As an important constituent of bilateral trade, the concept of diversification finds a place to itself in studies that are dealing with economic sanctions.

The primary focus of this literature review is to summarize the main ideas related to the concepts of economic sanctions and bilateral trade. In this review first I will give a historical overview of economic sanctions. The history is necessary because many of the studies that are dealing with sanctions are recent. Following the historical background, I will present the contemporary approaches to economic sanctions where I will synthesize the different arguments and different research findings. Then, the review will focus on the literature on bilateral trade and therefore, diversification. Since the connection between the concepts of economic sanctions and bilateral trade is inevitable in the following part, I will review the literature on both from a global perspective.

The aim of this review is to help future researches to have a summary and synthesis in their hands. Further, the aim is to guide researchers to find encouragement to fill the literature gaps that are presented with their future contributions. Therefore, the two concepts that are and will keep their popularity in the contemporary and academic world, will feed the interdisciplinary future studies.

2. Literature Review

2.1. Historical Overview of Economic Sanctions

Even though we see that economic sanctions are studied and are in the news recently, the concept of sanctions dates back to ancient Greece (Hufbauer et al., 2007).Of course, as time goes by the form, meanings and process of economic sanctions changed. Towards the end of the 19th century, we start seeing sanctions more and they are more relevant to today's knowledge than the pre-First World War era. As Hufbauer et al. say "after the First World War was extensive attention given to the notion that economic sanctions might substitute for armed hostilities as a stand-alone policy" (2007, p.10). Economic sanctions were used as a tool to limit the military capabilities of the target countries. Further, in their historical overview, Hufbauer et al. assert that after the Second World War period "other foreign policy motives became increasingly common, but sanctions were still deployed on occasion to force a target country to withdraw its troops from border skirmishes, to abandon plans of territorial acquisition, or to desist from other military adventures" (2007, p.10). After the Second World War, still, the "sanctions are imposed to impair the economic capability of the target country, thereby limiting its potential to wage war or for foreign adventurism. This was an important rationale for the broad-based multilateral controls on strategic trade" (Hufbauer, 2007, p.11). In the modern world, military deterioration is done by restricting a target country's efforts to establish weapons of mass destruction and nuclear capabilities (Hufbauer, 2007, p.12). After the Second World War, sanctions have been employed more regularly, economic sanctions have been imposed to pursue foreign policy goals apart from the ones related to armed conflicts and security. Particularly, the imposed sanctions are pursuing the goal to change a target country's regime either implicitly or explicitly, frequently in the foreign policy disputes framework (Hufbauer, 2007, p.13).

Lektzian and Souva (2003) reported that starting from the 1990s, economic sanctions have many users (such as the United States, Russia, the United Nations, and the European Union, China, Germany, France, Japan, Turkey, etc.) to challenge internal and external problems. The study conducted by Hufbauer et al. demonstrate that the United States has deployed sanctions 109 times (either alone or with its allies), sequentially, the UN imposed sanctions 20 times, the UK by cooperating with its allies has deployed sanctions 16 times and the EU used it 14 times (2007, p.17).

The relevance of economic sanctions keeps its importance even today because many countries especially the Western countries practice sanctions against target countries. Recent studies show that there is an increase in the number of studies related to sanctions since many countries especially the U.S. and the EU use them as a tool. Economic sanctions persist being a universal foreign policy tool that is used by states to challenge them to make a change in the behavior of the target country (Afesorgbor& Mahadevan, 2016). Sanctions are preferable because it is less violent than wars, less harmful than violating international law (Gottemoeller, 2007). Currently, states do not prefer to wage war in a conflicting situation, rather they prefer to impose sanctions (economic sanctions, smart sanctions, etc.) because the cost of imposing sanctions is less than using armed forces. Sending soldiers to somewhere push up the internal domestic cost, and if there are casualties then the cost becomes even higher with the internal political costs. However, sanctions are a way to punish another country without taking political risks of sending people to fight and possibly to die. It is obvious that sanctions are less chaotic than wars but still, the literature on sanctions indicates that sanctions have a low success rate. Even though the success rate is low, still many countries today impose sanctions on another country. The literature answers this paradox by asserting that just the threat of sanctions and expectation of a possible conflict "is translated into a short-run concern for relative gains and reputation that varies with the expectation of future threats or conflicts in the bilateral relationship between the sender and target" (Drezner, 1999, p.4). Drezner (2003) proposes that the success rate of sanctions would be over 50% if sanction threats were also included in calculations, therefore, from this one can understand the power of just threatening a target country.

Many write on sanctions because it is a relevant topic that concerns different fields including political economy, economics, political science, and international relations. Actively, the US uses sanctions especially economic sanctions as a foreign policy tool to demand a change in the policies of the targeted country. Especially, the recent sanctions imposed on Iran and Russia were in the spotlight of the scholars. Therefore, in the following subsections, I will give literature insight on economic sanctions and bilateral trade.

2.2. Contemporary Approaches on Economic Sanctions

The theme of economic sanctions has been taken up in a variety of ways within the fields of economics, political economy and international relations. These include the effectiveness of the sanctions in terms of success and failure, the political and economic cost of sanctions, political indicators of sanctions such as democracy, party politics, economic indicators of sanctions such as bilateral trade, tariffs, import-export control for the both in the sender and target countries. The study by Kaempfer and Lowenberg (2007) showed that "Economic sanctions include trade sanctions, i.e., restrictions on imports from or exports to the target country; investment sanctions, which include restrictions on capital flows to the target or, in some cases, mandatory disinvestment; and more narrowly-targeted, so-called "smart", sanctions, such as freezing the offshore assets of individual members of the target nation's ruling elite, or travel bans on government officials and party cadres. In all cases, economic sanctions are supposed to work by imposing some kind of pain on the target country, and particularly on its ruling regime, which then alters its policies in order to comply with the sender's demands and thereby avoid further sanctions damage" (p.869). Because in the political economy field the economics and politics are interrelated, the literature on economic sanctions deals with its relation to politics. Relatively, Allen (2005) presents the mechanism of effective sanctions as imposing economic costs on society of the target state, and in turn, the public put political pressure on the government to modify its behavior. Researches show that under some circumstances, the threat or possibility of sanctions may be enough to convince the target country to change its actions (Allen, 2005).

Allen (2005) conceptualizes the sanctions as the bargaining situations in international crisis and she presents a model of crisis bargaining. Her first assumption is that two states one being the sender and the other being the target have a dispute over something which can be a territory, resource, material good or more likely a policy executed by the target state and considered as detrimental by the sender state (Allen, 2005). The process of bargaining between the sender and the target begins with the imposition of sanctions and ends with the termination of sanctions. There should be an actual agreement to stop the sanctions, the inability to continue under economic coercion does not end the period. Researches results that sanctions have two types: those that are designed to enforce the target country to make changes in its behavior, and those that are completely punitive (Dashti-Gibson et al., 1997; Allen, 2005). Sender countries impose economic pressure to bring about a change in not only any behavior but also in political behavior (Allen, 2005). The vulnerability of the target state to economic pressure is necessary for sanctions to influence its behavior. Related to that, Hirschman (1945) and Allen (2005) suggest that powerful states try to reduce their vulnerability to economic coercion and expand the trade dependence of others to them.

The ability or willingness of the sender to impose economic costs and the capability of the target to avoid or bear such costs affects the success of sanctions (Dasht-Gibson,1997), and the decision made by sender and the target to continue, authorize them to renew their thoughts on the other's decision (Allen, 2005). For sanctions to be successful, the target government must concede to the demands of the sender. The two of the factors that are chosen by scholars who conducted qualitative and narrative sanction research, these are the degree to which the target relies on the sender for imports and exports (e.g., Hufbauer et al., 1990; Miyagawa, 1992) and the political and economic stability of the target (e.g., Green, 1983; Rowe, 1993). Early studies on sanctions bring out a couple of factors that affect the success or failure of the sanctions. The literature on the cost of economic sanctions suggests that after the sanctions the target country is presumed to result in massive economic damage to pressurize the target country to reshape its policies as expected by the sender country (Kaempfer&Lowenberg, 1988; Hufbauer et al., 2007; Dizaji& van Bergeijk, 2013; Afesorgbor& Mahadevan, 2016).

A central issue in the field of sanctions is the effectiveness and cost of sanctions to the countries. Some empirical studies address the effectiveness of sanctions with regard to success and failure (van Bergeijk, 1989; Pape, 1997; Hufbauer et al., 2007; Bapat and Morgan, 2009) although some suggest that usage of economic sanctions as a tool to put pressure on target country has narrow applicability (Kirshner, 1997; Marinov, 2005). Van Bergeijk (2013) presents that in the short-run success of sanctions is higher. Hufbauer et al. (2007) focus on goals, success, and failure of sanctions.

Some other scholars evaluate the adverse side effects of sanctions on GDP, trade, currency, employment and more in the target and sender country (Peksen& Son, 2015; Neuenkirch& Neumeier, 2015; Dizaji& van Bergeijk, 2013; Yang et al., 2009; Kaempfer&Lowenberg, 2007; Caruso, 2003). Additionally, Afesorgbor and Mahadevan (2016) examine the influence of economic sanctions on the redistribution of income in the target countries. Also, they provide information that the imposed sanctions decrease trade between the sender and the target while a threat of sanctions might increase trade between them.

The question of whether economic sanctions are effective as a foreign policy tool has been extensively studied in over the years. According to Dashti-Gibson et al. the success of economic sanctions depends on the cost of sanctions to the target country, the extent of trade linkages between target and sender, the stability of the target country, the time period of sanctions (1997).

Hufbauer et al. in their book examined the economic sanctions that are applied for certain foreign policy purposes: a) Destabilizing foreign governments; b) Disrupting military adventures; c) Impairing the military potential of a hostile state; d) Achieving "major" policy change; or e) Accomplishing "modest" policy changes. In their findings, they tracked that imposing sanctions to economically or politically unstable states has a better possibility of success comparing to countries that are stable and healthy. Additionally, their outcomes prove that economic sanctions against allies are more effective than the ones against adversaries. Also, according to results, if the duration of sanctions is longer then the likelihood of success is lower (Hufbauer et al., 1985; 2007). Some thought that longer sanctions increase the probability of success (e.g., Brady, 1987; Daoudi&Dajani, 1983). But others argued that the longer the sanctions the less successful they become. Extended sanctions are less successful because sending states are not capable of maintaining the necessary international solidarity (Dashti-Gibson, 1997; Martin, 1992; Nincic&Wallensteen, 1983).

Research shows that the goals of the sender country affect the success of the sanctions. If the goal is to destabilize the target country, then the determinant of success is the stability of the target country. For the goals other than destabilization, using financial/economic sanctions is the most effective way to cause damage (Dashti-Gibson, 1997). Among the different types of sanctions, the most common one is economic sanctions and especially import-export restrictions. Dashti-Gibson explains that restricting imports and exports may demolish the local economy of the target country but especially the citizens rather than the elites who make policy decisions (1997). Dashti-Gibson (1997), Kaempfer and Lowenberg (1992) offered a theoretical argument that financial sanctions are more effective since they impair the economy of public, they may also have a more direct and immediate impact on ruling elites by limiting their access to foreign currency.

As also suggested by Kaempfer and Lowenberg (2007), according to Afesorgbor and Mahadevan (2016), sanctions, in general, include actions such as “tariffs, export controls, import restrictions, travel bans, freezing assets, reduction or removal of foreign aid and severing of diplomatic relationships” (p.3). Further, they ask a question more related to the connection of politics and economics: “If a combination of such economic embargoes does not induce a change in the behavior of political leadership of the target state, then could it be that these political leaders are somehow immune to negative effects of the economic embargoes?” (Afesorgbor& Mahadevan, 2016, p.3). Related to that, Marinov (2005) asserts two different costs that a target country is exposed to, one being the economic costs exposed by population and the other being political costs exposed by political leaders.

Other than the economic burden of economic sanctions there are also political costs that follow resisting and maintaining sanctions, and in order to sanctions to continue, both sender and target states must be willing to bear those costs (Allen, 2005). Political costs are generally in the form of foreign policy efficiency of the national leadership and since losing power is not a desirable outcome for leaders (Miller, 1995), both the sender and the target governments want to jeopardize its power over sanctions (Allen, 2005). Allen suggests that regime type has an influence on the decision to concede, while democratic publics have the ability to exact political costs on their leaders, on the contrary, autocratic societies have fewer avenues of influence (2005). According to Lektzian and Souva (2003), authoritarian leaders change their behavior in response to sanctions less frequently than democracies or countries with functioning multiparty systems.

When connecting the sanctions and its influence on the politics of the target country, we should mention a different type of sanctions which is called smart sanctions. The method of smart sanctions aspires to "hurt elite supporters of a sanctioned regime while protecting the vulnerable within the country as a whole" (Gilligan, 2016, p. 259). Smart sanctions target a specific group especially the ruling elite of the target country while, in a way, protect innocent citizens. Also, arms embargoes, limiting financial aid, travel bans and so on, can all be ways of deploying smart sanctions (Eyler, 2007, p.60).

Smart sanctions that target certain individuals or groups emerged in return for the failure of extensive sanctions imposed against Iraq in the 1990s (Gilligan, 2016, p. 259). As explained by Gilligan (2016), the smart sanctions constructed to punish elites who were supporting the sanctioned regime and at the same time guard the vulnerable population from the possible economic and social problems of the sanctions that are imposed (p.259). Therefore, the actual purpose of smart sanctions is to supply an alternative to damaging effects of sanctions on exposed populations.

Eyler (2007), explains how smart sanctions can change governmental decisions as "If a market for sanctions exists, and smart sanctions can center on interest groups, these groups or the target's citizens actually could change the government's decisions concerning statecraft through a political process" (p.61). Smart sanctions work when thorough travel bans, monetary limitations, and asset freezes the supporters of a government who hold power commence to experience the effects of sanctions personally or on their businesses, then they as a response put pressure on the regime for a change (Gilligan, 2016, p.259).

In the case of smart sanctions, Drezner (2011) asserts that "evidence provides moderate support for smart sanctions being more humane but less effective than more comprehensive measures" (p.102). That is to say, smart sanctions are more humane when compared to other types of sanctions because of the mission of preventing collateral damage but on the other hand, they are less successful in completing the mission of sanctions. Related to this, Hufbauer and his colleagues conclude that "smart sanctions work better as a signaling device than as a coercive measure." (2007, p.139). Smart sanctions are humane for only targeting the ruling elite rather than the whole population of the target country, but the elites of the target country may look for ways to make up their losses. The ruling elite of the target country can alleviate the political cost of smart sanctions by increasing taxes, decreasing wages, limiting provided services (Eyler, 2007, p.61). Not only such governmental constraints but also propaganda can be another way of mitigating the political costs on the ruling elite. Rulers of the target start "blaming the sender for the pass-through costs" (Eyler, 2007, p.61).

Even though the literature on economic sanctions is comprehensive, Dashti-Gibson (1997) suggests that there is an absence of systematic empirical studies of the conditions. Further, he suggests that the existing literature is dedicated to either qualitative case studies or purely theoretical, deductive models (1997). In the literature related to international trade and the effect of sanctions, researchers preferred to use the gravity model. Gravity model foresees that other things equal, the trade between the two countries will be positively proportional to the outputs and inversely related to the distance between those countries (Parker, 2000). Because keeping other things equal are not always possible, Hufbauer et al. (1997) embed supplementary variables (such as high per capita GNP, sharing a common border, sharing a common language and/or belonging to the same trading bloc) to control the factors that might increase trade flows beyond size and distance between states. Hufbauer et al. find a correlation between bilateral trade and sanctions during the time of the trade. Unsurprisingly they find that "the target's import and export trade with the sender usually accounts for over 10 percent of the target's total external commerce" since sender states are usually large economics (2007, p.90). According to their results "interruption of even a small portion of that trade could carry an important message to the target country […]" (2007, p.90). Furthermore, in successful cases of their study, only a small amount of bilateral trade was involved, and many cases were unsuccessful "even when a high proportion of trade could have been at risk" (2007, p.90). They conclude that if the trade linkages are high the result is more associated with success rather than failure (Hufbauer et al., 2007). Trade relations seem to be a persuasive variable in enforcing outcomes in major policy changes. The pieces of evidence of the study of Hufbauer and other colleagues serve as a reminder that "high levels of bilateral trade do not ensure success […]" (2007, p.91).

2.3. Concepts of Bilateral Trade and Diversification

Bilateral trade has been extensively studied along with sanctions and many of the studies tried to demonstrate the impact of economic sanctions on trade relations, either between the sender and target country or between other countries. Caruso (2003), in his paper, discusses the influence of international economic sanctions on US bilateral trade with target countries (49 countries). To do so he uses the gravity model for the duration between 1960 and 2000. According to the results of this study, Caruso (2003) achieved a conclusion which suggests that sanctions (broad or comprehensive) have a negative effect on bilateral trade but limited sanctions fail to comply with those results. Apart from that, suchlike research was conducted by Yang, Askari, and Teegen (2004). In their paper, they investigate the impact of US economic sanctions on trade between the US and the target countries, as well as with the third countries. They select the gravity model to come up with results and the period of the study is between 1979 and 2001. According to the results, economic sanctions decreased the multilateral trade between the US and the target states while it increased the trade between the target countries and the EU or Japan.

A considerable amount of studies that connect sanctions and trade chose Iran as their main case, which is understandable since Iran has been exposed to many sanctions. In one of the studies, written by Bigdeli et al. (2013), investigates the impact of economic sanctions on bilateral trade between Iran and its partners. Again, the gravity model is used between 1973 and 2007. The results show that economic sanctions have a negative impact on bilateral trade (Ezzati, 2016). Other studies with the case of Iran, Kazerooni et al. (2015) examines the impact of economic sanctions on the trade volume of Iran with its main trade partners while Kahrazeh and Nikpour (2014) investigate the impact on the export volume. Both studies used the gravity model and got the results suggesting that sanctions have a negative impact on the export volume and on the foreign trade of Iran (Ezzati, 2016).

The literature on bilateral trade associates it not only with economic sanctions but also with the concept of diversification. Conflicting, UNCTAD studies (2004 and 2018) indicates that the relationship between diversification and trade is not obvious since developing countries are heterogeneous in terms of trade and specialization. Nevertheless, a considerable number of studies connect diversification with trade, and I will present the literature on those in the following paragraphs.Deducing from the concept of diversification, which is simply a way to minimize the risks, by investing in many options rather than sticking to one, commercial diversification can be defined as a country's search for new trade partners to decrease risk of a possible crisis and its negative impacts on itself. In the case of sanctions, generally target countries either retaliate or negotiate with the sender country. Alongside with one of these options target country can search for a new trade partner while retaliating to alleviate the economic pressure by exporting to the new partner or import the restricted commodities from it. Also, it can search for new trade partners before or after negotiating with the sender country just to reduce the dependence on the sender country's trade in case of a new crisis between those two.

Brenton, Newfarmer, and Walkenhorst (2007) analyze various forms of diversification including: "(i) expanding the range of markets into which existing products are sold (geographic diversification); (ii) upgrading the quality of existing products, including agricultural exports; and (iii) taking advantage of opportunities to expand exports of services" (p.1). Economic diversification, according to the UN definition, is a "process of shifting an economy away from a single income source toward multiple sources from a growing range of sectors and markets". In the technical paper on the concept of economic diversification in the context of response measures, the UN presents determinants and impacts of economic diversification. Economic reforms such as trade liberalization, income, GDP and GDP per capita and investment (as a share of GDP) have a positive impact on export diversification. Real exchange rate, inflation, terms of trade, foreign direct investment also are some of the determinants of diversification that concentrate on export value. Lastly, the volume of products, trade volume has a positive impact on diversification (UNFCCC, 2016).

The literature on trade and diversification lacks in answering at the empirical level the question of whether trade in developing countries promotes or prevents diversification (Osakwe, Santos-Paulino, &Doganet, 2018). Therefore, Osakwe et al. (2018) in their UNCTAD research paper explore the link between trade, trade liberalization, and export diversification. Their focus is on developing countries and to discover the relationship between those. They used a large N sample (144 developing countries) between the periods of 1970 and 2015. Their analyses signify that the more a country is open to trade, the more diversified exports it will have. Other data results indicate that the drivers of export diversification are trade and trade liberalization. Other than these, different indicators contribute to export diversification which are GDP, human capital, geography, infrastructure, and institutions. Osakwe et al. (2018) further suggest that the absence of diversification might raise vulnerability to unfortunate external shocks, thus may affect macroeconomic stability.

Caselli, Koren, Lisicky, &Tenreyro (2015), in their study, argue that the openness of markets to international trade may decrease the volatility of GDP when there is a problem (shocks or crisis). They further argue that this can be done by lessen disclosure of domestic shocks and letting countries to diversify the sources of supply and demand (Caselli et al., 2015). One of the main questions asked in international economics is whether the openness to international trade has an effect on volatility. Caselli et al. (2015) try to answer whether there is a correlation between international trade and economic volatility and if so how. Caselli et al. (2015) challenge the view that suggests that trade increases volatility by highlighting country diversification which shows that trade decreases volatility.

In theoretical literature, the relation of trade and diversification leans on the considered model or framework. Long-established trade models advocate that trade encourages specialization, parallel with comparative advantage of the country. However contemporary theoretical trade models suggest that trade expedites diversification (Osakwe et al., 2018). Dessy et al. (2010) by using a general equilibrium framework, establish that in developing countries, trade can improve diversification and transformation.

According to the related literature, diversification has the potential to contribute to growth and development through many channels (Osakwe et al., 2018). Diversification of exports is a significant trade objective, but limited studies disregard its availability in the global economy as an opportunity to drive export growth (Brenton et al., 2007). According to Jones and Olken (2007), economic growth is greatly bound up with the large and steady expansion of international trade. Nevertheless, Berg et al.(2006) deduce that trade liberalization is also crucial in sustaining economic growth. Even though there is no universal evidence, considerable cross-country studies demonstrate that diversification and growth per capita income are positively correlated. The greater the diversification is, there will be a more rapid growth of per capita income (Lederman & Maloney, 2007; Hesse, 2007; Brenton et al., 2007).

The diversification of exports is considered as a positive trade objective in maintaining economic growth (Brenton et al., 2007). Some scholars associate the diversification of exports with reduced oscillations in foreign exchange earnings, rises in GDP and employment, higher value addition and quality improvements of manufactured products (Hausmann et al. 2006; Osakwe, 2007; Elhiraika&Mbate, 2014).

When talking about diversification, services are usually ignored but actually is a major source. It is a fact that as the per capita income increases the share of services in GDP and employment rate increase. In many developing countries tourism, depending on suitable labor and natural resource endowment, has been an instrument for diversification (Brenton et al., 2007). Cattaneo (2007) explores that countries with different development levels and trade integration use tourism as a tool for their export growth as a part of diversification. Also, further that study underlines that the opportunity of using tourism is not equal in every country when exploring the conditions for entering the market. Cattaneo (2007) stresses the opportunity cost of investment in tourism in countries that have limited natural endowments or security and political stability problems.

Many studies have focused on export diversification while barely touch upon trade partner diversification. Önder and Yılmazkuday (2016) investigate the connection between trade partner diversification and growth. They evaluate the position of the subject country in international trade by regarding the trade partners of the country and the trade partners of their trade partners to measure a country's connectivity. Further, their result shows that trade partner diversification has a positive effect on growth and as country access to better export markets more, the partner diversification increases. Studies also connect partner diversification with exchange rate volatility (Hitt et al., 2006; Hoskisson&Hitt, 1990; Meyer, 2006). If a country has only one direct trade partner then the country is dependent on its partner and to economic volatilities (Önder&Yılmazkuday, 2016). Moreover Önder and Yılmazkuday (2016) suggest that "a country's TPD [trade partner diversification] in international trade can be used as a proxy for two important macroeconomic characteristics of this country: first, a country that enjoys a high quantity and/or high quality of trading partners may find it easier to substitute for financial development by hedging, diversifying, and pooling risk arising from exchange rate volatility because exchange rate risk is distributed among its trading partners" (p.244).

Some of the researches detect evidence for trade diversion rather than trade diversification while investigating the influence of economic sanctions on bilateral trade of certain countries. For example; Haidar (2016) search for the impacts of sanctions on exports of Iran. His results present evidence for trade diversion and further he shows that bigger portion (two-thirds) of export value diverted from sender country to non-sender countries. Early (2009) discovered that sanctions may motivate allies of sanction sender country to increase their trade with the target country, to decrease the impact of economic sanctions. Early also came to conclusion that third countries decide to help the target counties by commercial interests rather than political interests. Notwithstanding, one of the main findings of Haidar's (2016) study was that the new partners of trade are more politically-friendly with the target country. In other words, the emergence of trade diversion in economically sanctioned countries seem to be grounded on political reasons rather than strictly economic or commercial arguments. In this sense, it is fundamental to analyze the pre-existing political relations of target countries in order to account for the existence of trade diversion.

3. Conclusion: Economic Sanctions and Bilateral Trade from a Global Perspective

A sufficient number of studies have been devoted to the impact of economic sanctions on bilateral trade. Mostly, the studies focus on the success and effectiveness of economic sanctions with a perspective of the sender country. While most of the studies focus on the sender country, its goals, its success or failure, rather less attention has been paid to the responses of the target country or the after sanctions period of the target states.

Previous research has concentrated on using macroeconomic models to investigate on sanctions, rather than considering interdisciplinary theories/approaches that may help to examine sanctions. Many papers use the gravity model to measure the trade between two countries based on certain factors such as distance, size, language, culture to find the effects of sanctions on trade. Another model is the New Open Economy Macroeconomics (NOEM) model which is a theoretical framework for policy analysis in an open economy that focuses on exchange rate fluctuations and as a result shows the effects of sanctions on the economy (Eyler; 2007).

So far, investigations have been confined to factors and effects of economic sanctions, leaving the question of the target country's behavior towards diversification as a reaction to sanctions. In their research scholars investigate on sanctions by changing their factors, some look at investment, some exchange rates, some trade and so on, but limited studies connect economic sanctions to diversification.

The literature on sanctions especially economic sanctions focuses more on its impacts on both the sender and target countries or more on the effectiveness and success of the economic sanctions. Some studies especially Eyler (2007) and Kaempfer and Lowenberg (2007) with an international political economy approach emphasize more on the trade relations slightly open the door to diversification concept. Nevertheless, there is a restricted amount of studies about how to alleviate the pressure of economic sanctions and trade diversification as a possible way to do so. According to the options of the decision-making process, the target country has a binary option of settle down the sender or show resistance to sanctions. However, in the international community, there are many different scenarios when responding to sanctions. A third way that a target country can choose to follow after exposed to economic sanctions can be to diversify in search of alternative commercial partners. Trade diversification can be a voluntary activity where the country decides to find new partners while a number of studies analyze diversification as a response to a negative external environment. In this paper, I use trade diversification as a defensive strategy which can be considered as positive since it gives the target country the freedom to choose its next movement. Most studies have not explained whether a target country chooses to diversify its trade relations to ease up the pressure of the economic sanctions that are imposed by a sender country that has a large trade share in the target country.

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