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Reality Check

Economic Sanctions Should Not Always Be the Go-To Foreign Policy Tool

- The Joe Biden administration has announced new sanctions on Myanmar, and may impose additional sanctions on Russia and Iran.
- Sanctions, however, have a poor track record, rarely change a target's behavior, and often generate negative unintended consequences.
- US policymakers should focus on whether sanctions are likely to produce the desired effect, rather than serving as simply a tool to signal displeasure.

What is the Issue?

As the Biden administration begins to implement its foreign policy vision, organized around reestablishing US leadership on the international stage, it will inevitably confront foreign policy challenges. Indeed, only a few weeks into the new administration, protests have erupted across Russia over the government's decision to detain and sentence Russian dissident Aleksei Navalny; the military in Myanmar ousted Aung San Suu Kyi from power in an apparent coup; and the future of the now-defunct Iran nuclear deal, from which the Donald Trump administration withdrew in 2018, remains uncertain. The Biden administration has also drawn attention to China's tightening restrictions in Hong Kong and human-rights abuses in Xinjiang, as well as the enduring strategic challenge of North Korea's nuclear-weapons program.

In each case, economic sanctions and other tools of economic statecraft have emerged as potential policy responses. For instance, on February 10, President Biden announced that the United States would be imposing sanctions against the generals in Myanmar responsible for the recent coup. Similarly, in an **interview** on February 1, Secretary of State Anthony Blinken suggested leveraging sanctions against North Korea, and implied that the United States was considering potential sanctions against Russian backers of President Vladimir Putin. At the same time, Iran's government is pressuring the Biden administration to remove sanctions that the Trump administration had reimposed as part of its "maximum pressure" strategy, but Blinken **demurred**: "we're not there yet to say the least."

For decades, policymakers have relied on economic sanctions (both their imposition and the prospect of their removal), as well as other types of economic statecraft, such as export controls and restrictions on foreign investments. While sanctions have more obvious coercive purposes, a broad range of economic instruments could be aimed at other states in order to change their behavior. For instance, the Trump administration **invoked** Section 232 of the Trade Expansion Act of 1962 and Section 301

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of the Trade Act of 1974 to impose restrictions against Chinese firms to pressure China into backing down during the so-called "trade war." The United States also employs economic tools to signal displeasure, and to retaliate against perceived violations of international norms of behavior.

Why Does It Matter?

However, the use (and overuse) of economic instruments for coercive and signaling purposes may be strategically unsound—not only because it often does not work, but also because of the long-term consequences.

Strategies of coercion aim to change the behavior of a target through the threat or limited application of some type of costs. While typically associated with military force, coercion could also be implemented through economic instruments. The objective is to manipulate a target's perception of the sum total of costs, benefits, and risks of complying with, or defecting from, the coercer's demands. Some proponents view economic pressure as more palatable than military power as a form of coercion, **claiming** it is "less difficult, costly, risky, and destructive, [and] yet it can still be effective."

Economic coercion can manifest in a number of ways, including sanctions, the imposition of tariffs, and financial and investment-control measures. It holds analogous logic to coercion through military means—the United States will create economic pain for a target until it complies with US demands. Similar to military coercion, the credibility of which rests on a preponderant US military advantage over other states, the success of US economic coercion depends on the maintenance of the United States as the central player in the global economy and the dollar as the global reserve currency.

The United States has **increasingly relied** on economic sanctions as a coercive instrument of foreign policy to create costs for other states. But, these economic sanctions have **largely failed** to produce the desired effect. Moreover, sanctions **research** has demonstrated that states are most likely to use sanctions precisely when they are least likely to be effective—against adversaries that are unlikely to give in to the sanctioning state's demands.

Perhaps the more significant issue with economic coercion is its unintended negative consequences. Put simply, the United States may have overused its position of power within international economic and financial institutions, provoking blowback among adversaries and allies alike. In response to the use of economic instruments of coercion, other states are seeking to circumvent US economic and dollar dominance. For example, both Russia and China are working to develop alternatives to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) financial-messaging system, and are also exploring digital currencies. Similarly, in anticipation of US sanctions during the summer of 2020, the Bank of China issued recommendations to rely more on its own financial-messaging system, the Cross-Border Interbank Payment System—which it had established in 2015—for financial transactions between the mainland, Hong Kong, and Macau, rather than on SWIFT. And, in 2018, in **response** to the Trump administration's reimposition of sanctions on Iran, Bundesbank in Germany "kept a multi-billion-euro deposit facility open for Iranian banks, including two that faced fresh US sanctions."

Moreover, given that financial institutions are the implementation arms of US sanctions regimes, these entities often find themselves the target of cyber intrusions and attacks. In fact, when the Trump administration announced sanctions against Iran in 2018, US banks prepared themselves for potential Iranian cyberattacks in response.

Over time, these trends may not only make sanctions even less effective than they already are, but may also undermine the very position of US financial dominance in the international system that the United States seeks to secure. It may also incentivize the European Union and China to accelerate efforts to turn the euro and the renminbi into global reserve currencies. Furthermore, the United States may be unintentionally setting normative precedents that it could later regret as other states become more economically powerful. While largely symbolic, China's recent decision to impose sanctions on former Trump administration officials may be a sign of things to come.

What's the Solution?

The Biden administration inherited an aggressive and comprehensive sanctions regime from the Trump administration. During the transition, the Biden team indicated that the Treasury Department would be conducting a bottom-up review of US sanctions policy, and nominated Adewale Adeyemo to coordinate this process at Treasury. Adeyemo has, thus far, said sanctions will remain a critical element of US foreign policy.

As part of its review of how the United States uses economic levers of power, the Biden administration should seize this moment and tackle three core issues.

- **Assess the true costs:** The review should calculate the *full measure* of the costs and benefits of US economic sanctions and other uses of economic statecraft. This should include both the direct costs—such as the cost to both US businesses and consumers denied access to, respectively, customers and goods and services—as well as indirect costs to the US economy and dollar dominance, financial institutions, and alliance relationships. It should assess the extent to which sanctions have achieved stated objectives, over both the short and long terms. This cost-benefit assessment should then drive future decision-making about the employment of economic measures, ideally leading to a significant reduction in the frequency with which the United States employs economic measures for coercive purposes.

- **Manipulate carrots, not just sticks:** Coercive strategies focus on manipulating the costs imposed on targets, but this neglects the benefits side of that equation. If the aim is to change a target's perception of the balance of costs and benefits, then the United States, in conjunction with allies and partners, is in a unique position to offer economic and diplomatic inducements to shape behavior, rather than just imposing costs. The Barack Obama administration's approach to the Iran nuclear deal (which included, among other measures, the removal of sanctions) demonstrates that carrots can be as useful as sticks. More broadly, the United States should develop a process for how sanctions regimes could be rolled back or curtailed, as well as build a suite of positive inducements to complement diplomatic and policy objectives.

- **Avoid unilateral use of sanctions:** While coercive economic measures should not be the go-to tool, there may be situations in which their use is warranted. In these cases, the United States should avoid acting unilaterally, and instead work with international partners. In a global environment where the United States is no longer the preponderant economic power, unilateral action not only has decreasing utility, but also risks further alienating the very allies and partners who are becoming increasingly important for US strategy as the international balance of power shifts.

About the Author

Erica Borghard is a resident senior fellow with the New American Engagement Initiative at the Scowcroft Center for Strategy and Security, which aims to critically examine the core assumptions of American grand strategy and propose fresh, innovative ideas for US foreign policy. Erica's own work addresses US grand strategy, with a particular focus on the strategic implications of emerging technologies; public-private partnerships and resilience; and covert action and proxy warfare. Erica continues to serve as a senior director on the US Cyberspace Solarium Commission, a Congressional commission established to develop a comprehensive national strategy to defend the United States in cyberspace. Previously, Erica was an assistant professor in the Army Cyber Institute at the United States Military Academy at West Point. Prior to that, Erica was a Council on Foreign Relations international affairs fellow, with placement at JPMorgan Chase and US Cyber Command. Erica also served as an assistant professor and executive director of the Rupert H. Johnson Grand Strategy Program in the Department of Social Sciences at West Point. Erica received her PhD in Political Science from Columbia University.