



Reactive and Unimaginative

A Closer Look at the Current U.S. Strategy on Sanctions



American Security Project



Perspective

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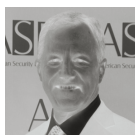
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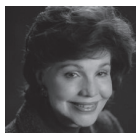
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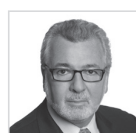
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In this Report:

This report examines the efficacy and unintended consequences of the U.S.' current strategy on sanctions. In particular, it delves into sanctions meant to respond to Russia's increasing aggression on the global stage. It provides historical examples to argue that sanctions, when used narrowly tailored and accompanied by multilateral support and diplomatic outreach, can bring about meaningful change. But as past strategies have shown, broad sanctions uncoupled from global cooperation and diplomacy fail to accomplish their goals, while inadvertently harming American economic competitiveness. It concludes by offering advice for how the U.S. should move forward in crafting an effective sanctions strategy against Russia.

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IN BRIEF

- Overly-broad sanctions harm U.S. businesses by causing economic losses in key sectors, limiting exports, and causing job losses..
- Overly-broad sanctions are ineffective in bringing about behavioral change in the adversary. To increase efficacy, sanctions' scope should be narrowed to specific industries and individuals.
- A holistic sanctions regime is a successful sanctions regime. Multilateral support from other countries is essential for bolstering sanctions' impact, as is simultaneous diplomatic outreach to the target country.
- History shows that sanctions do not effectively achieve regime change, especially in countries where domestic politicians' legitimacy requires anti-U.S. stances, as is the case with Russia.
- Past sanctions policies against Russia have been ineffective at curbing aggressive behavior, in part due to Russia's ability to expand into new markets and industries. Crafting successful sanctions against Russia should take into account the cronyism of Putin's regime, and target elites with connections to state-owned entities.

About the Authors

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Introduction

Sanctions, when used properly, are vital tools in the U.S. national security toolbox, and have the potential to help respond assertively to Russia's increasing aggression on the global stage. The late Richard Holbrooke once quipped: "What else fills in the gap between...indulging in empty rhetoric and going to war besides economic sanctions?"¹ As Holbrooke's quote demonstrates, sanctions are attractive since they are lower-risk than a military operation, yet more assertive than diplomacy alone. Sanctions are an especially strong tool for the U.S., due to the American economy's centrality to global markets and the dollar's status as the worldwide reserve currency. A variety of current U.S. sanctions regimes target states and individuals whose offenses include sponsoring terrorism, abusing human rights, and participating in corruption.²

Over the past two administrations, the U.S. responded to Russian aggression with successive rounds of sanctions. While some of these, such as the sanctions issued to prevent further encroachment in Ukraine,³ are tailored to achieve specific goals—others are broader. Some experts assert that U.S. sanctions are necessary to punish and deter Russian belligerence.⁴ Yet Russia is adapting: its growing international reserves, expansion into new export industries, and pivoting to alternative markets all cast doubt on sanctions' efficacy.⁵ Meanwhile, sanctions have not changed Russia's bellicose actions abroad. These facts suggest that the main rationale of sanctions—limiting an adversary's aggression—is not being realized. What's more, there is growing proof that sanctions, or proposed sanctions, can harm U.S. interests even as they fail to achieve their objectives. Future sanctions could cause even greater harm.

The Drawbacks of Broad Sanctions

Harm to U.S. Businesses

Sanctions, like any other national security tool, must be subjected to a rigorous cost-benefit analysis. While the risks of sanctions are not as obvious as those resulting from military operations, they can do direct damage to U.S. businesses if inadequately targeted.



Secretary of State Mike Pompeo and Secretary of the Treasury Steve Mnuchin provide an update on Iran Policy and Sanctions in 2018. State Department photo.

Recent history shows that a common mistake when employing sanctions in defense of U.S. national security interests is that they are often too broad. For example, expansive sanctions harm innocent civilians in the target country—as they did in Iraq in the 1990s-2000s⁶. They can also harm U.S. businesses. In 1998, sanctions against India due to nuclear testing caused great damage to U.S. companies which had fought hard for years to gain footholds in burgeoning Indian markets. Those sanctions hurt U.S. aerospace companies, since Indian airlines turned to industry rivals when access to U.S. deals was cut off.⁷ These cases are not unique. One study found that as a result of sanctions, U.S. exports to 26 countries in 1995 fell by \$15-19 billion, and that if a balancing increase in exports to other countries did not occur, this would have translated to a loss of over 200,000 jobs in the export sector.⁸ In contrast, the 2016 removal of restrictions on some U.S. exports to Cuba created a \$2.2 million boost in U.S. agricultural and manufacturing sales in the span of only one year, translating to thousands of new American jobs.⁹ The recent re-imposition of travel and trade restrictions on Cuba has reversed these positive trends and stifled opportunities for mutually-beneficial business ties.¹⁰

Ineffectively Targeting the Adversary

Besides harming U.S. business interests, broad sanctions are detrimental because they do not effectively impact the adversary. In order to best achieve U.S. objectives, sanctions should not be employed as blunt instruments, but rather as sharp, tailored tools.

History proves this point. The sanctions imposed by the UNSC on Iraq from 1990 to 2003 aimed to force Saddam Hussein's withdrawal from Kuwait by cutting off his government's access to material usable for military development. Yet the lack of specificity in these sanctions meant that they did not limit military production, but rather harmed Iraqi citizens because many of the materials on the sanctions list were "dual use."¹¹ A retrospective analysis shows that these sanctions failed in large part because of their broad and indiscriminate scope.¹²

Multilateralism and Diplomacy as Key Ingredients

Sanctions, as with other tools in the national security toolbox, cannot effectively be used in isolation. They should be incorporated as part of a holistic policy which leverages not only American economic centrality, but also U.S. allies and diplomacy.

Due to the interconnected nature of today's economy, the U.S. should not impose sanctions unilaterally and expect results. For years, experts have called for multilateralism in sanctions regimes.¹³ Multilateralism's vital role in effective sanctions regimes is especially evident in post-9/11 counter-terrorism sanctions. By November 17, 2001, all G20 members supported US-led sanctions, and this global support greatly enhanced their impact.¹⁴



Secretary of Defense Chuck Hagel visits troops at an undisclosed location in South East Asia. DoD photo.

Diplomacy, like multilateralism, is an indispensable aspect of a strong sanctions policy. In 2001, ASP Board Member and U.S. Senator Chuck Hagel made this point when he voted against the Iran-Libya Sanctions Act due to the lack of simultaneous diplomatic engagement.¹⁵ He commented:

"We accomplish this through engagement in the world, not isolation. We accomplish this through leadership. We do not accomplish this with policies that are reactive and unimaginative. We do not accomplish it with unilateral sanctions."¹⁶

In 2003 Hagel used the same argument when he cautioned that harsh sanctions against North Korea, uncoupled from diplomatic outreach, could have unpredictable effects, saying:

"I believe this can be done peacefully through diplomacy... We need to cut right through the fog here. Somebody better be talking to North Korea. ... We've got an unstable leader with nuclear weapons, so we better get off the high horse here and deal as directly as we need to deal with this."¹⁷

Hagel's statements and the case study of counter-terrorism efforts illustrate the common-sense argument that blunt sanctions divorced from multilateral support and diplomatic outreach do not achieve U.S. national security interests.

Sanctions Are Not Effective At Regime Change

History also proves that sanctions do not effectively achieve regime change, even though that is often the goal of some policy makers who urge their use. The decades-long U.S. embargo against Cuba is a case in point. While intended to bring democracy to the island, the sanctions against Cuba have consistently failed to achieve substantial domestic change. In 2009, former U.S. Senator Richard Lugar urged a change in sanctions policy toward Cuba, arguing that the U.S. “...must recognize the ineffectiveness of our current policy and deal with the Cuban regime in a way that enhances U.S. interests.”¹⁸

The failure of U.S. sanctions to meaningfully improve Cuban democratization illustrates the general point that sanctions alone cannot achieve regime change. This is a simple matter of cost-benefit logic in the minds of the target regime, because the costs of fundamentally altering power structures greatly exceed the benefits of sanctions relief.¹⁹ Often, as in the cases of Haiti and Iraq, sanctions meant to cause regime change actually have the reverse effect, as the target governments crack down on domestic society even further in response to economic pressure.²⁰ Sanctions’ failure to bring about regime change is especially likely in countries where domestic political legitimacy rests heavily on anti-U.S. stances. Russian President Vladimir Putin’s foreign policy fits this model, as he is pivoting to increasingly anti-U.S., anti-Western positions in part due to a need to shore up domestic support.²¹

Solutions

Recent History as a Guide for the Current Challenge of Russia

There are examples of the effective use of sanctions in recent history that should guide the current U.S. approach to Russia. The sanctions imposed against Iran from 2013 to 2015 were instrumental in pushing Tehran to the Joint Comprehensive Plan of Action (JCPOA) negotiating table. Several factors informed this policy’s success: the sanctions were targeted at Iranian elites, were imposed by a strong multilateral coalition, aimed to achieve a measurable goal, and were accompanied by a united diplomatic effort.²²

Problems of Current Sanctions Regimes Against Russia

Building effective sanctions against Russia has proven challenging for American policymakers. Up to now, sanctions against Russia have failed to live up to the standards set by the successful model used in the pre-JCPOA sanctions. First, U.S. sanctions against Russia cast an incredibly wide net on a wide range of industries. Second, they lack broad global support. Third, they are not tied to a specific result. And fourth, simultaneous diplomatic outreach is non-existent. Proposed sanctions, like the Defending American Security Against Kremlin Aggression Act (DASKA), seek only to double-down on a failed policy.

There is reason to doubt that the most recent round of sanctions will actually cause measurable harm to Russia. The Russian government’s recent moves show that it has already taken steps to insulate its economy from sanctions’ impacts. Russia now holds a record-high in foreign exchange and gold reserves (some projections say these will total almost \$600 billion by 2021),²³ and a current debt-to-GDP ratio of 15.9%.²⁴ That means that Russia will not suffer from restrictions on its ability to borrow foreign money. One new development of particular significance is Russia’s expanding agricultural sector. Since 2016, in large part as a response to sanctions on its other industries, Russian agricultural exports have doubled.²⁵ In both 2016 and 2018, Russia overtook the U.S. in the wheat and grain industries, with Russian dominance harming American farmers made vulnerable by other geopolitical events.²⁶

The most recent proposed sanctions regime against Russia incentivizes the Kremlin to move away from the dollar-dominated global market. It also helps to align Russian and Chinese interests, as both Moscow and Beijing seek alternatives to the dollar and the U.S.-led financial system. In 2014, the two powers signed a \$400 billion, 30-year gas contract, illustrating Russia's ability to find attractive alternatives to European markets.²⁷ Solidification of Russian-Chinese business and trade ties makes it even more less-likely that overly-broad U.S. sanctions will be effective curbing Russian behavior.



President Trump and Russian President Putin hold a press conference at the Helsinki Summit in 2018. White House photo.

Efficacy of previous and current sanctions against Russia should be questioned due to confounding factors. Certainly, the value of the ruble has fallen and inflation has increased since 2015. But these negative trends may not have directly resulted from Western sanctions alone; experts argue that the collapse of oil prices was a more direct cause.²⁸

Current sanctions policies, due to their blunt approach, hurt U.S. economic competitiveness. In general, many large U.S. companies (including Apple, Microsoft, Johnson & Johnson, and McDonalds) rely on operations in Russia to maintain revenue.²⁹ The entire U.S. aerospace sector specifically could be harmed, since a planned counter-sanction response from Russia includes a ban on all exports

of titanium to the U.S.³⁰ This would be devastating to U.S. aerospace industry, which currently receives roughly 35% of its titanium from Russia. Long-term joint ventures between prominent U.S. companies such as Boeing and Russian counterparts may also be in jeopardy.³¹ U.S. energy companies are hit the hardest by overly-broad sanctions, because of Russia's role as a supplier of uranium exports, supplying the U.S. with roughly 13% of its uranium.³² Because of these impacts, business groups warn that without serious reform, the current sanctions regime against Russia seriously weakens U.S. companies across many key sectors, especially those that rely on Russia for exports or the Russian market for revenue.³³

Moving Forward: Tailored Sanctions and Global Support

The U.S. should move away from using overly-broad sanctions and instead employ tailored sanctions that better target Russia's center of power. The blunt approach fails to take into account that the Russian regime is run by a small circle of elites, many of whom owe their personal fortune to Putin.³⁴ Targeted sanctions should prevent Russian elites from gaining access to their assets. They should take aim at elites with connections to state-owned entities, a large group due to the state's 60% ownership of the economy.³⁵ Targeted sanctions should focus on industries where U.S. interests are not impacted such as those related to Russia's military modernization efforts.³⁶

The Magnitsky Act can and should help U.S. policy towards Russia going forward. Passed initially under Obama in 2012 and expanded in 2016, the Magnitsky Act sanctions officials committing human rights abuses, blocking them from doing business with the U.S. or gaining access to their assets held in U.S. banks. As ASP has written previously, the Magnitsky Act is an example of how U.S. economic power can be used to curb Russian aggression.³⁷ It shows how well-tailored sanctions can help the U.S. both defend American values globally and add teeth to diplomatic efforts curbing Russian hostility.

In order to gain the multilateral cooperation needed to increase sanctions' effectiveness, the U.S. must shore up support among European allies. This is a hard sell, because many E.U. states have close trade ties to Russia, especially in the energy sector.³⁸ Since 2017, sanctions targeting Russia have been unilateral, with the U.S. using secondary sanctions to compel European cooperation.³⁹ This solitary U.S. action despite a lack of multilateral support caused diplomatic backlash, and European partners protested that their business interests were not considered.⁴⁰

To avoid alienating our European partners, the U.S. should avoid sanctions that impact European energy trade, while simultaneously supporting European moves towards energy independence. The U.S. should continue its support for greater exports of Liquefied Natural Gas (LNG) across Europe to achieve these goals. This has the benefit of preventing European allies from becoming overly dependent on Russian pipelines, while also countering Russia's attempted dominance of the regional energy market.⁴¹

Even a cursory look at recent history proves that sanctions' success at meaningfully altering an adversary's behavior is uncertain. Furthermore, overly-broad sanctions harm not only the target country but the sanctioning country. This inadvertent impact has already been felt across U.S. business sectors, and the cost to American competitiveness will only go up as Russia implements counter-sanctions banning cooperation, exports, and access to its market. Diplomatic routes that foster engagement and competition are better responses to Russian aggression. Well-targeted sanctions that are tailored to specific individuals and sectors can be effective in bolstering these efforts, if implemented multilaterally and alongside diplomatic outreach.

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The American Security Project (ASP) is a nonpartisan organization created to educate the American public and the world about the changing nature of national security in the 21st Century.

Gone are the days when a nation's security could be measured by bombers and battleships. Security in this new era requires harnessing all of America's strengths: the force of our diplomacy; the might of our military; the vigor and competitiveness of our economy; and the power of our ideals.

We believe that America must lead in the pursuit of our common goals and shared security. We must confront international challenges with our partners and with all the tools at our disposal and address emerging problems before they become security crises. And to do this we must forge a bipartisan consensus here at home.

ASP brings together prominent American business leaders, former members of Congress, retired military flag officers, and prominent former government officials. ASP conducts research on a broad range of issues and engages and empowers the American public by taking its findings directly to them via events, traditional & new media, meetings, and publications.

We live in a time when the threats to our security are as complex and diverse as terrorism, nuclear proliferation, climate change, energy challenges, and our economic wellbeing. Partisan bickering and age old solutions simply won't solve our problems. America – and the world - needs an honest dialogue about security that is as robust as it is realistic.

ASP exists to promote that dialogue, to forge that consensus, and to spur constructive action so that America meets the challenges to its security while seizing the opportunities that abound.



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