The view of the sprawling Kutupalong refugee camp near Cox's Bazar, Bangladesh. More than 623,000 mainly Rohingya peope have arrived at the camp since late August 2017, fleeing violence and religious persecution in Burma—creating one of the world's largest humanitarian crises. (UK Department for International Development/Russell Watkins)

Economic and Financial Sanctions in U.S. National Security Strategy

By Jill Jermano

Coercive U.S. strategies often feature the use of economic and financial sanctions to address national security threats. According to the most recent U.S. National Security Strategy, sanctions and other economic tools ". . . . can be important parts of broader strategies to deter, coerce, and constrain adversaries."[1] Sanctions' potency derives from U.S. economic power, and they generally involve lower cost and risk than the use of military force.

The U.S. Government (USG) has increased the use of economic and financial sanctions against other states and non-state actors in the post–Cold War era, refining their design to improve precision.[2] Achieving desired effects with sanctions, however, requires careful assessment of target vulnerabilities, available U.S. leverage, orchestration with other policy tools, and potential obstacles and risks.[3]

The Nature and Effects of Economic and Financial Sanctions

The use of sanctions in coercive strategies to effect behavioral change involves the sender demanding that the target cease or reverse an action, backing the demand by a credible threat. Sanctions aim to change a target's decision calculus about resisting pressure by increasing the cost and difficulty of the target's economic activity or financial transactions. Targeted trade sanctions, for example, can make imported consumer goods and industrial inputs more expensive and difficult to obtain, boosting inflation and dampening productivity and possibly economic growth if substitutes are unavailable. Sanctioning exports can deprive a target country of revenue, increase unemployment in export sectors, and erode domestic firms' competitive advantage in overseas markets.

Financial sanctions rely on cooperation from banks and other financial institutions to restrict or deny a target's ability to obtain financial services or capital. Freezing elites' overseas assets or blocking their transactions can prevent them from accessing their wealth or doing business. Sanctions banning foreign investment in key economic sectors or curtailing access to capital markets and hard currency can threaten targeted firms' liquidity, decrease productivity, and erode economic growth. Reinforcing these effects are the prohibitions sanctions impose on U.S. persons from conducting business or financial activity with sanctioned individuals or entities.[5]

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TABLE 1: EXAMPLES OF TARGETED ECONOMIC AND FINANCIAL SANCTIONS.

Economic Sanctions Target trade, other economic activity	Financial Sanctions Target access to capital, financial services
Restrict/ban specific imports/exports, associated services, guarantees, credits	Freeze/block assets and transactions*
Deny/withhold economic aid, debt relief	Restrict/deny access to capital markets
Restrict/prohibit investment in key economic sectors	Destabilize currency
	Restrict/deny access to multilateral financial assistance (e.g., International Monetary Fund, World Bank)

* Blocking an asset renders it inaccessible to the owner. Blocking a transaction prevents it from occurring.

Sanctions can also affect foreign entities that do business with a target. Private sector entities often opt to cut ties to avoid jeopardizing their reputation and market share and incurring penalties and fines. U.S. sanctions against key Iranian banks beginning in 2006, followed by European Union (EU) sanctions and financial restrictions in a number of UN Security Council Resolutions led numerous global banks and other multinational firms to stop doing business with Iran, significantly diminishing its ability to trade and attract foreign investment.[6] Some firms, however, may view sanctions as an opportunity to profit from the target's situation and expand or capture market share, particularly when risks seem manageable. A recent example from the Iran case was the banking official from a major Turkish bank who was convicted in a U.S. Federal District Court in January 2018 for helping Iran violate U.S. sanctions.[7]

Table 1 lists the many measures applicable primarily to foreign governments, associated elites, and national economic sectors, but strategies against non-state actors also make use of targeted sanctions. For example, U.S. counternarcotics efforts since the 1990s have included sanctions against drug cartels and kingpins.[8] After 9/11, the United States and foreign governments expanded use of targeted sanctions against terrorists and other illicit actors and their support networks.[9] Asset freezes and blocking actions can disrupt the ability of these groups to access the financial system and deter persons and entities from facilitating their operations.

Sanctions can impose economic and financial hardship on state and non-state actors, but the actual effects of these measures depend on the target's specific circumstances and the sender's ability to exploit them. Sanctions design should account for these factors.

Sanctions Evaluation and Selection

Decisions to include sanctions—or any other policy instrument—in a coercive strategy should reflect an assessment of the target's vulnerabilities. Vulnerabilities are different for states and non-state actors (see Table 2), but they generally reflect economic or financial dependencies, chokepoints, and exposure that a sender can exploit to affect the target's costs, risks, and ability to continue the objectionable conduct. State vulnerabilities can derive from a country's economic conditions as well as its reliance on foreign economic relationships and market and financial access.[10] Following Russian interference in Ukraine in 2014, the United States and the EU imposed financial sanctions on political elites close to President Putin and sectoral sanctions on state-owned energy, defense, and financial entities that relied on access to Western capital, foreign investment, and technology.[11]

Non-state actors' vulnerabilities can stem from the nature and locations of their economic or financial activities, funding sources, and reliance on third-party facilitators.[12] Early post–9/11 U.S. counterterrorism sanctions, for example, targeted individuals and entities that provided material support to al-Qaeda.[13] U.S. and multilateral efforts to target the Islamic State of Iraq and the Levant (ISIL) in recent years have focused on denying the group access to funds and assets located in territory it has controlled.[14]

Not all vulnerabilities present an opportunity to apply pressure. In the era of targeted sanctions, U.S. decisionmakers generally avoid certain types of economic coercion, such as trade sanctions limiting a target's imports of food staples or medicine that ultimately could harm civilians.[15]

A vulnerability assessment helps to determine if sanctions are an option, but it is also important to evaluate U.S. leverage over a target. Leverage is the ability to exploit vulnerabilities stemming from the target's ties to or reliance on the sender or entities under sender jurisdiction.[16] U.S. leverage derives from the size of the U.S. economy and the U.S. dollar's central role in global trade and capital markets and enables the USG to wield considerable influence, but actual U.S. leverage is context dependent.[17] Situations involving limited U.S. leverage may require coordinating sanctions actions with governments better-positioned to pressure a target, if

TABLE 2: SELECT FACTORS TO CONSIDER WHEN ASSESSING TARGET VULNERABILITIES.

State Actors	Non-state Actors
Macroeconomic indicators: economic self-sufficiency, diversification, dependence on imported energy, industrial inputs, technology	Area of operations, relative permissiveness of jurisdiction(s)
Size of state sector; extent of direct/quasi-state/elite ownership in key industries	Operational chokepoints
Reliance on external markets, capital, credit	Primary revenue, funding sources
Corruption, state-criminal nexus	Revenue allocation, budgeting
Private sector economic stakeholders or other elites' access to, influence over state officials	Internal corruption, embezzlement
Market liquidity	Type, value of resources, assets
Strength and stability of financial sector, currency	Primary financial nodes, mechanisms
Type, level of foreign exchange reserves, sovereign wealth funds	Trust-based relationships within/outside of organization
Bank solvency; exposure and access to, reliance on global credit markets, financial services	Reliance on third-party brokers/service providers
Foreign presence in financial sector	Ties to national/local government/law enforcement
Trade financing, correspondent relationships	
Primary exports, imports	
Primary trading partners	
Reliance on trade-related services	
Reliance on types/sources of foreign direct investment	
Type, amount, sources of foreign government, private/non-profit sector aid	

Sources: Kirshner, 41–42; "Principles of Economic Coercive Action" against state and non-state actors in David L. Asher, "Pressuring Kim Jong Il: The North Korea Illicit Activities Initiative, 2001-2006," in ed. David L. Asher, Victor D. Comras, and Patrick M. Cronin, Pressure: Coercive Economic Statecraft and U.S. National Security (Washington, DC: CNAS, January 2011), 35, 41–42, available at <https://www.cnas.org/publications/reports/pressure-coercive-economic-statecraft-and-u-s-national-security>.

they have a shared interest in doing so. For example, Russia's extensive economic ties with Europe have given the EU more leverage than the United States for coercing Moscow.[18] Unilateral U.S. sanctions, including measures aimed at a target's external supporters, might be a better option if multilateral support is limited or when the United States has more leverage over third parties than the target.[19]

When existing leverage appears sufficient to exploit target vulnerabilities with sanctions, the process of imposing sanctions requires determining whether existing U.S. sanctions authorities provide the basis for taking action. U.S. sanctions derive from statute and presidential executive orders. Congress can include sanctions provisions in legislation to address national security and foreign policy issues. The President may issue an executive order for the purpose of implementing such a law, meeting U.S. obligations under UN sanctions, or initiating new sanctions based on his emergency powers.[20] The U.S. Department of the Treasury (DOT) in coordination with the Departments of State (DOS) and Justice (DOJ), and other federal agencies implement and enforce sanctions pursuant to executive orders and statute.

The process of imposing sanctions involves preparing a legal case for the action and coordinating with interagency actors to identify and de-conflict equities and competing priorities and assess legal sufficiency.[21] Interagency coordination of a strategy featuring sanctions also involves weighing options for timing and sequencing the use of sanctions with other policy instruments and assessing relevant domestic and international factors, political constraints, and national and global economic conditions. As with any policy tool, competing domestic policy priorities and U.S. bureaucratic obstacles can affect political will to implement and sustain sanctions over time.

Sanctions Orchestration

Meghan O'Sullivan, Harvard University professor and former Deputy National Security Advisor for Iraq and Afghanistan during the George W. Bush Administration, argues that coherent and effective strategies combine sanctions with other policy instruments to augment the impact of the action on the target.[22] For example, informational tools such as a public announcement in the form of a *Federal Register* notice and a press release are usually part of a sanctions action.[23] Publicizing sanctions sends a message to multiple audiences, including the target and its constituents, other governments, private sector entities that could be affected by the action or that do business with the target, and the U.S. public.

Sanctions actions also often have a diplomatic dimension, such as engaging the target directly or indirectly before or after imposing sanctions to send a warning or sustain pressure during negotiations.[24] U.S. and multilateral sanctions on Iran remained in place during several years of P5+1—China, France, Russia, the United Kingdom, and the United States plus Germany—negotiations with Tehran that led to the 2015 deal on Iran's nuclear program.[25] U.S. consultation with allies and partners helps coordinate the timing of a multilateral sanctions action, and diplomatic outreach to governments and foreign firms can alert them to the action or the issues at stake, enlist their support, or warn them of the consequences of undermining the sanctions.[26] Direct USG engagement with foreign private sector entities to warn them of the risks of doing business with Iran was key to the effective isolation of Iran from the global economy.[27]

Sanctions can also coincide with U.S. or multilateral law enforcement actions, such as seizing or forfeiting a target's assets in addition to freezing or blocking them.[28] One example was DOJ's announcement in 2014 of the seizure of more than $6 million in funds associated with sanctioned front companies for Li Fang Wei, a Chinese national the USG had sanctioned in 2009, who was charged in U.S. Federal Court with operating a network to procure controlled goods for Iran.[29] Law enforcement measures can augment the effects of sanctions on the target and potentially deter third parties from helping the target evade the measures.

Sanction actions may also precede or occur concurrently with the threat or use of military force. Imposing sanctions prior to kinetic action is one way to increase pressure to persuade the target that ceding would be less costly in the near term. For example, U.S. and multilateral sanctions against the Federal Republic of Yugoslavia occurred prior to and continued after NATO airstrikes against Bosnian Serb targets began in August 1995, ultimately serving as a bargaining chip in the Dayton Peace negotiations.[30] The simultaneous use of sanctions and military action can amplify the overall impact on the target. Multilateral efforts to counter the financing of terrorism, for example, have combined targeted sanctions with the use of force.[31]

Strategic Assessment

As with any strategy to achieve national security goals, it is necessary to assess the soundness of a coercion attempt involving sanctions prior to taking action, even if sanctions are designed to play a minor role relative to other tools. Sanctions sometimes can have unanticipated effects, be challenging to implement, and produce unintended consequences for U.S. interests, allies, and partners.

One factor to consider is the expected impact of the measures on the target—what kind of damage will it suffer, and how will it and other parties react? Sanctions can have negative unintended effects on the target, neighboring jurisdictions, or third parties; the use of targeted sanctions has reduced but not eliminated this possibility.[32] Sanctions can also undermine other U.S. foreign policy goals and potentially damage U.S. relations with countries with a stake in the issue.

Another risk is the target's ability to evade, work around, or mitigate the impact of sanctions by using its own resources or relying on external facilitators. For example, the former Iraqi regime in the late 1990s extensively circumvented sanctions to generate revenue and buy the loyalty of the military and security services.[33] The Iraq case is an example of how sanctions busting can contribute to what Andreas calls the "criminalization" of a target regime and the broader economy and society, as government officials partner with illicit actors to work around sanctions.[34] In recent years, expert panels established to monitor compliance with UN sanctions regimes have extensively documented evasion techniques targeted states have adopted in response to escalating U.S. and international pressure.[35] The March 2018 report of the UN Panel of Experts established for the North Korea sanctions regime, for example, describes the North's "increasingly sophisticated evasion practices," including the use of illicit shipping techniques to circumvent the UN's export ban on specific North Korean commodities and Pyongyang's use of complicit third-party nationals and service providers to facilitate financial and trade transactions.[36] The DOT and the U.S. Coast Guard jointly published an advisory this February that detailed the North's deceptive shipping practices, such as changing vessel identifiers, disabling and manipulating automatic identification systems, falsifying shipping documentation, and using ship-to-ship transfers of sanctioned cargo.[37]

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The Venezuelan regime's establishment in early 2017 of the "petro," a national cryptocurrency allegedly backed by Venezuelan oil reserves, for the stated purpose of evading U.S. sanctions that have isolated the country from accessing U.S. debt markets represents a new innovation for Caracas and other states seeking to mitigate the effects of coercive U.S. economic pressure.[38] In the near term, the petro is unlikely to shield Venezuela from U.S. sanctions as long as foreign investors are reluctant to invest in a rapidly deteriorating economy beset by hyperinflation.[39] The USG responded to Venezuela's move by prohibiting U.S. individuals and firms from all dealings in any Venezuelan digital currency, coin, or token, which could further deter non-U.S. investors with U.S. exposure.[40] Sovereign cryptocurrencies will provide Venezuela, Russia, and other oil exporters only limited relief from U.S. sanctions as long as the U.S. dollar remains the primary currency of the global oil trade.[41] On the horizon, however, the increasing integration of crypto-assets in international financial markets could provide new opportunities for sanctions evasion or mitigation.[42]

Retaliatory measures by the target or an outside supporter is another risk. For example, Miller argues U.S. efforts to freeze Japan's U.S.-based assets in 1941 were a catalyst for Tokyo's decision to attack Pearl Harbor.[43] Moscow responded to Western sanctions in 2014 by banning agricultural imports from the United States and the EU, which was the largest source of food exports to Russia at the time.[44] The action sharply reduced Russia's imports of EU agricultural products while boosting Russian domestic food production, but EU producers were able to shift some exports to other markets.[45] Non-state actors typically have less ability to respond in kind to U.S. actions, but can resort to asymmetric methods. For example, Hezbollah in June 2016 may have bombed a Beirut bank in reaction to Lebanese banks' compliance with the *U.S. Hizbollah International Financing Prevention Act*.[46]

The USG's use of sanctions depends on private sector cooperation, so the impact of sanctions on industry is another potential risk. U.S. and foreign financial firms in particular have incurred increasing costs to ensure compliance with sanctions.[47] The impact on firms' bottom lines means that sanctions actions can meet resistance from the domestic business community and interest groups. Two major U.S. business lobbying organizations in June 2014 publicly warned U.S. sanctions on Russia would negatively affect U.S. manufacturing and jobs.[48]

Before imposing sanctions, it is worth revisiting initial assessments of expected impact, risks, feasibility, costs, and implications. The process of establishing a baseline expectation of the outcome can inform an assessment of the actual use of sanctions in the context of the overall strategy.

After-Action Assessment

Evaluating the outcome of a sanctions action involves measuring impact and effectiveness. Impact is the actual effect of the sanctions on the target as well as the target's response and third-party reactions. It can be challenging to gauge impact, especially if reliable data are limited, target decision-making is unclear, or other political or economic variables are at play. Effectiveness is the extent to which sanctions achieve policy goals.[49] The literature's tendency to conflate impact and effectiveness reflects a long-running debate about whether sanctions "work."[50] Skeptics who highlight instances of targets refusing to compromise or cede to senders' demands often examine the use of sanctions in isolation from other instruments, which does not reflect actual practice. This perspective also tends to rely on empirical cases involving broad trade restrictions rather than the targeted sanctions that became more common in the 1990s and 2000s.[51] For example, U.S. sanctions imposed on North Korea in the 1950s included an embargo on U.S. exports and denial of Most-Favored Nation trade status, whereas the George W. Bush Administration used new post–9/11 targeted authorities to curtail North Korea's access to the U.S. financial system.[52]

A strategy's effectiveness in achieving policy goals rests on the coordinated use of multiple tools of statecraft. The comparative utility of sanctions reflects their contribution to the outcome of a strategy relative to that of the other tools.[53] Measuring effectiveness and comparative utility can be difficult if there are multiple objectives or if the combined use of several instruments produces synergies or multiplier effects.

Conclusion

The attractiveness of economic and financial sanctions reflects their potential to augment coercive strategies for achieving foreign policy goals, but their successful use depends on careful evaluation of target vulnerabilities and available U.S. leverage to exploit them, orchestration dynamics, expected impact, and factors that could affect implementation. These types of assessments inform both strategy design and outcome and help decision-makers determine if course corrections are needed. Target adaptation to sanctions might help identify new nodes to pressure and disrupt as well as sanctions loopholes to close. Efforts by other states or actors to facilitate sanctions evasion may point to the benefit of secondary sanctions. Unintended consequences for domestic firms or innocent populations may require allowing exemptions. Or target resilience to economic pressure may underscore the need to adjust the strategy to emphasize use of another tool of statecraft. **PRISM**

Notes

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[2] Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge, MA: The Belknap Press of Harvard University Press, 2016), 197.

[3] This article follows the literature's convention of referring to the country or multilateral organization imposing sanctions as the "sender" and the party subject to sanctions as the "target." For example, see Jonathan Kirshner, "The Microfoundations of Economic Sanctions," Security Studies 6, no. 3 (Spring 1997): 33, available at <https://www.tandfonline.com/doi/abs/10.1080/09636419708429314?journalCode=fsst20>.

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[11] William E. Pomeranz, "Sanctions Finally Find Russia's Achilles Heel," *Reuters*, July 23, 2014, available at <http://blogs.reuters.com/great-debate/2014/07/23/sanctions-finally-find-russias-achilles-heel/>; Marcus Walker, Matthew Dalton, and Carol E. Lee, "Europe, U.S. Significantly Expand Sanctions Against Russian Economy," *The Wall Street Journal*, July 29, 2014, available at <https://www.wsj.com/articles/europe-u-s-significantly-expand-sanctions-against-russian-economy-1406666111>; Peter Baker and Andrew Higgins, "U.S. and European Sanctions Take Aim at Putin's Economic Efforts," *The New York Times*,

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[24] See O'Sullivan, 288, on combining sanctions with dialogue with the target.

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[28] See United States General Accountability Office, *Financial Institutions: Fines, Penalties, and Forfeitures for Violations of Financial Crimes and Sanctions Requirements*, GAO-16-297 (Washington, DC: GAO, March 2016), available at <http://www.gao.gov/assets/680/675987.pdf>.

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[33] O'Sullivan, 131–32.

[34] Peter Andreas, "Criminalizing Consequences of Sanctions: Embargo Busting and Its Legacy," *International Studies Quarterly* 49, no. 2 (June 2005), 335, available at <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.0020-8833.2005.00347.x>.

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[48] Kenneth Rapoza, "U.S. Exports to Russia Rise Despite Tensions, Minor Sanctions," *Forbes*, July 4, 2014, available at https://www.forbes.com/sites/kenrapoza/2014/07/04/u-s-exports-to-russia-rise-despite-tensions-minor-sanctions/#642b95fa63bb

[49] See O'Sullivan, 27–28.

[50] For example, see Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security* 22, no. 2 (Fall 1997), 90–136, available <https://web.stanford.edu/class/ips216/Readings/pape_97%20(jstor).pdf>; Robert A. Pape, "Why Economic Sanctions Still Do Not Work," *International Security* 23, no 1 (Summer 1998): 66–77, available at <https://www.mitpressjournals.org/doi/abs/10.1162/isec.23.1.66>; and Kimberly Ann Elliott, "The Sanctions Glass: Half Full or Completely Empty?" *International Security* 23, no. 1 (Summer 1998): 50–65, available at <https://www.mitpressjournals.org/doi/abs/10.1162/isec.23.1.50>.

[51] Jentleson, 141.

[52] Dianne E. Rennack, *North Korea: Economic Sanctions*, RL31696 (Washington D.C.: Congressional Research Service, 2003), 9–10, available at <https://fas.org/sgp/crs/row/RL31696.pdf>; Zarate, 225.

[53] O'Sullivan, 29, distinguishes comparative utility from *utility*—the ability of sanctions to achieve policy goals at reasonable or proportionate cost.

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