KENNAN CABLE

No. 9 | June 2015

Leaders of the Group of Seven (G7) industrial nations vowed at a summit in the Bavarian Alps on Sunday to keep sanctions against Russia in place until President Vladimir Putin and Moscow-backed separatists fully implement the terms of a peace deal for Ukraine.

Sanctions Emerge as the Indispensable Tool of American Statecraft

F. Joseph Dresen

This article is based in large part on a conference organized in April 2015 by the Kennan Institute, in partnership with, and with financial support from, the Henry M. Jackson Foundation, to explore the history, effectiveness, and evolution of sanctions as a tool of American foreign policy.[1]

Russia's continuing violation of Ukrainian sovereignty, from its annexation of Crimea to its support for separatists in Ukraine's eastern regions, represents an unprecedented breakdown of the post-WWII and post-Cold War international system in Europe. Yet the U.S. response, in coordination with its European allies, has followed an increasingly familiar pattern—diplomatic pressure culminating in targeted and escalating sanctions on Russian (and separatist) individuals and enterprises. The ultimate effect of these sanctions is yet to be determined. What is immediately clear is that sanctions are now the indispensable tool of American statecraft.

Sanctions as a policy instrument have evolved over time from trade restrictions intended to inflict economic damage painful enough to force concessions to "smart sanctions," a complex

Wilson Center

KENNAN INSTITUTE

system that targets individuals and enterprises. The goal of smart sanctions is to exert pressure on a particular government or non-state actor while minimizing harm to ordinary citizens or the economic interests of the sanctioning state(s). Critics frequently deride sanctions as ineffectual or symbolic acts taken by politicians who are unwilling to accept greater responsibility for challenging a foreign government's violation of international law or norms. In reality, when applied strategically, enforced with resolve, and implemented with sufficient international support, sanctions can be highly effective in changing a state's behavior or constraining its capacity to act, when compared to other policy options.

"Dumb Sanctions"

The advent of targeted smart sanctions is a fairly new development. As recently as twenty years ago, trade sanctions of varying scope were the most common approach. The comprehensive sanction regimes imposed on Cuba and post-Desert Storm Iraq are both good examples, although instituted and implemented very differently. Sanctions on Cuba, initiated in the 1960s and strengthened in the 1990s under Helms-Burton, were imposed unilaterally by the United States.[2] Sanctions on post-war Iraq, established through UN Security Council Resolution 687, had broad multilateral support.[3]

The trade sanctions on Cuba and Iraq, while very different in origin, purpose, and scope, had several effects in common. In both countries, the brunt of the sanctions was borne by ordinary citizens, and the targeted regimes were effectively strengthened. George Lopez of the United States Institute of Peace observes that there is a "rally around the flag" consequence to sanctions that enables a ruler to blame foreign aggressors for economic hardships within the country.[4] Sanctions on trade also empower and enrich criminal enterprises and corrupt government officials (both inside and outside the targeted country) who circumvent the sanctions regime. Finally, targeted regimes exploit the "rally around the flag" effect to reduce the space for civil society or any independent actors. Ted Henken of Baruch College, SUNY observed that for years the slogan "In a place under siege, dissent is treason" was posted across the street from the home of a prominent dissident in Cuba.[5] Broad economic sanctions, whether multilateral or unilateral, can and do have the unintended effect of hitting ordinary people while strengthening the very regimes they seek to damage.

The sanctions imposed against apartheid South Africa[6] during the 1980s and against the Soviet Union under the U.S. Jackson-Vanik Amendment[7] represented a less aggressive, more targeted approach. In South Africa, sanctions linked disinvestment and global stigmatization to the specific human rights issues of apartheid, whereas trade limitations were linked to the right to free emigration in the Soviet Union. Both sanction policies were criticized at the time (and even today) as symbolic efforts intended to demonstrate action on the part of policymakers, but were little more than ineffectual or inappropriate gestures. This criticism drives at the crux of assessing sanctions as a policy tool – are sanctions effective?

Sanctions: Effective Tool or Symbolic Gesture?

Effectiveness has to be judged according to several considerations, the first of which is: "Compared to what?" If military force is not appropriate or legitimate, and diplomatic pressure is insufficient, then sanctions of one kind or another are the only remaining option for policymakers.

A second consideration is: "What do you expect?" The current sanction regimes against Russia, Iran, and Venezuela are asking the targeted governments to surrender territory (Russia), abandon a nuclear program that has cost billions of dollars and decades of effort (Iran), and reform a political system counter to the interests of the ruling elites (Venezuela). In the case of Iran, the sanctions have been strong enough and in place long enough to force it to the bargaining table.[8]

This leads to a third consideration: "Over what time period?" One could argue that sanctions failed to achieve any result in South Africa for some 14 years (1977-1990). Yet when the apartheid system began collapsing over 1991-92, it was clear that sanctions had made a vital contribution to South Africa's decision to end apartheid.[9] Likewise, Soviet Jews were granted greater freedom to emigrate following the passage of the Jackson-Vanik Amendment, albeit to varying degrees as bilateral U.S.-Soviet relations thawed and chilled.

A fourth consideration is: "What are the costs?" How do we minimize the impact on ordinary people in the targeted nation while acting in our own and our allies' economic interests? How can we minimize damaging side-effects, such as empowering criminals and corrupt officials, both outside and inside the targeted nation? How do we deal with the "rally around the flag" effect that empowers a targeted government to consolidate its grip on power and brand dissenters at home as traitors? These costs must be anticipated in advance and judged to be worth enduring in order to achieve the sanctions' intended goals.

Rise of Smart Sanctions

Decades of government experience with sanctions, and academic study of their intended and unintended effects, led to an evolution of sanctions policy over time. Starting in the mid-1990s the United States has increasingly relied on smart sanctions that target individuals and enterprises rather than entire economic sectors. Smart sanctions range in intensity, starting with "blocking" sanctions that place targeted individuals and organizations on the list of "specially designated nationals" (SDNs) to ban U.S. Visas and/or freeze assets. Export controls can be used to limit a country's access to specific technologies or goods. Such controls can limit access to military goods, or to advanced technologies related to energy exploration. Finally, sectoral sanctions can target whole industries, such as energy, defense, or financial, through placement on the "Sectoral Sanctions Identifications List" (SSIL). Sectoral sanctions deny targeted industries with access to goods or international finance.[10]

This new strategy proved to have several advantages over previous trade sanctions. Where trade sanctions increase the power and profits of criminals and corrupt officials, financial sanctions have a reverse effect: banks and other commercial entities are risk-averse, and when presented with the choice of doing business with a targeted enterprise/

official or doing business within the U.S. and Western financial system, the sanctioned target generally loses.

Smart sanctions also have had unexpected multiplier effects. Private market actors have shunned not only the targeted individuals or enterprises, but have reduced overall exposure to the market or exited entirely. Terms such as "reputational harm," "over-compliance," and "de-risking" have entered corporate vocabularies as buzzwords, indicating strategies to avoid violating these new sanctions. Another multiplier effect can be seen in Russia's current retaliatory ban on food imports from the EU. That policy increases the impact of Western sanctions by raising costs for ordinary Russians, but was done at the behest of the Putin government.

Keeping Sanctions Effective

The evolution from trade to smart sanctions, and improvements in state capacity to conduct them, has made the sanctions tool more popular than ever. With that popularity, caution in initiating and implementing sanctions grows ever more important. Smart sanctions depend on the dominance of the United States' influence in global financial markets and the position of U.S. currency as the most popular unit of exchange and state reserves worldwide. Overusing sanctions could, over time, put these advantages in jeopardy if international resentment of such power were to spread. Likewise, since multilateral sanctions are far more effective than unilateral ones, the diplomatic cost and effort to secure cooperation on sanctions only increase with their use.

Overuse is not the only risk to the effectiveness of sanctions as a policy tool. Poorly designed sanctions, even in pursuit of a noble goal, reduces the credibility of U.S. diplomacy on the international stage. The decades-long unilateral embargo on Cuba by the United States is one such example. Without international partners, the economic consequences were severe enough for Cuba's dictators to cast blame on the United States, but not severe enough to displace the regime. Instead of isolating Cuba, the United States found itself isolated and painted as a bully on the world stage.

Another example, according to Meg Lundsager, former U.S. Executive Director of the International Monetary Fund Board, resulted from Congressional efforts to punish nations which failed to comply with the "minimum standards for the elimination of trafficking" found in Section 108 of the Victims of Trafficking and Violence Protection Act of 2000. The U.S. representation within the IMF was directed to give notice that the United States would oppose any loan package going to those countries. Unfortunately, the United States does not have a veto over loan packages and cannot stop a loan by itself. Not only did the effort fail to prevent any loans from gaining approval, IMF staff and country staff had no interest in U.S. input on the loan packages it opposed, completely undermining U.S. effectiveness in pushing for best practices on those loans.[10]

To ensure that sanctions remain an effective policy tool, they must be brought to an end once goals are reached (or partially reached). If targeted countries believe that the United States will continue to "move the goalposts" with regards to the demands tied to sanctions, it reduces their incentive to come to terms. It makes it more difficult to sustain the cooperation of international partners who themselves are incurring costs and expending effort to participate in sanction regimes. Since state capacity is finite, failing to end sanctions while introducing new ones places strain on our own government to administer a growing roster of sanctions.

Perhaps the most important reason to have an exit strategy for each sanctions policy is to achieve the actual goal of the policy itself. As Richard Wood, a sanctions expert at the British Embassy in Washington observed: "The two times sanctions are most effective are immediately before they are implemented and immediately before they are lifted."[11] Targeted governments have great incentive to negotiate in order to have sanctions removed. And if the United States and its partners maintain their credibility in implementing, enforcing, and eventually removing sanctions, they imbue the sanctions tool with its greatest deterrent strength, even before it is used.

Removing sanctions can prove more difficult than imposing them. U.S. sanctions policies imposed through legislation tend to be the most difficult to remove—even when the policy effectiveness was minimal, or the original goal had been fulfilled. As previously noted, U.S. sanctions on Cuba proved ineffective for decades, yet remained in place because domestic politics made it impossible to remove them. The Jackson-Vanik legislation continued to apply to Russia and other successor states to the Soviet Union for years after the original conditions of the legislation had been met—Russia and the post-Soviet states had become market economies that allowed free emigration. In the very legislation graduating Russia from Jackson-Vanik, new sanctions on Russia were introduced—the Magnitsky Act, targeting Russian officials involved in human rights abuses, especially in connection with the death in prison of Russian lawyer and whistleblower Sergei Magnitsky.[12] So long as the U.S. Congress finds it easier to impose sanctions by law than to remove them, the ability of sanctions to achieve the desired results will be limited.

This is not to say that American policymakers must always be on the lookout for a way to bring every sanctions regime to a premature end. For states or non-state actors who continue violate international law, support terrorism, or pursue nuclear weapons, sanctions are often more important as a tool to constrain capacity than to induce behavior change. International sanctions against North Korea are a key example.

The Indispensable Tool

Sanctions have changed a great deal as a tool of American statecraft, and the potential for this tool to achieve defined goals at an acceptable cost is vastly greater than twenty years ago. Like any other tool, sanctions must be used properly and in pursuit of realistic goals. Sanctions also require the proper environment to be effective—international coalitions; developed state capacity to enforce complex provisions; and a comprehensive strategy supporting the sanctions. Finally, there has to be an exit strategy from any sanctions policy—one that recognizes that a negotiated settlement is more likely and preferable to waiting for a complete surrender.

What does our growing understanding of sanctions as a tool of statecraft tell us about the chances of success for changing Russian behavior towards Ukraine?

It is far too soon to tell what measure of success, if any, U.S.-EU sanctions against Russia will have. There is plenty of evidence that even the narrowly targeted sanctions have enabled the Putin government to produce a "rally around the flag effect." Putin has never had greater domestic support. The impact on the Russian economy has been noticeable, especially and perhaps mostly because of the coincidental collapse in the price of oil, the mainstay of the Russian state budget. From the other side, maintaining the U.S.-EU sanctions coalition will be difficult. While the EU looks set to extend sanctions against Russia for another six months, one member nation can still veto the current or the next extension.[14] If the EU does not maintain sanctions, it will be difficult for the United States to sustain them alone.

The U.S. government approach to imposing sanctions on Russia reflects the lessons learned from decades of experience. The coordination with our partners in Europe is strong. The focus of the sanctions is designed to maximize the cost to Putin and his ruling circle (to the degree possible), while minimizing costs to ordinary Russians and to our and our partners' economic interests. Finally, the administration has realistic expectations for what sanctions can do, and are doing. According to Ambassador Daniel Fried, Coordinator for Sanctions Policy at the U.S. Department of State:

> "…[W]e cannot expect sanctions to lead to surrender. The relevant question is rather: are sanctions changing the context in which Russia's decisions are being made? Would we have achieved the Minsk package, even with its weakness of implementation, without sanctions? Consider the alternative of the failure of transatlantic unity and no sanctions. What would President Putin have then concluded about the character and strength of the West? Would we then have more than occupied Crimea and part of Donbas? Would Russia have grabbed more territory, and would we face a full-fledged puppet state of "Novorossiya"?"[15]

While the imposition of sanctions against Russia follows a familiar playbook, in one sense the policy is without precedent. The Russian economy is more than twice as large as all other economies sanctioned by the EU combined.[14] Putin likely counted on Russia's size and importance to the European economy to make Russia "too big to sanction" when he first moved against Ukraine and annexed Crimea. Instead, the EU moved quickly to impose an escalating series of sanctions, alongside the United States.

Clearly, the sanctions against Russia are having an impact. So far, the coordination and resolve on both sides have remained strong. But in order for the sanctions have the greatest impact, the U.S.-EU partners need to be ready to use the incentive of lifting them as leverage in a negotiated compromise with the Russian government.

Endnotes

1. For the Kennan Institute/Jackson Foundation conference panels, keynote address, and associated interviews, see "Assessing U.S. Sanctions: Impact, Effectiveness, Consequences," Wilson Center, April 2015, http://wilsoncenter.org/collection/assessing-us-sanctions-impact-effectiveness-consequences.

2. For a history of U.S. sanctions against Cuba, see Danielle Renwick and Brianna Lee, "CFR Backgrounders: U.S.-Cuba Relations," Council on Foreign Relations, last updated May 29, 2015, http://www.cfr.org/cuba/us-cuba-relations/p11113.

3. For a history of sanctions on Iraq, see Peter Wallensteen, Carina Staibano, and Mikael Eriksson, *The 2004 Roundtable on UN Sanctions against Iraq: Lessons Learned, Department of Peace and Conflict Research*, Uppsala University, 2005, http://pcr.uu.se/digitalAssets/173/173819_1iraqreport_050210.pdf.

4. See George Lopez presentation, Panel 1: "Do U.S. Sanctions Work: A Historical Look at Sanctions," April 16, 2015, at http://wilsoncenter.org/event/assessing-us-sanctions-impact-effectiveness-consequences.

5. Ibid.

6. For a history of the impact of sanctions on South Africa, see Alexander Laverty, "Impact of Economic and Political Sanctions on Apartheid," *The African File* (blog), June 7, 2007, http://theafricanfile.com/politicshistory/impact-of-economic-and-political-sanctions-on-apartheid/.

7. On the history and legacy of the Jackson-Vanik sanctions, see F. Joseph Dresen and William E. Pomeranz, eds., *The Legacy and Consequences of Jackson-Vanik: Reassessing Human Rights in 21st Century Russia*, Kennan Institute Occasional Paper 305, Wilson Center, 2011, http://www.wilsoncenter.org/sites/default/files/op305_legacy_consequences_jackson_vanik_pomeranz_2010.pdf.

8. See Daniel Drezner presentation, Panel 1: "Do U.S. Sanctions Work: A Historical Look at Sanctions," April 16, 2015, at http://wilsoncenter.org/event/assessing-us-sanctions-impact-effectiveness-consequences.

9. See George Lopez presentation, April 16, 2015.

10. For a more complete review of the technical aspects of sanctions in the current Russian case, see David Horn and Marik String, "Putin on the Brakes," *Foreign Affairs*, June 8, 2015, https://www.foreignaffairs.com/articles/russian-federation/2015-06-08/putin-brakes.

11. See Meg Lundsager presentation, Panel 3: "Sanctions and Statecraft in the 21st Century," April 16, 2015, at http://wilsoncenter.org/event/assessing-us-sanctions-impact-effectiveness-consequences.

12. See Richard Wood presentation, Panel 2: "The Birth of Smart Sanctions: Iran and Russia," April 16, 2015, at http://wilsoncenter.org/event/assessing-us-sanctions-impact-effectiveness-consequences.

13. See Kathy Lally and Will Englund, "Russia Fumes as U.S. Senate Passes Measure Aimed at Human Rights," *Washington Post*, December 6, 2012, http://www.washingtonpost.com/world/europe/us-passes-magnitsky-bill-aimed-at-russia/2012/12/06/262a5bba-3fd5-11e2-bca3-aadc9b7e29c5_story.html.

14. See Horn and String, "Putin on the Brakes."

15. See Daniel Fried conference keynote address, April 16, 2015, http://www.wilsoncenter.org/publication/assessing-us-sanctions-impact-effectiveness-consequences.

16. See Richard Wood presentation, April 16, 2015.

The Wilson Center

wilsoncenter.org
facebook.com/WoodrowWilsonCenter
@TheWilsonCenter
202.691.4000

The Kennan Institute

www.wilsoncenter.org/kennan
kennan@wilsoncenter.org
facebook.com/Kennan.Institute
@kennaninstitute
202.691.4100

F. Joseph Dresen

Program Associate, Kennan Institute
joseph.dresen@wilsoncenter.org

F. Joseph Dresen is a program associate at the Woodrow Wilson Center's Kennan Institute, where he is responsible for public events, conferences, and corporate outreach. He has edited and co-edited Institute publications on issues including Russian energy, human rights, and rule of law issues.

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027