Forum for American Leadership

How to Use Economic Sanctions Effectively

May 18, 2021

In recent years, economic sanctions have become a powerful tool of statecraft, applied to address a wide range of national security challenges, from terrorism and weapons proliferation to human rights abuses, corruption, and efforts to undermine democracy. As the Biden Treasury Department undertakes its announced review of U.S. sanctions policy, it should keep in mind the following core principles for ensuring that the United States continues to enjoy powerful economic leverage to pressure our adversaries and defend our national interests.

- **Sanctions effectiveness should be measured not only by changes in our adversaries' behavior, but also in terms of sanctions' disruptive capability.** The public discourse on sanctions effectiveness often focuses on whether they can alter our adversaries' behavior, such as compelling Iran to come to the negotiating table, deterring Russia from making further advances into Ukraine, and pushing North Korea to give up its nuclear program. While these are valid metrics, the Treasury Department should also measure sanctions effectiveness by how targeted actions disrupt illicit financial networks and stop millions of dollars in hard currency from reaching terrorist organizations, human rights abusers, and weapons proliferators. These disruptive effects can be difficult to disclose publicly, but they are no less important in determining whether a sanctions program or action is effective. In addition, Treasury should continually monitor sanctions' impact, to ensure they are having the intended effect and not causing unintended consequences.

- **While the U.S. Dollar will likely remain the international reserve currency for the foreseeable future, the United States should carefully assess the impacts that aggressive sanctions action may have in encouraging the development of long-term workarounds.** Long-term threats to the efficacy of financial sanctions include efforts by China to set up alternative financial payment systems (e.g., an internationalized, *People's Bank of China*-backed digital currency). Likewise, recent aggressive use of sanctions has led U.S. allies and partners to establish nascent workarounds, though none have been particularly successful to date. Such systems could limit the impact of U.S. sanctions by insulating transactions conducted over these systems from U.S. jurisdiction.

  The United States should be prepared to act aggressively and unilaterally if it is in our national security interest, and speculative concerns about undermining the long-term efficacy of sanctions should not outweigh clear, immediate benefits of the use of sanctions. That said, the United States should, where possible, work to deploy sanctions in ways that do not erode their long-term effectiveness. For example, the

United States should be predisposed to work with allies and partners to either undertake joint actions or secure general consensus that U.S. sanctions programs are not directly averse to their interests. In addition, Treasury should recognize that certain types of sanctions (such as secondary sanctions that apply broadly to jurisdictions) are more likely to cause this backlash, and to the extent possible should target specific individuals and entities who engage in illicit activity.

- **Effective sanctions enforcement is critical to the overall success of our sanctions programs**. Effective sanctions programs are often like a game of cat and mouse; U.S. adversaries attempt to evade sanctions, and the United States works to uncover and counter these schemes. The aggressive enforcement posture necessary to detect and disrupt such schemes – as well as to enlist the private sector effectively to help stop such illicit activity – requires substantial resources. While recent budget proposals to Congress have included new resources for both OFAC and FinCEN, the needs of these offices should be carefully monitored and their resources bolstered as necessary to ensure they can effectively pursue sanctions evaders and those helping them, particularly as the Administration implements the Anti-Money Laundering Act and the Corporate Transparency Act. This resourcing will become especially important as FinCEN builds out its beneficial ownership registry and works to ensure that illicit actors are unable to abuse the U.S. financial system.

  Robust enforcement is also critical to success because it helps create a culture of sanctions compliance across industries and countries. This culture, in turn, increases the likelihood that the private sector can detect and disrupt sanctionable activity.

  In addition, the United States should work with partners to bolster their sanctions enforcement. Most countries do not have robust sanctions enforcement agencies. Technical support and diplomatic pressure designed to bolster partner capacity will assist allies in detecting and disrupting certain illicit activity. Likewise, effective enforcement often takes diplomatic capital; for example, certain UN sanctions on Lebanon and Yemen have not been particularly effective because we have not made their enforcement a priority with the relevant governments.

- **Ensuring the provision of humanitarian goods and services to innocents in sanctioned jurisdictions is important, but Treasury should be cautious about broadening the scope of the humanitarian exceptions**. The safe delivery of humanitarian products such as medicines to at-risk populations in countries like Iran, North Korea, Syria, and Yemen is an important mission, and U.S. sanctions should be carefully designed not to impede such humanitarian objectives. At the same time, officials in countries such as Iran and Venezuela, while often crying foul that U.S. sanctions restrict the sale of humanitarian products to their people, also routinely reject the delivery of such products or steal them and corruptly sell them on the black market for personal gain. Any changes to the humanitarian general licenses or limited sanctions unwinding to allow for increased delivery of humanitarian goods should be done in an exceedingly cautious manner, with extensive controls to ensure that such products are not being used to enrich sanctioned persons or regime officials at the expense of at-risk populations. Likewise, Treasury should ensure that it is able to respond quickly to interagency requests in the humanitarian space.

- **Interagency coordination in the sanctions review process is critical.** Any review and assessment of U.S. economic sanctions must take into account all the elements of U.S. economic power. In recent years, the State Department has developed additional targeting capabilities to disrupt our adversaries' abilities to engage in malign activities. Likewise, the Commerce Department has begun aggressively using its export control authorities to ensure that countries such as China, Russia, and Iran are prevented from accessing sensitive U.S. technology and goods. These tools are closely linked and are often used to achieve the same objectives. Any effective Treasury review of its sanctions authorities should incorporate their perspectives to ensure that U.S. economic coercion policy is generally aligned.

- **Congress should be included in the review process, as congressional buy-in for sanctions programs can be a critical factor in their success.** In recent years, Congress has taken an increasingly important role in U.S. sanctions policy, passing significant legislation and engaging in aggressive oversight. This increased role can often work to the benefit of U.S. sanctions policy; by passing specific sanctions legislation, Congress can bolster the Administration's efforts to impose powerful sanctions and can signal increased resolve to our adversaries. Likewise, ensuring congressional buy-in for sanctions actions can decrease the chance that U.S. sanctions policies vary significantly from administration to administration. The Administration should brief the relevant committees of jurisdiction and other interested members during the sanctions review process, both to solicit their input and to ensure open lines of communication regarding Executive Branch perspectives. In addition, Congress should also undertake a review of the International Emergency Economic Powers Act (IEEPA). In recent years, presidents have used the broad IEEPA authority to engage in a wide range of economic actions, from restricting trade to imposing sanctions to limiting certain investment in the United States. While many of these actions were justified and appropriate, Congress should consider ways in which it can play a greater role in the executive branch's exercise of IEEPA authority.

The Forum for American Leadership (FAL) is a non-profit organization that presents expert analysis and national security recommendations to policymakers in Congress and the Executive Branch.

Want to learn more about this subject, arrange an interview, or set up a briefing with FAL experts? Contact us here.