House Foreign Affairs Committee
Tom Lantos Human Rights Commission

Hearing
on
Considerations on Economic Sanctions

October 4, 2022 – 11:00 a.m.
Virtual via WebEx

Statement of Dr. Daniel W. Drezner
Professor of International Politics,
Fletcher School of Law and Diplomacy, Tufts University

Thank you, Chairman McGovern and co-chair Smith, for this opportunity to testify. I have been researching economic sanctions for more than 25 years. When I first began researching this foreign policy tool, the conventional wisdom in Washington, D.C. was that sanctions served a purely symbolic function of "doing something" when there was no other available policy option. A quarter-century later economic sanctions have become the policy option of first resort, as the Biden administration acknowledged last year. There is no denying that 21st century sanctions are more potent and more targeted than the comprehensive trade embargoes commonly associated with last century's sanctions episodes. Nonetheless, I am concerned that U.S. policymakers, including members of Congress, are overestimating the efficacy of current sanctions and underestimating their collateral damage. This is one reason I recently authored a peer-reviewed paper entitled "How Not to Sanction" for *International Affairs*, which I am submitting as my written testimony.

I do not dispute that targeted financial sanctions are more likely to hurt the economic elites of targeted economies. Furthermore, the combination of the dollar's centrality and the reputational concerns of financial institutions has led to considerably less evasion of these sanctions than the trade embargoes of last century. I am certainly not opposed to the threat and/or use of economic coercion in principle.

Nonetheless my research, as well as the research of many esteemed colleagues, suggests that recent U.S. enthusiasm for economic sanctions has been exaggerated. This is for several reasons. First, as the potency of financial sanctions has increased, so have the demands the United States have linked to the sanctions. For example, when the United States exited the JCPOA with Iran and re-imposed sanctions, then-Secretary of State Mike Pompeo bragged about imposing "the strongest sanctions in history." He then announced a list of twelve demands on Iran's regime that would have to be met before sanctions would be lifted, eight of which were unrelated to the nuclear issue. The list seemed so onerous that most observers inferred the unstated goal was regime change. Even Secretary Pompeo acknowledged that his list of demands was "pretty long." With demands so outsized, no sanctions regime will be able to reach a successful resolution.

Venezuela offers another example. It could be argued that the United States had ideal conditions to impose sanctions on that country in 2019. The Maduro regime was running its own economy into the ground, there was a multilateral coalition that supported its ouster, and there was a strong civil society movement within Venezuela that supported the sanctions. Despite these ideal conditions for economic coercion to work, the demand for regime change was perhaps too ambitious. The result has been the further immiseration of the Venezuelan people and the worsening of a serious migration problem in this hemisphere. If sanctions cannot work in these circumstances, imagine the likelihood of success in less favorable conditions. U.S. policymakers either need to be more judicious in their demands or more circumspect in imposing sanctions.

The second reason for a more measured approach to sanctions is that the political and humanitarian costs of sanctions on the target population – as well as the populations of neighboring countries – continues to be underestimated. One of the selling points of targeted financial sanctions was that they would function like the precision-guided munitions of economic statecraft, harming elites while sparing populations.

The latest wave of sanctions scholarship has been nearly unanimous in its assessment of the negative spillover effects of sanctions. Even financial sanctions lead to increased suffering in the target economy. This is for multiple reasons. First, private sector actors engage in overcompliance and de-risking, magnifying the effects beyond what was intended. Second, targeted sanctions are usually put in place on top of more comprehensive sanctions that are already in place. The targeted sanctions are therefore additive in effect. Second, sanctions aimed at weakening the targeted government will often cause that regime to adopt more repressive measures to stay in power. In my research for the Center for a New American Security, I found that comparing sanctioned countries with peers revealed a marked decline in human rights protections, an increase in perceived corruption, and a decline in almost every measure of human flourishing. This is particularly true for long-lasting sanctions. As the United States has become more ambitious in its sanctions aims, the U.S. has also created situations in which the average duration of sanctions imposition has lengthened.

Another hidden cost of economic sanctions comes from their effect on neighboring countries. Trade embargoes always incentivize corruption in neighboring states by outlawing what would otherwise be ordinary market transactions, creating a fertile ground for black-market activity. Financial sanctions dampen this effect but still create a window for cash transactions across borders. More significantly, even targeted sanctions, in combination with increased repression, can lead to large outward migration flows from a sanctioned state. While these citizens are often seeking a better life, in sufficient numbers they can overwhelm neighboring countries, breeding resentment and civil strife.

Proponents of economic sanctions should be sensitive to the prospect of catastrophic failures and spillover effects. Just as successes can lead to excessive optimism about sanctions, catastrophes can distort how both policymakers and public's view this instrument of statecraft. To paraphrase Montesquieu, catastrophic sanctions weaken necessary sanctions. Take care with this instrument.