Economic Studies at BROOKINGS

POLICY BRIEF | JULY 2024

A SANCTIONS GUIDEBOOK FOR POLICYMAKERS

EMILY BLANCHARD, ASSOCIATE PROFESSOR, TUCK SCHOOL, DARTMOUTH COLLEGE

The scale and scope of economic sanctions and export controls deployed worldwide have expanded dramatically in recent years. Governments are imposing more numerous, powerful, and broad-ranging measures to limit economic transactions across—and even beyond—their national borders. These actions are not capricious, but rather they are in response to gross violations of international law and territorial integrity, human rights abuses, and the emergence of dual use technologies with profound national security implications. However warranted these actions, the new generation of sanctions and export controls—from recently imposed limits on technology trade with China to the unprecedented sanctions against Russia in response to its horrific invasion of Ukraine—is disrupting global commerce more profoundly and on a larger scale than ever before. Unless carefully calibrated, such muscular interventions in international commerce threaten to impose excessive costs, trigger an escalating spiral of retaliation, and undermine the already-embattled, rules-based architecture at the foundation of the global trading system.

If governments continue along this path—and circumstances and evidence suggest they must and will—they need to exercise care in designing and implementing sectoral sanctions and export controls with the potential to reshape the global pattern of production, trade, financial flows, and innovation. The United States has a special responsibility to get this right, as it remains the single most influential actor in global markets and is still, at least for now, the standard-bearer for international economic policy norms.

This essay proposes a set of guiding principles for policymakers as they craft and deploy new sanctions and export controls. The idea is simple: to ensure that key questions are addressed before new sanctions or export control measures are undertaken. Robust and rigorous planning offers the best chance to tailor sanctions or export control measures that deliver efficient, effective, and predictable results.

ASSEMBLE THE TEAM

Due diligence in sanctions setting demands expertise, judgement, and discipline. For this, interagency and interdisciplinary collaboration is essential. Different government departments and agencies bring distinct and complementary forms of economic, political, legal, scientific, and security expertise critical for an accurate assessment of the likely costs and consequences of a given economic action. Likewise, different parts of government are charged to reflect and champion distinct policy priorities—from narrow U.S. commercial interests to macroeconomic stability, foreign policy objectives, and national security—each of which must be carefully considered during the policymaking process. Crucially, interagency perspectives and experts should be convened at the outset of deliberative processes; doing so will maximize both the efficacy of any policy actions undertaken (which will be better designed with input from of skilled experts across all relevant domains) but also the efficiency of the policy process (by minimizing the chances of "back to the drawing board" last-minute objections).

As with all interagency coordination, a key challenge is to balance process with pragmatism. A flexible approach is prudent. Sometimes—for instance in response to emergency situations, such as the days following Russia's brutal attack on Ukraine on February 24, 2022—a quick-turn interagency task force may need to take the place of the customary interagency policy committee (IPC) process. Having identified experts and a honed "sanctions playbook" ready in advance will also help; more on this below.

More generally, a swift but thorough interagency process should span both equities (across departments and agencies) and areas of expertise when contemplating sanctions or export controls with the potential to disrupt whole sectors of the economy or geographies. While this default approach is commonplace, it is not universal, particularly in the complex realm of dual-use technologies. Historically, U.S. export controls applied under the U.S. Department of Commerce's Export Administration Regulations (EAR) were administered by a small cadre of national security experts across a select set of U.S. departments and agencies. This approach made sense when there was little risk of significant economic or diplomatic fallout from narrowly scoped applications of EAR. Today's circumstances are often different, as the sweeping new restrictions on technology trade with China unveiled October 7, 2022,[1] make plain. When national security controls can have profound economic implications, it is imperative to draw upon the full spectrum of expertise in across U.S. agencies. The United States government is fortunate to have an exceptionally deep bench of experts across its departments and agencies. It should call on them early and often.

DEFINE ACHIEVABLE OBJECTIVES AND SUCCESS CRITERIA

Once an interagency team has been assembled, its first order of business is to identify specific and achievable goals together with concrete metrics for success.

Sanctions and export controls may be designed to achieve one or more distinct goals; the key is to be explicit in defining realistic and time-limited objectives. At the most ambitious end of the spectrum are sanctions designed to change an adversarial regime's policy (e.g., to induce Iranian leaders to halt the country's nuclear weapons program).[2] Other times, the goal is to influence key strategic outcomes even though the targeted regime or entity is not expected to change policy (e.g., to slow China's development of certain dual-use technologies despite continuing support by Beijing).[3] In still other circumstances, the objective is to impose punitive costs (e.g., revoking visas for the immediate family members of Nicaragua's barbaric dictator, Daniel Ortega)[4]; sometimes these punitive measures are crafted to simultaneously influence market behavior by third parties (for instance, the Western oil price cap mechanism, imposed in the wake of Russia's brutal further invasion of Ukraine, was designed reduce Russia's oil revenues while ensuring that global oil markets continue to function).[5]

Finally, while minimally consequential for the global economy, some sanctions are intended simply to signal condemnation—to "do something"—despite negligible expected punitive or economic effects (U.S. sanctions on imports of Russian seafood, taken in solidarity with other G7-plus Western coalitions members, for example.)[6] There is nothing "wrong" with such sanctions—by definition, they are minimally costly from an economic point of view—but it is essential that they be judged by a commensurate yardstick. One cannot deem symbolic sanctions a "failure" because they did not topple an adversarial regime.

Success must then be defined according to the goal using concrete, observable metrics defined up front. For example, because the primary objective of Western coalition restrictions on sales of semiconductors and other components of precision missiles[7] to Russia is to make Putin's war against Ukraine costlier and more difficult for the Kremlin, success must ultimately be defined by the cost and quality of Russia's battlefield armaments. Direct metrics of progress include changes in the cost and quantity of Russia's imports of key materials and the increased complexity and inefficiency of Russian procurement networks; conversely, measures of sanctions evasion—third party trade, etc.—indicate where controls should be tightened further. The Western price-cap mechanism imposed on Russian oil shipments offers another example of how to measure progress: The absence of an adverse oil price spike indicates success in maintaining stable global oil markets, while the discount applied to Russian oil measured by, e.g., the Ural-Brent spread, can be used to monitor the punitive impact of the sanctions.

Once defined, these success metrics serve as critical guideposts and guardrails in both subsequent policy action and public communications strategy, as described below. Corollary: Whatever the scenario, it is critical to avoid setting unrealistic goals, as doing so can steer expectations, decisionmaking, and communications wildly off course (examples to follow.)

DESIGN THE POLICY BASED ON ROBUST ANALYSIS OF COSTS AND CONSEQUENCES

Effective sanctions setting demands two complementary forms of expert analysis to design a proposed policy action and anticipate its likely effects: First, a comprehensive economic evaluation of likely costs and consequences of proposed policy options, informed by rigorous assessment of the economic linkages within and across countries; and second, a rich understanding of the likely political, diplomatic, security, and humanitarian implications the proposed action(s) for the target, the sanctions-imposing "home" country, and the rest of the world including partners and allies.

Economic analysis is hard but necessary. In the modern global economy, goods, services, knowledge, and value are made and traded in the world. Global production networks knit together the interests and fortunes of firms, investors, workers, and industries across borders through global supply chains, international capital markets, and trade in "intangibles" like patents, trade secrets, and expertise. Economic analysis of sanctions and export controls must account for these multifaceted linkages, especially when actions are contemplated against key nodes of global production, innovation, or finance. For this, economists in the Departments of Commerce, Treasury, and State should partner with the Council of Economic Advisors, U.S. Trade Representative, and industry and scientific experts as appropriate.

Evaluating the political, diplomatic, security, and humanitarian implications of sanctions is just as important as estimating the likely economic costs and consequences. Some of this analysis lends itself to quantitative work—estimating changes in migration flows, for example—while other analysis is inherently qualitative; both approaches are essential. Crucially, these analyses must work in tandem, particularly in studying how any political responses will affect economic, humanitarian, diplomatic, and security outcomes, and vice versa.

It is particularly important to understand how other actors beyond the target—potential partners, adversaries, and bystanders—may respond to proposed sanctions or export controls. Incentives matter: analysis must anticipate how the proposed initial actions and likely counter-actions are likely to change incentives and options facing key governments, private sector players, and non-state actors.

Crucially, coordination (or lack thereof) with partners will often determine whether sanctions and export control measures have any chance of success. In many cases, sanctions or export controls are doomed to fail if imposed unilaterally—serving only to "rearrange the deck chairs" of global trade or finance by severing one bilateral trade tie only to replace it with another—with minimal consequence. For example, the raft of Western sanctions imposed on Russia in 2022 would have had little effect on Russia's ability to trade if countries had applied a patchwork, uncoordinated response. Cooperation among G7-plus countries was (and remains) critical for maximizing pressure on the Kremlin.[8] Likewise, the October 7, 2022 U.S. export controls on advanced semiconductors and equipment would not have curtailed China's access to key dual-use chips for long if key players Japan and the Netherlands had not also banned their exports to China for highly sophisticated equipment used to make those chips.[9]

The last step in evaluating the consequences of a proposed sanctions or export control action is the most easily overlooked: to evaluate the broader context. Does the action under consideration follow a well-worn track (e.g., instituting a travel ban on a known despot) or would it "break the glass" by using a policy action in such a way as to change fundamental beliefs about how, when, or why the U.S. government will curb global commerce? In cases of the latter, extra analysis and caution are warranted. While the best course of action may indeed be to break the mold—as many have argued is the case for the October 7, 2022 export controls and the (closely-related) Outbound Investment Program established by executive order in August 2023—one should do so with full appreciation of the inherently uncertain consequences of doing so. Changing expectations can have far-reaching and unexpected effects.

DESCRIBE THE DECISION TREE AND MAKE A GAME PLAN

Sanctions and export controls are dynamic policy tools: They are more effective when designed to adjust to market conditions, the reactions of targeted actors and the broader international community, and realized success or failure. While initial policy design is paramount, mapping out the rest of the game plan—including a clear and explicit endgame—is equally important. The process of anticipating sequences of possible outcomes and potential subsequent actions—defining the full `decision tree' that future policymakers will face—protects against myopia and provides clear criteria for escalation, de-escalation, and termination of sanctions and export controls. It also provides a powerful discipline against mission creep and non-credible posturing.

To protect against inertia, the game plan should include a timeline for regular review and specific, measurable performance indicators for assessing the effectiveness and efficiency of the sanctions or export control measures, and (thus) the triggers or thresholds that indicate when to adjust or remove policy instruments. These indicators should include the already-defined metrics for success, together with updated information on the realized costs and consequences of the policy and the updated probability of success (based on, e.g., the degree of sanctions compliance, unanticipated behavior, changes in market outcomes, and other external factors).

It is essential to delineate clear and credible off-ramps for easing or removing sanctions or export controls. This is easy when success criteria are met, as they were, for example, with the freeing of Nelson Mandela and the end of apartheid in South Africa. It is much harder when sanctions fail to achieve their stated purpose. Critics point to U.S. sanctions against Cuba as an object lesson in the danger of hubris. Short of regime change, it is unclear what defines "success," but the policy was designed without other off-ramps. What are the chances that the sanctions will suddenly topple the government nearly six decades after coming into force? The lesson: Sanctions must be designed with the awareness that they might fail. It is incumbent on today's policymakers to have a rich imagination and to plan for contingencies. This includes a rule for when to throw in the towel.

Criteria for escalation should be equally well thought-out, particularly to guard against empty threats that could undermine credibility. In response to Russia's 2014 annexation of Crimea, the United States issued an executive order authorizing potentially broad-reaching sanctions against Russian interests,[10] but despite Russia's continued antagonism, implementation was cautious, particularly after the Trump administration came to power. Some have argued recently that this demonstration of weakness may even have set the stage for Putin's invasion of Ukraine in 2022. Taking measures that authorize, but do not impose, significant-but-costly escalation can paint future policymakers into a corner if threats alone fail. By doing the backward induction—carefully and in advance—policymakers can craft a more credible, and therefore more effective, game plan.

PLAN AND COORDINATE COMMUNICATIONS

Finally, a clear and comprehensive communication plan is essential for the success of any sanctions or export control action. It not only signals the rationale, objectives, and expectations of the policy to the target but also informs and coordinates with allies, partners, and other stakeholders who may be affected by or involved in the policy implementation. Perhaps most importantly, clear and well-executed public communication is critical for maintaining public support, diplomatic coordination, and private sector compliance with the policy.

Another example from 2022 serves to illustrate the importance of designing a comprehensive communications strategy in advance. Following Russia's invasion of Ukraine in February 2022, G7 countries imposed a series of swift and dramatic sanctions actions against Russia's economy.[11] In the immediate wake of these initial sanctions, the value of Russia's currency, the ruble, plummeted in global markets. Predictably, a host of Western policymakers took credit for this change in exchange rates. In a speech in Poland in March 2022, for example, President Biden touted the "success": "As a result of these unprecedented sanctions, the ruble is almost immediately reduced to rubble." The problem, as any economist would readily acknowledge at the time, is that there was no guarantee that the ruble would stay weak given Russia's (then) dual surpluses (in its current account and fiscal balances) and its powerful ability (and subsequent demonstrated willingness) to impose draconian capital controls to stem capital outflows while requiring Russian companies to repatriate overseas earnings, which quickly boosted demand for the ruble. The ruble rallied quickly and was soon "trading" (in admittedly thin and heavily circumscribed markets) above its pre-invasion price.

By seizing on an apparent windfall opportunity to highlight Russia's economic woes in early 2022, Western governments created a counterproductive—and deeply misleading—goalpost for success. This early misstep was exacerbated by later predictions of the imminent collapse of the Russian economy (another prognostication that caused many economists to cringe). The long run consequence: These early communications stumbles have made the work of building and maintaining support for sanctions against Russia more difficult by creating unrealistic expectations, despite the success of western sanctions in meeting one of their most important objectives, which is to throw as much sand as possible into the gears of Putin's war machine.

THE PATH AHEAD

We are in a new era of rising geopolitical competition and conflict, defined by more powerful, numerous, and frequent deployments of economic sanctions and export controls. Using a combination of old laws and new authorities, governments are actively seeking to shape, and sometimes curtail, the exchange of goods, people, capital, ideas, and investment across borders. Many of these actions have far-reaching consequences for not only the targeted individual, entity, or country but for firms and individuals in the domestic economy and around the world. This essay argues for robust and empowered interagency collaboration for crafting successful sanctions and export controls based on clear-eyed assessment of achievable objectives, rigorous economic, political, and scientific analysis, adaptive game planning, and a comprehensive and coordinated communication strategy.

Endnotes

1 Bureau of Industry & Security. “Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to the People’s Republic of China (PRC),” October 7, 2022. https://www.bis.gov/press-release/commerce-implements-new-export-controls-advanced-computing-and-semiconductor.

2 The White House. “The Historic Deal That Will Prevent Iran from Acquiring a Nuclear Weapon.” https://obamawhitehouse.archives.gov/node/328996.

3 Atlantic Council. “What to Know about Biden’s New Tariffs on Chinese EVs, Solar Cells, and More,” May 14, 2024. https://www.atlanticcouncil.org/blogs/new-atlanticist/experts-react/what-to-know-about-bidens-new-tariffs-on-chinese-evs-solar-cells-and-more/.

4 Blinken, Antony J. “The United States Restricts Visas of 100 Nicaraguans Affiliated with Ortega-Murillo Regime.” United States Department of State, July 12, 2021. https://www.state.gov/the-united-states-restricts-visas-of-100-nicaraguans-affiliated-with-ortega-murillo-regime/.

5 Rosenberg, Elizabeth, and Eric Van Nostrand. “The Price Cap on Russian Oil: A Progress Report.” U.S. Department of the Treasury, May 10, 2024. https://home.treasury.gov/news/featured-stories/the-price-cap-on-russian-oil-a-progress-report.

6 Office of Foreign Assets Control. “Russian Harmful Foreign Activities Sanctions FAQ 1155,” December 22, 2023. https://ofac.treasury.gov/faqs/1155.

7 Miller, Chris. “The Impact of Semiconductor Sanctions on Russia.” American Enterprise Institute, April 2, 2024. https://www.aei.org/research-products/report/the-impact-of-semiconductor-sanctions-on-russia/.

8 The White House. “FACT SHEET: United States, European Union, and G7 to Announce Further Economic Costs on Russia.” The White House, March 11, 2022. https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-united-states-european-union-and-g7-to-announce-further-economic-costs-on-russia/.

9 Allen, Gregory C., Emily Benson, and Margot Putnam. “Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment.” Center for Strategic & International Studies, April 10, 2023. https://www.csis.org/analysis/japan-and-netherlands-announce-plans-new-export-controls-semiconductor-equipment.

10 “Executive Order 13660 of March 6, 2014, Blocking Property of Certain Persons Contributing to the Situation in Ukraine.” Federal Register, March 10, 2014. https://www.federalregister.gov/documents/2014/03/10/2014-05323/blocking-property-of-certain-persons-contributing-to-the-situation-in-ukraine.

11 DiPippo, Gerard, and Matthew Reynolds. “Sanctions in Response to Russia’s Invasion of Ukraine.” Center for Strategic & International Studies, March 2, 2022. https://www.csis.org/analysis/sanctions-response-russias-invasion-ukraine. The White House. “The Historic Deal That Will Prevent Iran from Acquiring a Nuclear Weapon.”

Disclosures and acknowledgements

This policy brief was produced as part of a May 2024 event organized by Brookings' Economic Studies and Foreign Policy programs entitled, "Sanctions on Russia: What's working? What's not?" This report and others presented at the event can be found online at https://www.brookings.edu/events/sanctions-on-russiawhats-working-whats-not/.

Blanchard served as chief economist of the U.S. Department of State from January 2022-November 2023 and is currently an unpaid special advisor for Policy Planning at the U.S. Department of State. The author did not receive financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. The author is not currently an officer, director, or board member of any organization with a financial or political interest in this article. The views expressed are not necessarily those of the U.S. Government.

The Brookings Institution is financed through the support of a diverse array of foundations, corporations, governments, individuals, as well as an endowment. A list of donors can be found in our annual reports published online. The findings, interpretations, and conclusions in this report are solely those of its author(s) and are not influenced by any donation.

BROOKINGS

1775 Massachusetts Ave NW,
Washington, DC 20036
(202) 797-6000
www.brookings.edu