

How Our Economic Warfare Brings The World To Heel

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Economic sanctions are an important foreign policy tool going back to America's founding. President Thomas Jefferson banned trade with Great Britain and France, which left U.S. seamen unemployed while failing to prevent military conflict with both.

Economic warfare tends to be equally ineffective today. The Trump administration made Cuba, Venezuela, Russia, Iran, and North Korea special sanctions targets. So this strategy has failed in every case. In fact, "maximum pressure" on both Iran, which has become more threatening, and North Korea, which appears to be preparing a tougher military response, has dramatically backfired.

The big difference between then and now is Washington's shift from primary to secondary sanctions. Trade embargoes, such as first applied to Cuba in 1960, once only prevented Americans from dealing with the target state. Today Washington attempts to conscript the entire world to fight its economic wars.

This shift was heralded by the 1996 Helms-Burton Act, which extended Cuban penalties to foreign companies, a highly controversial move at the time. Sudan was another early target of secondary sanctions, which barred anyone who used the U.S. financial system from dealing with Khartoum. Europeans and others grumbled about Washington's arrogance, but were not willing to confront the globe's unipower over such minor markets.

However, sanctions have become much bigger business in Washington. One form is a mix of legislative and executive initiatives applied against governments in disfavor. There were five countries under sanction when George W. Bush took office in 2001. The Office of Foreign Assets Control currently lists penalties against the Balkans, Belarus, Burundi, Central African Republic, Cuba, Democratic Republic of the Congo, Iran, Iraq, Lebanon, Libya, Mali, Nicaragua, North Korea, Somalia, Sudan, South Sudan, Syria, Ukraine-Russia, Venezuela, Yemen, and Zimbabwe. In addition are special programs: countering America's adversaries, counter-narcotics, counter-terrorism, cyber warfare, foreign election interference, Global Magnitsky, Magnitsky, proliferation, diamond trade, and transnational crime.

Among today's more notable targets are Cuba for being communist, Venezuela for being crazy communist, Iran for having once sought nuclear weapons and currently challenging Saudi and

U.S. regional hegemony, Russia for beating up on Ukraine and meddling in America's 2016 election, Syria for opposing Israel and brutally suppressing U.S.-supported insurgents, and North Korea for developing nuclear weapons. Once on Washington's naughty list, countries rarely get off.

The second penalty tier affects agencies, companies, and people who have offended someone in Washington for doing something considered evil, inappropriate, or simply inconvenient. Individual miscreants often are easy to dislike. Penalizing a few dubious characters or enterprises creates less opposition than sanctioning a country.

However, some targets merely offended congressional priorities. For instance, as part of the National Defense Authorization Act Congress authorized sanctions against Western companies, most notably the Swiss-Dutch pipe-laying venture Allseas Group, involved in the Nord Stream 2 natural gas pipeline project. GOP Senators Ted Cruz and Ron Johnson threatened Allseas: "continuing to do the work—for even a single day after the president signs the sanctions legislation—would expose your company to crushing and potentially fatal legal and economic sanctions."

Penalizing what OFAC calls "Specially Designated Nationals" and "blocked persons" has become Washington sport. Their number hit 8000 last year. The *Economist* noted that the Trump administration alone added 3100 names during its first three years, almost as many as George W. Bush included in eight years. Today's target list runs an incredible 1358 pages.

The process has run wildly out of control. Policymakers' first response to a person, organization, or government doing something of which they disapprove now seems to be to impose sanctions—on anyone or anything on earth dealing with the target. Unfortunately, reliance on economic warfare, and sanctions traditionally are treated as an act of war, has greatly inflated U.S. officials' geopolitical ambitions. Once they accepted that the world was a messy, imperfect place. Today they intervene in the slightest foreign controversy. Even allies and friends, most notably Europe, Japan, South Korea, and India, are threatened with economic warfare unless they accept Washington's self-serving priorities and mind-numbing fantasies.

At the same time the utility of sanctions is falling. Unilateral penalties usually fail, which enrages advocates, who respond by escalating sanctions, again without success. Of course, embargoes and bans often inflict substantial economic pain, which sometimes lead proponents to claim victory. However, the cost is supposed to be the *means* to another end. Yet the Trump administration has failed everywhere: Cuba maintains communist party rule, Iran has grown more truculent, North Korea has refused to disarm, Russia has not given back Crimea, and Venezuela has not defenestrated Nicolas Maduro.

Much the same goes for penalties applied to individuals, firms, and other entities. Those targeted often are hurt, and most of them deserve to be hurt. But they usually persist in their behavior or others replace them. What dictator has been deposed, policy has been changed, threat has been countered, or wrong has been righted as a result of economic warfare? There is little evidence that U.S. sanctions achieve much of anything, other than encourage sanctimonious moral preening.

Noted the *Economist*, “If they do not change behavior, sanctions risk becoming less a tool of coercion than an expensive and rather arbitrary extraterritorial form of punishment.” One that some day might be turned against Americans.

Contra apparent assumptions in Washington, it is not easy to turn countries into America’s image. Raw nationalism usually triumphs. Americans should reflect on how they would react if the situation was reversed. No one wants to comply with unpopular foreign dictates.

In fact, economic warfare often exacerbates underlying conflicts. Rather than negotiate with Washington from a position of weakness, Iran has threatened maritime traffic in the Persian Gulf, shut down Saudi oil exports, and loosed affiliates and irregulars on American and allied forces. Russia has challenged against multiple Washington policy priorities. Cuba has shifted power to the post-revolutionary generation and extended its authority private businesses as the Trump administration’s policies have stymied growth and undermined entrepreneurs.

The almost endless expansion of sanctions also punishes American firms and foreign companies active in America. Compliance is costly. Violating one rule, even inadvertently, is even more so. Chary companies preemptively forego legal business in a process called “de-risking.”

Even humanitarian traffic suffers: Who wants to risk an expensive mistake in handling relatively low value transactions? Such effects might not bother smug U.S. policymakers, but should weigh heavily on the rest of us.

Perhaps most important, Washington’s overreliance on secondary sanctions is building resistance to American financial dominance. Warned Treasury Secretary Jack Lew in 2016: “The more we condition use of the dollar and our financial system on adherence to U.S. foreign policy, the more the risk of migration to other currencies and other financial systems in the medium-term grows.”

Overthrowing the almighty dollar will be no mean feat. Nevertheless, arrogant U.S. attempts to regulate the globe have united much of the world, including Europe, Russia, and China, against American extraterritoriality. Noted attorney Bruce Zagaris, Washington is “inadvertently mobilizing a club of countries and international organizations, including U.S. allies, to develop ways to circumvent U.S. sanctions.”

Merchant ships and oil tankers turn off transponders. Vessels transfer cargoes at sea. Firms arrange cash and barter deals. Major powers such as China aid and abet violations and dare Washington to wreck much larger bilateral economic relationships. The European Union passed “Blocking Legislation” to allow recovery of damages from U.S. sanctions and limit Europeans’ compliance with such rules. The EU also developed a barter facility, known as Instex, to allow trade with Iran without reliance on U.S. financial institution.

Russia has pushed to de-dollarize international payments and worked with China to settle bilateral trade in rubles and renminbi. Foreign central banks have increased their purchases of gold. At the recent Islamic summit Malaysia proposed using gold and barter for trade to thwart future sanctions. Venezuela has been selling gold for euros. These measures do not as yet threaten America’s predominant financial role but foreshadow likely future changes.

Indeed, Washington’s attack on plans by Germany to import natural gas from Russia might ignite something much greater. Berlin is not just an incidental victim of U.S. policy. Rather,

Germany is the target. Complained Foreign Minister Heiko Maas “European energy policy is decided in Europe, not in the U.S.” Alas, Congress thinks differently.

However, Europeans are ever less willing to accept this kind of indignity. Washington is penalizing even close allies for no obvious purpose other than demonstrating its power. In Nord Stream 2’s case, Gazprom likely will complete the project if necessary. Germany’s Deputy Foreign Minister Niels Annen argued that “Europe needs new instruments to be able to defend itself from licentious extraterritorial sanctions.”

Commercial penalties have a role to play in foreign policy, but economic warfare is warfare. It can trigger real conflicts—consider Imperial Japan’s response to the Roosevelt administration’s cut-off of oil exports. And economic warfare can kill innocents. When UN Ambassador Madeleine Albright was asked about the deaths of a half million Iraqi babies from U.S. sanctions, her response was chilling: “We think the price is worth it.” Yet most of the time economic war fails, especially if a unilateral effort by one power applied against the rest of the world.

Washington policymakers need to relearn the meaning of humility. Incompetent and arrogant sanctions policies hurt Americans as well as others. Unfortunately, the resulting blowback will only increase.

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