

**EconoFact Chats: Economic Sanctions as a Foreign Policy Tool**  
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**Michael Klein**

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at [www.econofact.org](http://www.econofact.org).

**Michael Klein**

Conflict between countries can take many forms. The most obvious is war. But there are also forms of non-military conflict, such as economic sanctions. The use of economic sanctions has surged in the 21st century, as compared to the second half of the 20th century. Have sanctions been an effective means for influencing the actions of other countries? What conditions tend to make sanctions more or less effective? And what is the evidence concerning how economic sanctions, like war, cause collateral damage to innocents? To address these questions, I'm happy to welcome to EconoFact Chats Daniel Drezner. Dan is my colleague at the Fletcher School at Tufts University, where he is a professor of international politics. He is also a non-resident senior fellow at the Chicago Council on Global Affairs, and is a regular contributor to Foreign Policy, and the Washington Post. Dan also publishes an influential blog, Drezner's World. Dan, welcome to EconoFact Chats.

**Daniel Drezner**

Thank you very much. Thanks for having me.

**Michael Klein**

International relations scholars, like yourself, refer to 'economic statecraft.' What does that term mean, and how do economic sanctions fit into this concept?

**Daniel Drezner**

So, I think the best way to think about economic statecraft is that it's an umbrella term that refers to a whole variety of ways in which states try to use both economic incentives, and economic penalties to alter state behavior, and or constrain state behavior, depending upon the situation that we're talking about. When people think about economic sanctions, they normally think of disrupting a form of economic exchange for some purpose. The primary purpose, or what is usually thought of as the primary purpose, is economic coercion. Economic coercion is an instance in which you are imposing sanctions, you're disrupting what would otherwise be ordinary market activity, and expecting or demanding that the target change some policy or behavior. And the presumption being that if they do that, then the sanctions will be lifted. That's sort of how I think a lot of people intuitively think of sanctions. There are also, however, a fair number of sanctions where the goal isn't necessarily to change the behavior of the targeted actor, or the expectation is that the target isn't going to change their behavior. You are nonetheless imposing sanctions for a variety of other reasons, including norm enforcement, or deterrence, or trying to constrain their ability to do anything. And then the third category, which

is economic statecraft, includes all forms of economic sanctions, but also includes inducement strategies. The idea of signing trade deals with the goal of achieving a political end, or the idea of economic carrots or inducements of foreign aid that you might offer in return for a particular change in behavior. So, economic statecraft doesn't just include sticks; it also includes carrots.

**Michael Klein**

So, Dan, can you give some real-world examples of these sticks and carrots?

**Daniel Drezner**

So, with respect to coercion, one example that comes to mind and is certainly pertinent with respect to what's going on in the Middle East right now – in 1991, the United States withheld approximately \$3 billion in loan guarantees to the state of Israel, which needed those loan guarantees in order to be able to expand housing settlements in the occupied territories in the West Bank. The demand that the United States made, which was very clear, was that Israel attend the Madrid Peace Conference, which was basically designed in the wake of the First Gulf War. Eventually, the Shamir government capitulated. They attended the Madrid Peace Conference, which helped pave the way for the Oslo Accords. That was a clear sort of quid pro quo. That's an example of economic coercion.

**Michael Klein**

What about economic sanctions? I guess there are some really well-known ones, right?

**Daniel Drezner**

Sure, that would be an example of economic sanctions, but there are also cases where sanctions have been imposed where there was no real demand made. So, think, for example, during the Cold War, the CoCom embargo that NATO allies imposed on the Soviet Union as an attempt to restrict technology exports to that country. Or, much more recently, the U.S.-led export controls on China with respect to semiconductors that Japan and the Netherlands have now also signed on to.

**Michael Klein**

And economic statecraft is something that's a carrot rather than a stick?

**Daniel Drezner**

Sure, the United States, throughout the Cold War, often did this in terms of foreign aid. But actually, if we're thinking more recently, China comes to mind. China's Belt and Road initiative is clearly an instance in which China has offered a variety of economic inducements with the expectation that those inducements will yield more friendly foreign policies from the countries that are receiving the aid.

**Michael Klein**

So, I guess there's also the case of the sanctions on Cuba, and that denied them goods and services. But was there also a domestic political symbolic aspect to that?

**Daniel Drezner**

There were a lot of things going on with the Cuba embargo. I think, to be fair, when the sanctions were initially imposed, there was a hope that it would actually lead to regime change. But one of the things about sanctions is that over time, often, there are domestic constituencies and interest groups that have a stake in maintaining the sanctions. In the case of the Cuba sanctions, for example, you really had two constituencies in the United States that wanted to see the sanctions maintained on Cuba, regardless of whether it led to a change in the regime or not. The first group were Cuban emigres, essentially those who fled Cuba and migrated to Florida and elsewhere once Castro took power. These Cubans often had property in Cuba. They despised the communist regime and very much wanted to see Castro fall. They were also a significant voting bloc in Florida, which was a swing state for a long time. And so, as a result, both parties certainly catered to that interest group. The second interest group, which is a little more material, is the U.S. sugar lobby. The United States domestically manufactures sugar, but we're nowhere close to being globally competitive when it comes to sugar. And Cuba, for a variety of reasons, is a little more efficient in terms of its sugar production. And U.S. sugar producers did not want to have to compete with Cuban sugar, so they also were big fans of the embargo.

**Michael Klein**

I mentioned in the introduction that there's been a surge in economic sanctions in this century as compared to the half-century after World War II. What's the evidence on that Dan? And has this occurred at a time when armed conflict between countries has been less frequent?

**Daniel Drezner**

That's a great question. There is no denying that the evidence suggests, and there's now like five different data sets that sort of estimate the number of sanctions attempts that have been going on for at least the past 70 years. The data shows pretty clearly that after 1945, between 1945 and 1990, there were an average of maybe 13.5 sanctions being imposed per year. On the other hand, between 1990 and 2005, that average skyrocketed to more than 53 attempts every year. That's the latest in terms of some data. But anyone looking at more recent data shows that, if anything, it's gone up since then. Now, you ask whether that's correlated with a decline in the use of force. That gets a little bit complicated because, on the one hand, yes, you've seen a spike in sanctioning activity since the end of the Cold War. And if you take a look at conflict data sets, the use of force has probably declined since then. But that's also a slightly deceptive way of thinking about it because, first of all, correlation does not equal causation. Second, if you're going to talk about the primary sanctioner, it's the United States. And the United States has been more active in terms of both the use of force, and the use of economic sanctions since the end of the Cold War.

**Michael Klein**

Dan, you mentioned that one type of goal of sanctions is to get countries to change policies. What's the evidence on the efficacy of sanctions in realizing that goal? And what are the conditions under which sanctions seem to be more or maybe less effective?

**Daniel Drezner**

So, most of the data sets sort of code this in terms of whether or not you actually see a change in the target's behavior or a successful containment of the target's capabilities – it depends how you judge, but the success rate ranges from usually about one in four, to maybe two out of five, with most of the data sets showing about a 33% chance of a success. Now, again, you always have to evaluate economic coercion compared to the possible alternatives. So, there might be instances in which the sanctions did not work in terms of a successful coercion attempt, but it's not like there were other options that were necessarily more appetizing. In terms of what are the conditions under which sanctions will succeed, I can tell you some of the conditions, but I do want to preface this by pointing out that, in some ways, you have to think about this in the same way you think of baseball batting averages, which is to say there are certain conditions in place that are more likely to make sanctions to work. But even in the best-case scenario, it's not guaranteed they're going to work. And there are times where even when the conditions aren't right, they might actually work. So, there's a lot of different factors going on. But that said, I would say there are probably four factors that do increase the likelihood of sanctions working. The first, and this is going to sound really banal, but it's nonetheless important, is that any coercion attempt has to have an attached goal, a goal that is clear, well-defined, and possible for the target to meet. The way to think about sanctions is that there are two forms of credible commitment involved. The first is that the state that is sanctioning has to credibly threaten to impose sanctions, but they also have to be able to credibly promise to lift sanctions if the target acquiesces.

**Michael Klein**

Is it often the case that sanctions are imposed without sort of a clear statement of ‘this is what we want you to do?’

**Daniel Drezner**

It happens, unfortunately, a lot more often than you would expect. Or there are cases where the demands are either so gigantic that there's no way that the target is going to acquiesce, or there are multiple demands being made. So, if you look at, let's say, the United Nations sanctions imposed against Iraq after the end of the Gulf War, there were a lot of different things being asked of the Iraqis. And there was also the sort of implicit demand of Saddam Hussein no longer being in power. Or if you think of the Trump administration's reimposition of sanctions on Iran after exiting the JCPOA, the list of demands that the Trump administration articulated was so outsized that there was no way that anyone expected Iran to actually comply with any of them. Indeed, when Secretary of State Mike Pompeo listed them, he actually then ended by saying, admittedly, this is a long list, knowing that, in all likelihood, they weren't going to be met.

**Michael Klein**

So, do you think that was more of a symbolic move for domestic consumption, or even consumption among allies than really hoping to realize the goals?

**Daniel Drezner**

No, I think there are instances in which the sanctions are intended to accomplish a more subversive goal, which is very often, and this was the case with both Iraq in the 1990s and Iran after 2018. The goal was regime change. The goal was to impose sanctions so punishing that

ideally, there would be elements of the regime that would just say this is not worth it, that would lead to either a coup d'état, or a revolution from below that were theorized to solve the problem. In other instances, however, the goal is to weaken the economy to the point where their ability to do other things in terms of foreign policy is limited. That was definitely one of the goals of the Trump administration in terms of the reimposition of sanctions against Iran because while they were worried about the nuclear program, they were also concerned about Iran's ability to make mischief across the region, and the thought was if you cut off their economy, they would be less able to do this, which as it turned out was not accurate.

**Michael Klein**

Dan, you mentioned four factors, and you discussed one. What are the other three?

**Daniel Drezner**

The other three are generally recognized to matter. The first is multilateral cooperation. The more countries that are imposing the sanctions, the more difficult it is for the target to find alternative suppliers and or alternative markets. So anytime you have multilateral cooperation, usually the costs of the sanctions are greater. Another factor is you want sanctions that don't just hurt a target's population. You also want to be able to hurt the target's elite. So those that are associated with the government or associated with the target regime, if they have to pay a serious economic price, the thought is that might persuade the target government a little bit better. And the final factor is essentially expectations of future conflict. If the target anticipates that they're going to have frequent disputes with the sanctioning country, all else equal, they're going to be less likely to make concessions now. Because if they make concessions now, that will undercut their bargaining position in future conflicts, both in terms of their material capabilities, but also in terms of their reputation.

**Michael Klein**

One of the most high-profile examples of sanctions now are those that were imposed on Russia after its invasion of Ukraine. So, for example, one sanction was excluding Russian banks from the SWIFT international payment system. We have an EconoFact memo by Alessandro Rebucci about that. Another was an effort to prevent Russia from selling its oil and natural gas abroad. And then there were sanctions put on individuals and their ability to travel outside of Russia, and so on. How effective were these sanctions on Russia, and how is this an example of some of the points you brought up before?

**Daniel Drezner**

So, to answer the second part first, one thing in terms of the oil and natural gas sanctions that should be stressed is that their goal was not actually to prevent the international sale of oil and natural gas by Russia. The goal was to prevent or reduce the amount of profit that Russia could gain by selling these things. Indeed, this is one of the challenges in terms of the sanctions that the United States simultaneously did not want to take Russian energy out of global energy markets, because that would have led to spiking prices during a period where, if you recall, inflation was already pretty high. And that led to some difficulties because, in essence, they wanted to try to allow Russia to sell these things, but do so by imposing a price cap that would limit how much they could profit.

Long story short that hasn't worked terribly well. It's worked a little bit, but not all that much. In terms of the sanctions that were imposed financially, you could argue those succeeded for a brief time initially, as evidenced by the financial panic that you saw in Moscow in March of 2022, by the collapse of the ruble relative to the dollar, by the long lines you saw outside of ATM machines. But to be fair, the Russian central bank responded with alacrity to this, raising interest rates, and trying to come up with alternative payments and settlement systems. And now we're at a point where it would be hard to argue the sanctions really imposed that significant a cost on the Russian macro economy. It's caused some shifts within the composition of that economy, and it's made a few things more difficult, particularly in the first year of the sanctions. But increasingly, what has happened is that Russia has found a way to manufacture things indigenously and also has relied on China to play the role of what we often call in sanctions as a 'black knight,' which is to function as a substitute for both imports and exports from the countries that are sanctioning. And increasingly, China has not shipped military weapons to Russia to be clear, but other goods that are extremely vital to the Russian economy and the Russian war effort.

**Michael Klein**

And is there also, do you think, a lot of trade that goes unrecognized, that is breaking the sanctions?

**Daniel Drezner**

Absolutely. It is not a coincidence that in the years since the war started, you have seen a dramatic increase in what you would consider third-party trade, which is direct trade between Russia and Europe, and Russia and the United States, which was not great, at least between Russia and the United States, but between Russia and Europe fell by a fair amount. At the same time, you saw spikes in trade between Russia and Armenia, Russia and the United Arab Emirates, Russia and Central Asian countries like Kazakhstan and Uzbekistan, and Russia and Hong Kong. And those countries also experienced increases in trade with European countries and with the United States. So, what's clearly going on is that they are acting as third-party conduits for trade that is under penalty of direct sanctions.

**Michael Klein**

Shifting a little bit, my wife and I visited Cuba in 2015, and while there, the group that we were with went to a neighborhood where the Communist Party representative recounted how U.S. sanctions caused the death of a little girl who could not get proper medical treatment. So that story may or may not have been apocryphal, but there certainly is collateral damage from sanctions. Countries may try to target sanctions in an effort to minimize the suffering of innocent civilians and, as you said, Dan, to target elites. But does this, in fact, work? And is there any evidence about the collateral damage from sanctions?

**Daniel Drezner**

There is evidence on the collateral damage of sanctions. And depending upon the type of sanction, the collateral damage can be extremely significant. One of the things that you've seen with the evolution of sanctions is that it used to be that sanctions were sort of traditionally comprehensive embargoes. The idea was to restrict as much trade as possible. Beginning in the '90s and particularly in the 2000s, you saw the evolution of something called targeted sanctions,

where the idea was not to necessarily sanction the whole economy, but particularly to sanction particular sectors and or financial channels with the hope that that would hurt elites much more so than the target populations. And the evidence suggests that those kinds of sanctions do have a lesser humanitarian impact. But the truth is that in most cases where targeted sanctions have been employed, they're usually employed on top of more traditional sanctions. And so, the overall evidence suggests that while comprehensive sanctions cause the greatest humanitarian negative externalities, even targeted sanctions cause significant externalities in terms of poor health outcomes, poor governance, and even reduced lifespan.

### **Michael Klein**

Dan, as an international relations scholar, I'm sure you're familiar with the saying 'war represents the failure of diplomacy.' Do economic sanctions likewise represent the failure of diplomacy?

### **Daniel Drezner**

Michael, I still remember enough from my master's thesis in economics to remember that part of the problem here is that in econ, we think of bargaining like a Rubenstein game where, presumably, it should all be settled in the first iteration. And the better way to think about sanctions is that it's a form of coercive bargaining very often. That's one way of thinking about it. And often, even if the sanctions fail with the primary target, sometimes the goal is deterrence. The goal is not to necessarily convince Russia to not, you know, to get out of Ukraine. The goal is to convince other countries also contemplating territorial land grabs to not do so, and recognize that Russia is paying a reasonably high price for this, with the hope that that then deters third-party actors from considering. But there are other reasons why you impose sanctions, among others, norm enforcement. The idea that, let's say, if a country abuses human rights, if you impose sanctions, it might be that the target doesn't change their human rights behavior, but it does display that, let's say, the United States or other actors imposing the sanctions cares about human rights. But there is also no denying the fact that usually the best sanctions, the most, you know, useful sanctions, are the ones that are never employed. They're merely threatened. And so, very often, when sanctions are employed, you're correct that it does represent a breakdown in diplomacy.

### **Michael Klein**

And the way that you're describing it makes it, I suppose, especially challenging, empirically, to look at things because, you know, you won't have an observation where it says sanctions weren't put in place, but people thought they might have been. So, there's no way to actually check on some of the things that you're describing.

### **Daniel Drezner**

Correct, although there is work out there that has, you know, able to sort of look at codified threats because there are institutionalized channels sometimes where the United States and other actors might issue a threat and then see how the target behaves. But you're correct that part of the issue here is that very often, the sanctions that are most likely to work are the ones where there is no public awareness that they're actually being threatened because the moment they would go public, that obviously puts pressure on the target not to be seen as backing down in the face of coercive threats. And that's something you want to avoid.

**Michael Klein**

Well, this is a tremendously relevant topic, Dan. And I really appreciate your insights on this. It helps to inform what economists think about it. And also it helps us to understand many things that are going on in the world right now. So, thank you very much for joining me today on EconoFact Chats.

**Daniel Drezner**

Thank you for having me on.

**Michael Klein**

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