



Coercing the Unruly: The Perfect Storm of Sanctions War

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Introduction.

Key Trends in Sanctions Policy

Economic sanctions are becoming increasingly prominent on the list of foreign policy tools. However, the role of sanctions in current international relations goes beyond purely technical means of forcing a given state to comply with the will of other countries. Sanctions are becoming an indicator of a changing power balance between states, their sovereignty, and the hierarchy of international relations that they are part of.

Sanctions are hardly a recent phenomenon. In the 20th century alone, there were 174 cases of sanctions used by major powers and international organizations. The United States accounts for 109 cases, Great Britain – 16, the EU – 14, the Soviet Union and Russia – 13, and the UN – 20. Sanctions have traditionally been used as a weapon by economically developed states. Their economy was typically superior to that of the target countries by tens or even hundreds of times, which allowed them to remain relatively immune to retaliatory measures. Sanctions have been used as a precursor to the use of force to wear down an enemy. They have been a military deterrence tool, also aiming to prevent the development of nuclear programmes. In 80 cases out of 174, the initiating countries used sanctions to achieve political regime change in the target states. Sanctions have been adopted against allies as well to resolve ongoing political disputes. Notably, they have worked even better with allies than enemies.¹ All of this makes sanctions an important, if fairly unremarkable, element of the modern foreign policy process.

The situation has changed. Transformations are taking place in international relations that are difficult to describe solely in terms of balance of power or international

¹ See Drezner, D, 1998, *The Sanctions Paradox. Economic Statecraft and International Relations*, Cambridge University Press, p. 1-9.

norms. A new mix of independent variables has arisen. Being only one of many tools used in the context of foreign policy, sanctions, however, provide interesting information about its transformations. This is especially true of the most recent episodes, including sanctions against North Korea, Iran, Russia, and sanctions against China, which have not yet been introduced, but are being debated behind closed doors. Modern sanctions policies highlight several important trends.

First, sanctions have become a much more widely used alternative to the use of military force. Even though sanctions are usually accompanied by the rhetoric of military deterrence, the use of force has become a somewhat symbolic gesture. When sanctions were imposed on Iraq and Yugoslavia, Washington and its allies made recourse to military force without thinking twice. However, their policy with regard to Iran was completely different; they did not dare to attack from the air despite their considerable military superiority. A potential strike against North Korea is constantly discussed, but the risks associated with such a scenario preclude any action, and it is used only as a signal to Pyongyang. NATO's military build-up on Russia's borders is reaching new heights, but the outcome of a war against a nuclear superpower is obvious and would have the direst of consequences. The same can be said about China, which has not yet been caught in the sanctions crosshairs but is rapidly beefing up its military capability.

Second, sanctions are squeezing out official diplomacy and revealing the eroded nature of institutions and rules of the game. It appears that they are increasingly used as signals. When political messages drown in the stream of mutual trolling by official diplomats, sanctions become an alternative means of signalling and forcing the other party to heed the sender's position.

Third, sanctions reveal changes in domestic policy. Clearly, the loss of the usual ideological outline and the growth of populism exacerbate the problem of foreign policy legitimacy in developed countries. In order to respond to external crises and dodge the wave of populist criticism, it is necessary to present 'at least something' to the domestic constituency. Sanctions are indispensable in this regard. They are not the tired mantras pronounced by official diplomats that the public is unlikely to buy. They represent a concrete step that can be sold as part of a hard-line policy. Sanctions have thus evolved into a 'security theatre', where one party goes through the motions for the lack of more effective measures.

Fourth, sanctions have revealed a surprising viability of the most notorious (from the point of view of the initiators among the developed countries) offenders in the international order. This is despite their modest role in the global economy. Sanctions can be harmful, so the targeted countries may make occasional tactical concessions, but their policies remain unchanged, their military programmes continue to expand, and the political regimes remain fairly consolidated.

Fifth, sanctions trigger changes in the global financial architecture. The US attempts to take advantage of its dominant position in the international financial system motivate the targeted countries to create alternative payment and financial systems. Neither Iran nor North Korea are able to respond in this way. Russia is unlikely to cope with this as well, but its voice is much louder, and its experience of adapting to sanctions is more remarkable. If China decides to initiate creation of alternative systems as a fall-back option in case of a sanctions war against itself, the process of change could become irreversible. Today, Russia and China already lead several dozen developing countries that oppose unilateral sanctions imposed by developed countries. The China–Russia tandem is an alternative source of modernization that could be used in the event of pressure from the West.

Sixth and final, sanctions highlight the new reality of international coalitions. We are witnessing the global scaling up of the 18th century logic of the European diplomacy. Russia did not play the leading role in that system, but it could not be ignored, either. It was quite comfortable forming a coalition with one or more of the large players. Today, Russia faces a united and consolidated West. But on a global scale, even the consolidated West is only part of the big picture that is a globalized 18th century landscape, extremely compressed in time and space.² In sanctions wars, the role of the ‘black knight’ goes beyond the trivial smuggling of embargoed goods for quick profit. ‘Black knights’ – alternative partners of sanctioned countries – have taken on a more prominent political role. They undermine the established hierarchy and force it to change. In this case, war remains the only tool available to the proponents of the status quo, which is a truly dangerous situation given the nature of today’s international relations.

² *The comparison with the 18th century was borrowed from Alexei Fenenko.*

Sanctions: The Perfect Storm

Today's analysts and people on the ground disagree when it comes to the effectiveness of sanctions. How useful are sanctions as a coercive tool? Is there an optimal set of sanctions which could be considered the perfect storm that guarantees, if not a surrender to the demands of the initiating country, then at least some concessions? Until recently, the answers to these questions were mostly negative. Only one-third of the sanctions programmes³ in the 20th and early 21st centuries, or even fewer by some estimates, can be considered successful. Some target countries backed out even before sanctions were imposed and changed their policies, yielding just to the threat. Other countries toughened their positions and showed their determination to hold out to the end despite the most stringent measures. And yet, recent examples of sanctions use make it possible to single out certain basic elements of a successful sanctions war. They may vary insignificantly from country to country, but overall the recipe remains the same.

The cost of sanctions is the first and perhaps the most critical element. The higher the price for the target country, the higher the likelihood that the sanctions will work. Naturally, the cost/effect ratio is not linear. Often, the initiating countries ratchet up the pressure gradually, leaving themselves some room for using remaining levers to improve their bargaining position. It is quite rare for initiators to lay all their cards on the table up front. In turn, the target country may not feel the pinch of sanctions immediately, but only some time later, when their deferred effect manifests itself, or if the sanctions happen to coincide with an unfavourable economic cycle. For example, sanctions on oil exporters coupled with a fall in the price of oil increases the impact of sanctions many times over. Damage caused by sanctions can become evident at any point. Usually, the initiating country and the target country are unable to fine tune the sanctions damage in either increasing or reducing it. Nevertheless, with their economic superiority, the initiating states may well form a trend that creates more obstacles to growth for the target country, thus driving it into a corner.

³ An estimate of the success of one-third of sanctions cases is provided by G. Hufbauer and his colleagues in their famous work. But their critics point out that unsuccessful cases are much more numerous. See: Hufbauer, G, Shott, J, Elliott, K & Oegg, B, 2009. 'Economic Sanctions Reconsidered', third edition, Washington DC: Peterson Institute for International Economics. See also Pape, R, 1997, 'Why Economic Sanctions Do Not Work', *International Security*, vol. 22, no. 2, Autumn, p. 90-136.

The stability of a sanctions coalition and its very existence is the second element. The wider and steadier the coalition, the higher its legitimacy from the point of view of international law, the higher the likelihood of success. The United States is the most active player among the initiating countries. However, even this economic powerhouse occasionally found that its sanctions were ineffective when introduced unilaterally. Forming a sanctions coalition, that is, involving as many countries as possible in its sanctions policies, is one of the crucial methods applied by US diplomacy. Moreover, US law often makes it binding for the administration to form such coalitions. Coalitions may have different configurations, the most common type being a cluster of developed countries, including the United States, the EU, and their closest partners. The second type includes a wider range of countries. Moreover, individual participants may be driven into a coalition on a voluntary/compulsory basis under the threat of secondary sanctions: Either you join the coalition or fall under sanctions and even lose the developed countries' markets. Finally, the third type includes coalitions based on the UN Security Council. UNSC resolutions make sanctions truly legitimate and global. And even if UN resolutions imply milder measures, the United States and other initiating countries may toughen them up unilaterally. Being hit by UN Security Council sanctions dramatically reduces the target country's chances to adapt to them.

The third element is the diversity of the sanctions toolkit. The likelihood of success increases with the simultaneous use of frontal, flank, and background sanctions. In the past century, sanctions were often confined to trade restrictions such as export or import bans. Additional tools included the cessation of financial, food, or military aid to underdeveloped countries or a ban on equipment supplies or infrastructure maintenance. In the past two decades, the use of financial and targeted sanctions on individuals has increased significantly. Financial sanctions have begun to play a key role, thus greatly enhancing the impact of trade embargoes. The dominance of the dollar as a global transaction currency, the greater transparency of financial transactions, the globalization of international finance, and US leadership in this area have opened up broad opportunities for the US Department of the Treasury, which is the main 'sanctions agency' of the United States. Financial sanctions can be introduced quickly, and their scope is easier to control. It is much more difficult to defend against them, and they are easy to use as a secondary sanctions tool. In addition

to these, other tools can be used, including bans on maritime transport insurance as these services have also been globalized. In other words, today's set of sanctions is a package of frontal sanctions, such as trade restrictions, flank sanctions, such as financial measures, and background sanctions that are associated instruments, such as bans on entry and movement in individual countries.

The fourth element includes an optional use of military force. A significant number of cases involving the use of sanctions is a precursor to the initiating country using military force. After imposing sanctions, they would conduct covert operations, or carry out open military interventions, or demonstrate force or threaten to use it. Sanctions programmes often contain restrictions aimed at undermining the military capability of a target country. The combination of sanctions imposition and the threat of the use of force is an important feature of actions directed against political opponents. In the case of introducing sanctions against allies, the military force tool is not used or is restricted to covert operations.

The fifth element is a domestic political coalition and unity with regard to sanctions. The sanctions issue may be a subject of controversy in the internal political debate, especially if sanctions affect the interests of domestic manufacturers. Sanctions are often used to send a message to the domestic audience. Even if they are not part of any long-term strategy, they serve as a signal that 'at least something is being done' to address a particular issue, especially if diplomacy is ineffective and war is out of question. Sanctions are a way to score political points by national politicians. The more consolidated a national coalition is with regard to sanctions, the higher the likelihood of them being imposed consistently and effectively.

Resisting Sanctions: A Survival Kit

The five elements of the perfect sanctions storm can legitimately lead to the use of a similar set of antidotes by target countries. Their use varies from country to country, but a similar set of tools can be found in the arsenal of most countries hit by sanctions.

The first antidote is looking for ‘black knights’, or alternative consumers of national exports, suppliers of prohibited imports, and also alternative lenders or financial transaction intermediaries. During the Cold War, the ‘black knight’ was usually one of the superpowers: having fallen under US sanctions, a country could almost automatically count on the support from the Soviet Union, and vice versa. In the past 30 years, the situation has changed drastically with ‘black knights’ evolved and diversified. Today, they prefer to avoid politicization and emphasize the economic benefits of their role instead. ‘Black knights’ derive significant profit from working with countries hit by sanctions, forcing them to sell at major discounts or charging a premium for their help. Often, this is ‘just business’ for them. However, they are faced with increasing pressure from the initiating countries. In addition, being instrumental in circumventing trade sanctions, they are of little use in countering financial sanctions. This will be the case as long as the dollar dominates the global financial system.

The second antidote is breaking up sanctions coalitions. Countries under sanctions would try to avoid consolidated pressure. In general, this can be accomplished by more or less large players. For example, UN Security Council-based sanctions against China or Russia are impossible even in theory. However, such sanctions are feasible against Iran or North Korea. Yet, smaller countries may try to take advantage of political differences among potential coalition members. Their basic goal is to achieve, if not disagreement, then at least a mitigation of the intensity of the sanctions imposed on them, or a ‘multi-speed’ sanctions regime.

The third antidote is self-reliance, import substitution, and domestic resource mobilization. Again, this strategy is available to major players like China, India, or Russia. Still, North Korea and Iran have shown the highest levels of adaptability to international pressure. Countries under sanctions try to reduce their dependence on global economic mechanisms that make them dependent and vulnerable. Often, the result is a lag in development as isolation affects the quality of life and competitiveness. However, this is one of the most important strategies for the survival of a political system.

The fourth and the fifth antidotes mirror, in general, the above-mentioned elements of the perfect sanctions storm. Military power is an important resource available to the target countries. Ideally, it should be

enough to fully contain the opponent. A mere possibility of inflicting substantial losses on the aggressor is often sufficient to make the military campaign risky or costly.

Given that many sanctions programmes are in one way or another aimed at changing the political regime in a targeted country, consolidation of the political system and society is even more important to it than to the initiators. Often, sanctions help the target countries' leadership strengthen their grip on power as they use external threats to legitimize tough and unpopular steps to consolidate economic assets and concentrate power.

It is important to understand that the above set of sanctions tools and antidotes is relevant for situations where the initiating and the targeted countries are political opponents or disagree radically on political issues. Situations where sanctions are imposed on allies present a wholly different picture. In these cases, disagreements are usually less pronounced. Sanctions serve rather as signals. Often, they are more successful, since the target countries are reluctant to give up the benefits of globalization or allied relations. Coalitions are less common, and the factor of military force is much less significant. Daniel Drezner introduced the notion of a 'sanctions paradox', where tremendous sanctions efforts aimed at rival countries often make the latter even more unyielding, whereas minimal sanctions (or even a threat of using them) against allies make them more loyal to the initiators' political demands.⁴

The Perfect Storm in Asia: The Case of North Korea

After the Korean War, the United States and its allies could hardly be suspected of any great love for North Korea: Isolation and pressure went hand in hand with Pyongyang's post-war history. However, North Korea aptly avoided isolation during the Cold War period. The Soviet Union and China – two powerful 'black knights' – kept it afloat and allowed it to enhance its armed forces and maintain the legitimacy of its political system. The end of the Cold

⁴ Drezner. *Op.Cit.*

War came as a major challenge for North Korea. The developments in some states that were democratized from outside and the fate of their leaders were not taken by Pyongyang with sympathy. North Korean leaders decided to raise the stakes and develop a nuclear missile programme to eliminate the risk of military intervention. As a result, North Korea has become one of the rare countries to be hit by sanctions in their most expanded form. Sanctions against this country are a case of the perfect sanctions storm, if not a tsunami. This is why the North Korean case is so important for analysing current developments: The failure of sanctions against Pyongyang will serve as an indicator of the fundamental weakness of the initiators and, thus, an indicator of instability in the international order that they are building.

The current sanctions coalition against North Korea was put together fairly quickly. Violation of the nuclear non-proliferation regime is a serious matter, and consensus was reached relatively easily both by the Western allies and within the UN Security Council. Since October 2006, when Pyongyang conducted its first nuclear test, each subsequent nuclear or ballistic missile test led to strong condemnation by the UN Security Council and adoption of yet another sanctions resolution. This process is like a swing that goes farther each time, but for 12 years now: The more powerful and sophisticated the devices North Korea tested, the more severe were the sanctions imposed by the UN Security Council and individual countries.

Initially, the escalation followed three-year cycles. The UN Security Council responded to the first nuclear test, in October 2006, in less than a week by adopting Resolution 1718, which imposed an arms embargo, a ban on the imports of any goods related to the nuclear missile programme and luxury goods, as well as financial sanctions against any and all organizations involved in the nuclear dossier. In May 2009, new tests were followed by UN Security Council Resolution 1874, which tightened financial sanctions and introduced the practice of inspecting ships to control compliance with trade restrictions. December 2012 and February 2013 saw missile and nuclear tests followed by two more resolutions, 2087 and 2094. Sanctions were imposed against specific individuals and organizations. Financial Action Task Force (FATF) joined the financial sanctions. Restrictive measures against Korean banks were tightened, and an attempt was made to limit the ability of diplomatic missions to get around sanctions. However, none of that affected

the resolute stance of North Korea's leaders. More tests were held in January and September 2016. Pyongyang proudly reported a breakthrough in its nuclear programme, which was the creation of a hydrogen bomb. The UN Security Council responded with a new package of sanctions (Resolutions 2270 and 2321). An embargo was imposed on sensitive North Korean export items, such as coal, ore, steel, and rare earth metals on top of the arms embargo, additional financial restrictions, a call for reducing Pyongyang's diplomatic staff and increasing control over transportation, as well as sanctions on individuals.

However, the real perfect storm broke out in 2017, when missile testing reached a peak and the highest number of UN Security Council resolutions – 2356, 2371, 2375 and 2397 – was adopted. The sanctions graduated into an attempt to actually carpet bomb the North Korean economy. Trading in fish and seafood, lead, gas, and then gasoline, oil, textiles, lumber, and agricultural equipment was banned. Migrant workers were banned as well, and financial and economic sanctions were tightened.

By that time, a large amount of unilateral sanctions had also accumulated, since not all countries were happy with the compromise wording of the UN Security Council and did not hesitate to supplement it with their own restrictive measures. South Korea, Japan, the EU, Australia and, of course, the US imposed their own sanctions. The Americans, as always, demonstrated the toughest and most nuanced approach. Since 2008, the US President has issued six executive orders imposing additional sanctions (13466, 13551, 13570, 13687, 13722, and 13810). The sanctions regime was also cemented by Congress adopting Act PL 114-122 in 2016, and Act PL 115-44 (Countering America's Adversaries Through Sanctions Act, CAATSA) in 2017. North Korea was hit by a full set of sanctions, including unilateral and multilateral sanctions, a total economic blockade, a high level of consensus on the part of the sanctions coalition, and levelling the role of 'black knights' (primarily, China). On top of all this, Pyongyang is periodically threatened with the use of force.

Until recently, North Korea managed to successfully adapt to the sanctions. Several factors contributed to this. First, economic autarky, which, ironically, has gone hand in hand with recent economic liberalization in a number of sectors. North Korea was able to not only establish its own production of many types

of weapons (including, apparently, unmanned aerial vehicles, UAVs), but also solar batteries among other things. Second, close cooperation with China, which accounts for almost all of the North Korean foreign trade (however, the tough UNSC resolutions adopted in 2016 and 2017 are detrimental even to cooperation with this major 'black knight'). Third, the adaptation of civilian cooperation to military needs (for example, licensed KAMAZ trucks have been used as a missile system chassis). Fourth, intelligence activities, especially in the post-Soviet space, with its great variety of 'lost' military secrets. Fifth, bypassing restrictions through intermediaries and front companies. These schemes made banned goods more expensive but did not kill the demand. Sixth, the build-up of deterrence capability, which precluded a military solution. All of this provided enough reasons to believe that the sanctions against North Korea were ineffective and unlikely to produce any tangible results.

However, the 2016 and especially 2017 sanctions dealt a more powerful blow to the North Korean economy. In addition, surveillance bodies in the initiating countries have adapted to Pyongyang's schemes to circumvent the sanctions, especially in finance. The US has proved determined to sanction Chinese and Russian companies that violate the UNSC resolutions. Moscow and Beijing have avoided playing the role of 'black knights' (at least, openly). North Korea is able to contain military aggression but cannot use its power in sanctions bargaining. Finally, North Korea has announced that it was curtailing its nuclear testing – something that many sceptics had doubted could actually happen. The international coalition was at least nominally able to force Pyongyang to some concessions without military intervention, and the US proved that it could act as a coalition leader and downgrade the role of 'black knights', at the same time avoiding crisis in relations with them.

Does this mean that Pyongyang has lost the battle? Absolutely not. Negotiations with South Korea and the US allow the North Korean leadership to buy time. Pulling a plug on tests does not automatically translate into renunciation of nuclear missile weapons, which, apparently, have reached a fairly high technical level. Pyongyang can walk back any time and toughen its position. Even if North Korea makes concessions, the Iranian experience shows that complying with the requirements of the UN and individual countries does not constitute a foreign policy defeat and can be used by targeted countries in their interests. The Iranian case deserves a closer look.

The Perfect Storm in the Middle East: The Case of Iran

For several decades, the US has waged a consistent economic war against Iran. Success became possible in two cases – when sanctions were followed by military force and when all the elements of the perfect sanctions storm lined up, especially the sanctions coalition. The case of Iran is a cautionary tale showing that even such a powerful country as the US is unlikely to succeed if it goes it alone.

Sanctions against Iran were imposed for the first time in the 1950s. Following the nationalization of the Anglo-Persian Oil Company, the United Kingdom and the United States imposed an embargo on Iranian oil. British and American intelligence conducted a covert operation to overthrow Iranian Prime Minister Mohammad Mosaddegh, after which the status quo in matters of ownership was actually restored. However, the organization of the coup was a lesson for many target countries: Sanctions are only one of foreign policy instruments. At first convenience, a government can be overthrown or dismantled. It appears that the Iranian leadership learned the lesson well.

The sanctions combined with military force were also used by the US against Iran during the next round of the sanctions war following the Iranian revolution. In response to the Iran hostage crisis in 1979, President Jimmy Carter froze Iranian assets in the US and introduced a trade embargo (Executive Orders 12170, 12205, and 12211) in 1980. Iran was hit particularly hard by the United States refusing to buy its oil. Prior to 1979, the volume of deliveries was approximately 500,000 barrels per day. After the revolution, it fell to almost zero and never reached its previous levels. Several years later, the US stopped importing Iranian oil altogether.⁵ That time, Washington tried to create a sanctions coalition with Japan and its European allies. However, oil shortages and overall market jitteriness provided an entire unit of ‘black knights’ for Iran, who,

⁵ See Graaf, TV, 2013, ‘The “Oil Weapon” Reversed? Sanctions Against Iran and US-EU Structural Power’, *Middle East Policy*, vol. XX, no. 3.

ironically, were also allies to the US. Carter went ahead and used force to free the hostages, but the operation failed. Iran subsequently made some concessions, but this time on its own terms.

The Iran–US crisis was repeated in 1987, this time in the wake of a terrorist attack against the US military in Lebanon and Iranian sabotage against tanker traffic in the Persian Gulf (the Iran–Iraq war was ongoing, and Tehran mined trade routes or sank tankers to undermine Iraqi exports). Washington imposed sanctions again and fairly quickly decided to use military force, successfully carrying out Operation Praying Mantis and forcing Iran to stop its subversive activities. To a point, the US was using force as they realized their inability to cobble together a sanctions coalition and that waiting for their own sanctions to play out was too costly and risky.

Apparently, the understanding of its vulnerability to the use of force became an important factor behind Iran launching its nuclear programme. Almost immediately, it pitted the United States against Iran in another sanctions war. This time, the US did not use force, but showed enviable ingenuity and perseverance in using economic pressure against Tehran. First, the pressure on Iran began to acquire a steady political consensus domestically. Additional bans on trade and investment in Iran were initiated by President Bill Clinton (Executive Orders 12957, 12959 in 1995, and then 13059 in 1997). Congress also adopted the Iran and Libya Sanctions Act (ILSA) in 1996. The act went beyond expanding the sanctions to bind the president to involve other countries in the sanctions regime and to regularly report on progress.

Congress initiated the extraterritorial principle underlying the use of sanctions. They were now applied to American and foreign companies alike. However, the attempt to introduce harsher discipline caused major frictions in relations with the allies, especially since the Iranian programme was still in the making. The administration was reluctant to use the law against foreigners, and the sanctions largely remained unilateral. It is hardly necessary to point out that Iran took full advantage of the situation. US actions were damaging, but diversification of trade and financial partners made it possible for Iran to successfully keep afloat and to stick to its political course. A perfect sanctions storm was nowhere in sight.

To create a more effective coalition, the US opted to use the UN instruments. By 2006, Iran's successes in developing its military nuclear missile programme had become much more obvious. On July 31, 2006, the UN Security Council adopted Resolution 1696, which demanded that Tehran stop its nuclear programme. The resolution was not yet implying sanctions, just warning about such a possibility. However, adopting this resolution itself was a major diplomatic victory for Washington. The international coalition started taking a more defined shape. As expected, Iran refused to meet the UNSC requirements. As was the case with North Korea, the swing was set in motion: Iran was reaching new heights in developing its nuclear programme (yet, without tests for the time being), and the UN Security Council was consistently tightening sanctions. Resolutions 1737, 1747, 1803 and 1929, adopted from 2006 to 2010, squeezed the sanctions coils more tightly. By 2010, Iran was hit with an arms embargo, a blockade on the supply of any materials for the nuclear programme, sanctions on individuals and companies, permission to inspect Iranian ships and financial sanctions against 'suspicious' banks (in fact, any Iranian bank could appear on that list). Among other things, Resolution 1929 pointed out the relationship between oil revenue and the financing of the nuclear weapons programme. Although the embargo on Iranian oil exports had not been introduced at that time, the very premise of the resolution provided a powerful tool for legitimizing the US sanctions.

Meanwhile, the Americans were not sitting on their hands. Congress passed two new sanctions laws reemphasizing the focus on extraterritorial sanctions (PL 111-195 in 2010 and PL 112-158 in 2012), and the president issued a series of executive orders expanding and specifying the sanctions. Building on the new legislation, the US again tried to put together a coalition to block Iranian oil purchases. This time, they were successful. In 2012, the EU joined the oil embargo, followed by India, Japan, South Korea and even China, which yielded to the threat of secondary sanctions.

The extraterritorial sanctions were a success because the US had significantly improved their control over international financial transactions. In turn, effective financial intelligence made it possible to track oil deals. It was now much more difficult for the third countries to carry out grey market schemes: The risk of US fines had increased. In addition, they were in fact put before the choice to cooperate either with Iran or the US. And their choice was clear. In 2012, exports of Iranian oil fell by 40% compared to 2011. Washington

managed to stage the perfect sanctions storm, and Tehran had to give up some ground in the end.⁶

The case of Iran, as well as that of North Korea, demonstrates the ability of the United States to lead international coalitions and achieve results with the help of sanctions without using military force (albeit with readily available military deterrence tools). Many of Iran's long-standing partners were stripped of 'black knight' status, which left Iran with no room for manoeuvre.

But Tehran won as well. Indeed, Iran had to drop the development of nuclear weapons, but it secured its right to develop a peaceful nuclear programme. Tehran has retained its independence in both domestic and foreign policy. It has returned to the energy market, removed many financial constraints, and got its previously frozen assets back.

All of this causes serious concern in Washington. Donald Trump's thesis on the failure of Barack Obama's policy towards Iran is, obviously, not just a figure of speech used by an eccentric president. Even during talks on a nuclear deal, a number of congressmen insisted on tightening sanctions.⁷ This position had a certain logic behind it. After lifting sanctions against Iran, Washington and the international community largely lost their leverage in dealing with Tehran. Reassembling such a broad coalition and achieving similarly strong consolidated pressure on the Iranian energy sector will be an exercise in futility.

If the sanctions had been kept in place, Iran would have remained on the hook, and the US would be able to push through other goals behind its sanctions. Now, it would be extremely difficult to do so. Act PL 115-44 (CAATSA), which, along with Russia and North Korea, imposes sanctions on Iran in the area of human rights, terrorism support, and the missile programme, is unlikely to be effective at this point. Moreover, after withdrawing from the nuclear deal, the United States is on its own and risks losing its leadership in resolving the problem. With proper tenacity, Iran may well portray the US as a violator of international agreements and keep its trade deals with Europe and Asia despite Washington's new sanctions.

⁶ Graef, *Op. Cit.*, p. 154–155.

⁷ See: Maloney, S, 2015, 'Sanctions and the Iranian Nuclear Deal: Silver Bullet or Blunt Object?', *Social Research*, vol. 82, no. 4, Winter, p. 898.

Russia's Breakwater

The Ukraine crisis in early 2014 caught Western governments off guard. Official diplomacy in relations with Russia showed complete helplessness in reaching compromises, or at least in getting any control of the situation. After the revolutionary change of power in Kiev, Russia conducted a quick operation in Crimea and actively supported the protesters in Donbass. Direct military intervention by the West was out of the question, although the 2014 Wales NATO Summit agenda was promptly and radically redrafted to reflect the focus on the military deterrence of Russia. Sanctions remained the only tool that could be used to influence Moscow. Here, however, the initiating countries ran into at least two problems.

First, it was not clear what kind of sanctions should be introduced to effectively deter Moscow. Imposing a full-scale embargo or disconnecting Russia from the global financial system were discussed by the hawks but appeared risky for many trade ties. Russia's share in the global economy is not large, nonetheless the initiators had to at least consider the consequences. An instant introduction of a full-blown trade and financial embargo held no promise whatsoever. In addition, there were difficulties with a sanctions coalition. The US, the EU, and a number of other allies were acting as one, but UN Security Council sanctions were out of the question. The UN General Assembly resolution on Ukraine did not have a binding force, and the condemnation of Russia by the GA members was far from unanimous.

At the same time, sanctions could give the Western countries an immediate political effect with regard to rapport with the public at home. In addition, the Russian economy still had many vulnerabilities that could be exploited. In the long term, sanctions appeared to be a proper tool. The main blows were dealt specifically to the most vulnerable sectors. In 2014, the US consistently expanded the sanctions with a series of presidential Executive Orders 13660, 13661, 13662, 13685. At first, the restrictions were mostly sanctions on individuals, but by September 2014, Executive Order 13662 was supplemented by several directives from the US Department of the Treasury that imposed sector-specific sanctions against the financial and energy sectors.

Russian banks were significantly limited in their ability to take out loans, and the oil and gas sector – in its ability to access a number of technologies and projects. The EU's general approach was compliant and enshrined in the European Union Council Regulation No. 833/2014. The sanctions were supported by a number of other countries (37 states as of this writing). Russia responded with counter-sanctions, imposing restrictions on imports of food and other goods from the initiating countries.

For all the unanimity of the initiating countries at the level of political rhetoric, their sanctions policies against Russia took on different paradigms. The approaches adopted by the US and the EU are now quite different in at least three ways.

First, the Americans went ahead and escalated the sanctions, that is, they expanded the grounds for imposing new restrictions. Initially, sanctions were imposed by the US for Russia's actions in Crimea and Donbass, but in December 2016 they were expanded to cover cyber-related issues as well (Executive Order 13757, which provided grounds for appropriate actions both against Russia and other countries), and in August Congress adopted Act PL 115-44 (CAATSA) that included a full list of grievances regarding Russia. The Ukraine issue and cyber security were complemented with Russia supporting the Syrian government, its energy and ideology 'expanding' in Europe, an alleged violation of the Intermediate-Range Nuclear Forces Treaty, etc. Unlike the US, the EU did its best to avoid escalating the sanctions, largely limiting itself to the Ukrainian package, although in terms of rhetoric it has always sided with Washington.

Second, the US was after a broader set of goals. For the EU, sanctions were basically a means of forcing Russia to settle the conflict in Donbass, whereas the US explicitly or implicitly had a broader range of objectives in mind, such as exerting pressure on Moscow in the Middle East, making Russia a toxic partner to do business with internationally, undermining its energy projects and ousting it from the European market to make room for US suppliers, fragmenting the Russian political system, etc. The EU can hardly be suspected of sympathising with Russia's policy, but Brussels, it appears, is well aware of the risks involved in destabilizing Russia. Moreover, by far not everyone in Europe wants to sever economic ties with Moscow, which is evocative of the Iranian case: Nuclear non-proliferation remains the main goal for the EU, while the US seeks a reversal in Iranian foreign policy or, better yet, a change of regime in that country.

Third, the decision-making system underlies the US and EU approaches. Congress has seriously limited the administration in its ability to change the sanctions regime against Russia. Even if diplomats manage to reach some sort of agreements, the US president will at best be able to suspend the sanctions, but not lift them entirely. The Iranian case taught Moscow an important lesson: Congress or any new administration can radically change the US approach to previous agreements, which means that any deal with the Americans is at least questionable. The EU is an entirely different matter. Here, the decision on sanctions is made by the European Council every six months. Even though all extensions have so far been automatic, the EU has a purely technical ability to quickly change its sanctions regime in the event of favourable political agreements. As the most radical mastermind behind the sanctions, the United States has far fewer possibilities for achieving diplomatic results in its relations with Moscow. In contrast, the EU is much more flexible despite its unwieldy bureaucracy.

In other words, the sanctions coalition against Russia does exist, but there is a multi-speed sanctions regime within it. The differences between the United States and the EU are further exacerbated by the differences between other coalition members. Japan, for example, supports the US stance, but its sanctions regime with regard to Russia is fundamentally different as Tokyo has its own agenda in relations with Moscow and its own approaches to promoting it.

The cost of the sanctions to Russia is also a matter of controversy. Estimates of the damage to the Russian economy range from extremely alarmist to overly optimistic.⁸ Without doubt, they have damaged the Russian economy and have adversely affected foreign trade, corporate competitiveness, and the country's investment appeal. The cost of external borrowing is up. The build-up of the sanctions has increased uncertainty for Russia's foreign partners and the cost of risk for them, even in areas not directly affected by the sanctions. The sanctions have exacerbated the negative consequences for the economy during fluctuations on the commodity markets, as was the case in 2014. Isolated actions by the initiating countries, such as imposing sanctions against RUSAL and other companies, create local panic on the market and temporarily disorient

⁸ *Overview of assessments. See: Timofeev, IN, 2018, 'The Sanctions Against Russia: Escalation Scenarios and Countermeasures', Report by the Russian International Affairs Council, no. 27, April. Available from: <http://russiancouncil.ru/en/activity/publications/the-sanctions-against-russia-escalation-scenarios-and-countermeasures/>*

investors. In the long run, they can create difficulties for retrofitting the Russian energy sector⁹ and for promoting Russia's non-oil/gas exports.

Nevertheless, the sanctions cannot be referred to as a decisive factor for the Russian economy yet. It remains far more sensitive to energy prices and is affected more, for example, by the lack of infrastructure than the sanctions. An economic blockade of Russia comparable to the sanctions against North Korea or even Iran is simply unimaginable. Moscow is expanding its relations with its other partners, such as China. Undoubtedly, thinking that Russia's Turn to the East policy – no matter how important, timely, or desirable it may be – will improve the situation is a delusion. In our interaction with Asian partners, the same old problems associated with the Russian backwardness and the peripheral nature of the economy are as relevant as ever. In addition, even Chinese banks now closely monitor US and EU sanctions against Russia and carefully weigh the risks in an attempt to avoid being hit by extraterritorial sanctions. However, this does not prevent the Russian economy from functioning here and now.

It is unlikely that anyone today would say that the sanctions have forced Russia to reconsider its policies. Russia itself also avoids confrontation with the West. Moscow's steps to strengthen its deterrent capability deprive its opponents of the possibility to combine the sanctions with the use of military force. Arguably, we are now at a stage of positional equilibrium in the sanctions war. The example of Russia clearly shows the limited nature of sanctions used against a major power. In global terms, the main focus obviously lies elsewhere and is all about potential sanctions against China.

The Great Wall of China

Western sanctions against China can be traced long back. The US has been promoting a trade embargo against China since 1947 within the framework of the so-called China Committee, CHINCOM (the Coordinating Committee for Multilateral Export Controls, CoCom, which regulated trade restrictions imposed

⁹ See Mitrova, T, Grushevenko E, Malova, A, 2018, 'Prospects for Russia's Oil Production: Life under Sanctions' SKOLKOVO Energy Centre (SEneC), March. Available from: <https://energy.skolkovo.ru/downloads/documents/SEneC/research04-en.pdf>

by most Western countries against the Soviet bloc was in place at that time as well).¹⁰ However, in the late 1960s, the United States began to ease the embargo terms significantly in an attempt to use China to contain the Soviet Union (CoCom lasted until 1994).

Washington and the European Communities imposed a fairly large number of sanctions on China in 1989-1990 following the events on Tiananmen Square. The initial list was quite extensive. The US Congress enshrined them in Act PL 101-246 of February 16, 1990 (Sections 901-902). It outlined a fairly wide range of measures, including restrictions on arms trade, technology transfer, and dual-use goods supplies. Space technology (satellites) and cooperation in the nuclear industry fell under the sanctions as well. The act also imposed certain restrictions on investments in China, limited financial assistance, and made it possible to block such assistance through international institutions. Earlier, similar sanctions had been imposed by the EU that were based on the European Council's Madrid Declaration of June 27, 1989. These sanctions remain, to a limited extent, in force until now and concern primarily arms supplies to China. However, most of the sanctions began to fade in the 1990s influenced by a tremendous increase in trade with China. At that time, the sanctions were lifted 'in accordance with the national interests of the United States'. In October 2000, Congress passed Act PL 106-286 (Normal Trade Relations for the People's Republic of China). China emerged victorious from the sanctions war due to its growing economic appeal and the almost zero effect of the sanctions on China's economy.

A new round of discussion on sanctions against China emerged relatively recently against the backdrop of three problems, the first of which is cybersecurity. After millions of US personnel files were stolen by, as was widely believed, Chinese hackers in 2015, Barack Obama issued Executive Order 13694, which authorized sanctions against any company or individual suspected of cybercrime. China was not mentioned in the order, and the scandal was fairly quickly hushed up on the highest political level. However, the incident left Washington with an unpleasant aftertaste. The second problem is China's military activity in the South China Sea. Here, the US confined itself to harsh political statements, but did not go as far as imposing sanctions. The third problem is complying with the UN sanctions against North Korea. In the summer of 2017,

¹⁰ See Cain, F, 1995, 'The US-Led Trade Embargo on China: The Origins of CHINCOM, 1947-1952', *The Journal of Strategic Studies*, vol. 18, no. 4, December, p. 33-54.

the US Treasury blacklisted a number of Chinese companies and individuals that allegedly violated the restrictions against Pyongyang. China's Foreign Ministry instantly lashed back with harsh statements. The US decided not to escalate the issue. However, China did comply with the UN Security Council resolutions on North Korea.

Sanctions against China's ZTE telecommunications company were among the most high-profile cases. The US Treasury accused the company of violating the sanctions regime against Iran. Products sold to the Iranian market contained US-made parts. The investigation began in 2012. Subsequently, the Americans accused the company's management of deliberately breaching the sanctions even after the US financial authorities opened the case. The company faced the threat of its access denied to the US suppliers, which meant major loss. For their part, the Americans were also spinning a story about the threat of Chinese industrial espionage in their media. In the end, ZTE struck a compromise with the US. The company pledged to pay a \$1 billion fine, reshuffle its management, and also agreed to have US observers on its premises to assess compliance. The ZTE case revealed an important trend: Chinese companies are willing to meet US authorities halfway when sanctions lead to major business ramifications. In other words, they will not assume the role of a 'black knight' at any cost.

Yet, massive US sanctions against China, comparable to those against Russia, are hardly possible today for a number of reasons. First, China has managed to build a large and diversified economy. Unlike the much more vulnerable Russia, sector-specific sanctions against China would have little effect. Second, it is more difficult to impose financial sanctions on China. Undoubtedly, they would be damaging for the Chinese economy, but the collateral damage to international finance and trust in the US dollar would be so great that making such a move without good reason would be extremely difficult. Third, forming a stable international coalition against China is a tall order. Beijing is a major trade partner for the EU and many countries of Asia-Pacific. Such a coalition is likely to be a non-starter. Fourth, the US and the EU would find it extremely difficult to build a domestic consensus on Chinese sanctions. Russia is a good target for sanctions and criticism coming from various forums if anyone seeks to score political points. This approach will not work with China, as businesses and their lobbyists will strike back with vengeance. Finally, China can retaliate with a very tough symmetrical or asymmetrical move. Interestingly, China is becoming more active as an initiator of restrictive measures. Recent unofficial

sanctions against South Korea, which forced Seoul to make concessions on the anti-ballistic missile defence system THAAD, are a case in point.

Sanctions should not be equated with the widely covered by the media trade war that is currently unfolding between the US and China. Clearly, this new trade war has political overtones. It also includes sensitive issues, such as industrial espionage and intellectual property rights. However, trade wars pursue mainly economic goals and are not uncommon between partners, whereas sanctions are a political tool. The perfect sanctions storm against China, not even a small one, is simply impossible today.

The use of sanctions today is faced with a growing number of problems. Strictly, they may be confined to two complex matters. The first one is the difficulty of staging the perfect sanctions storm against great powers. The sanctions did cause damage to Russia but did not make it change its political course. The question of sanctions against China is not even brought up given the power of that country. The second is that even in the case of the perfect storm the target countries survive and continue pursuing their political objectives. The Iranian and North Korean cases are a solid proof. Naturally, sanctions will continue to be used in the future: The fact that the most important targets are not backing down is unlikely to offset direct damage to their economies.

However, the main question is the prospect of combining them with the use of force. Common sense suggests that, given the weakness of official diplomacy and the lack of effective sanctions, the temptation to use force in one form or another will grow. It is likely that in the near future we will witness a growing number of direct and indirect military operations against the most unruly players. Good old deterrence remains an important tool for ensuring sovereignty and security.

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