

WHAT WE KNOW AND DON'T KNOW ABOUT ECONOMIC SANCTIONS

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Seminar XXI

January 2026

SANCTIONS – SO HOT RIGHT NOW

LAST 10 YEARS

- Iran
- Russia

LAST 10 MONTHS

- Honestly lost count

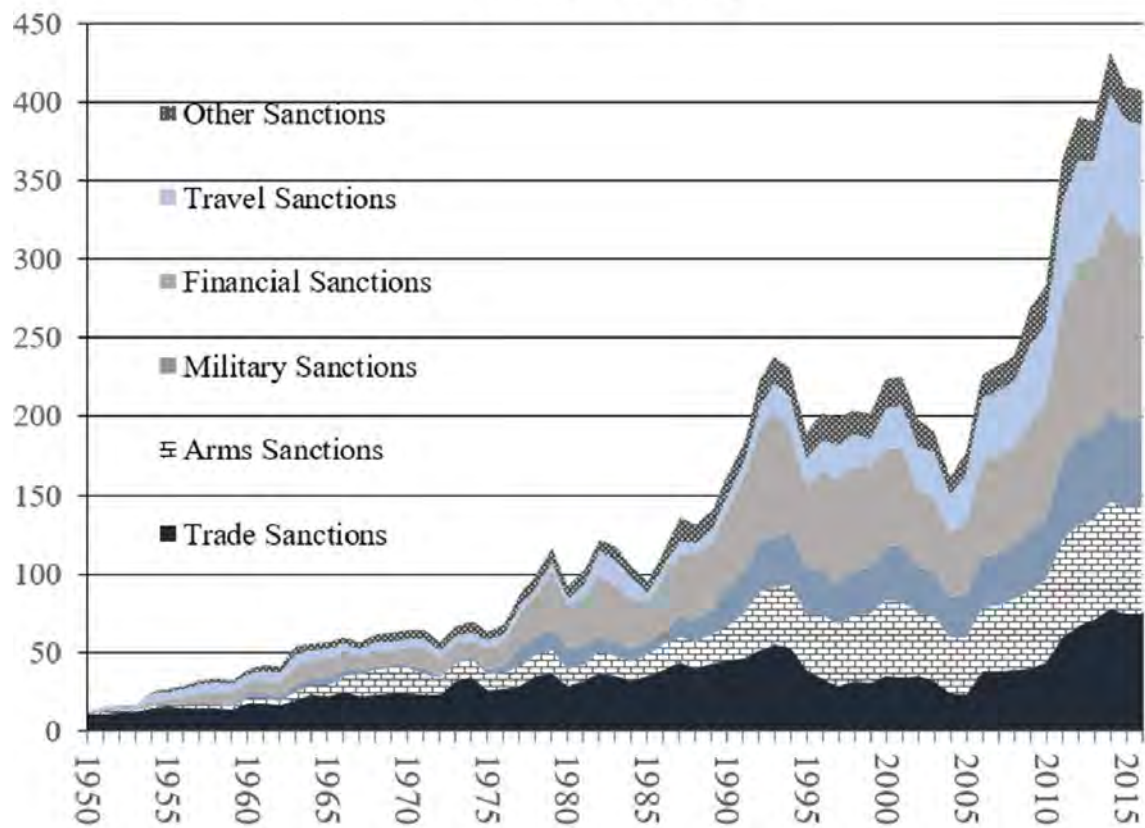
LAST 10 WEEKS

- Denmark
- Brazil

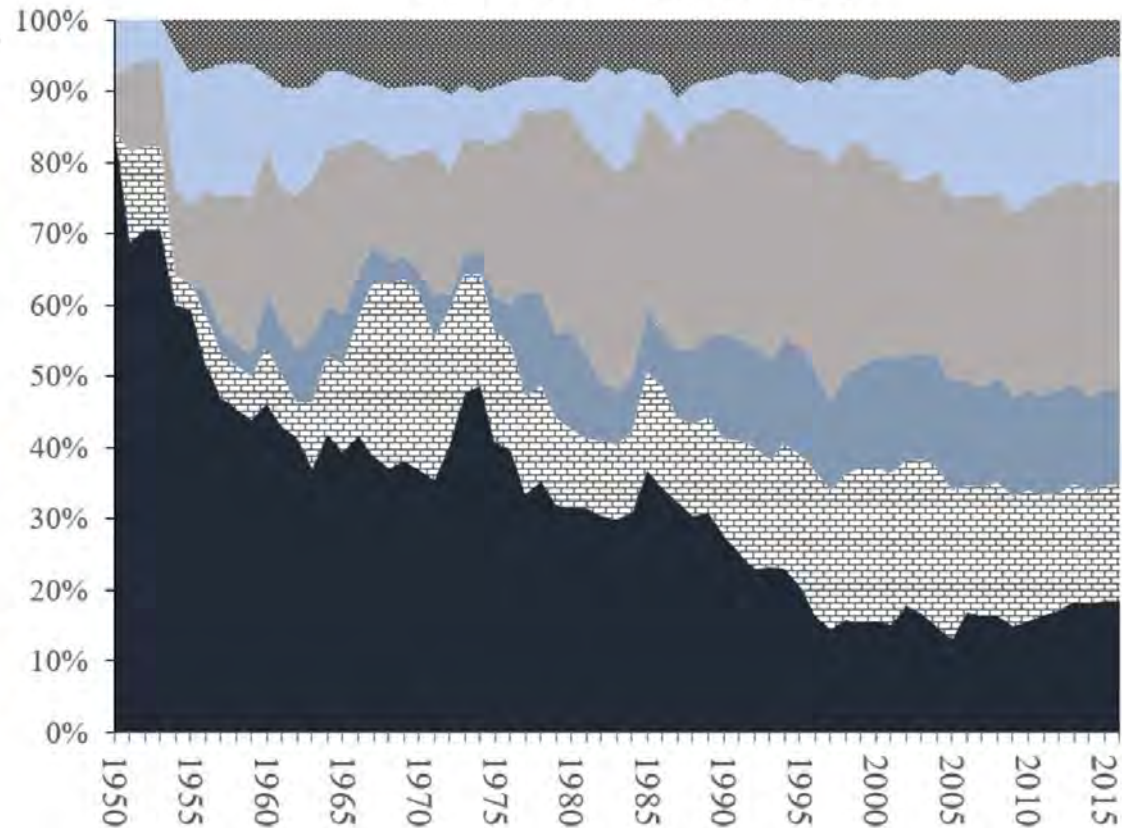


AO presentation of Department of the Treasury and Department of State information. | GAO-20-145

a) Frequency by type



b) Share of different sanction types



NOT JUST THE UNITED STATES

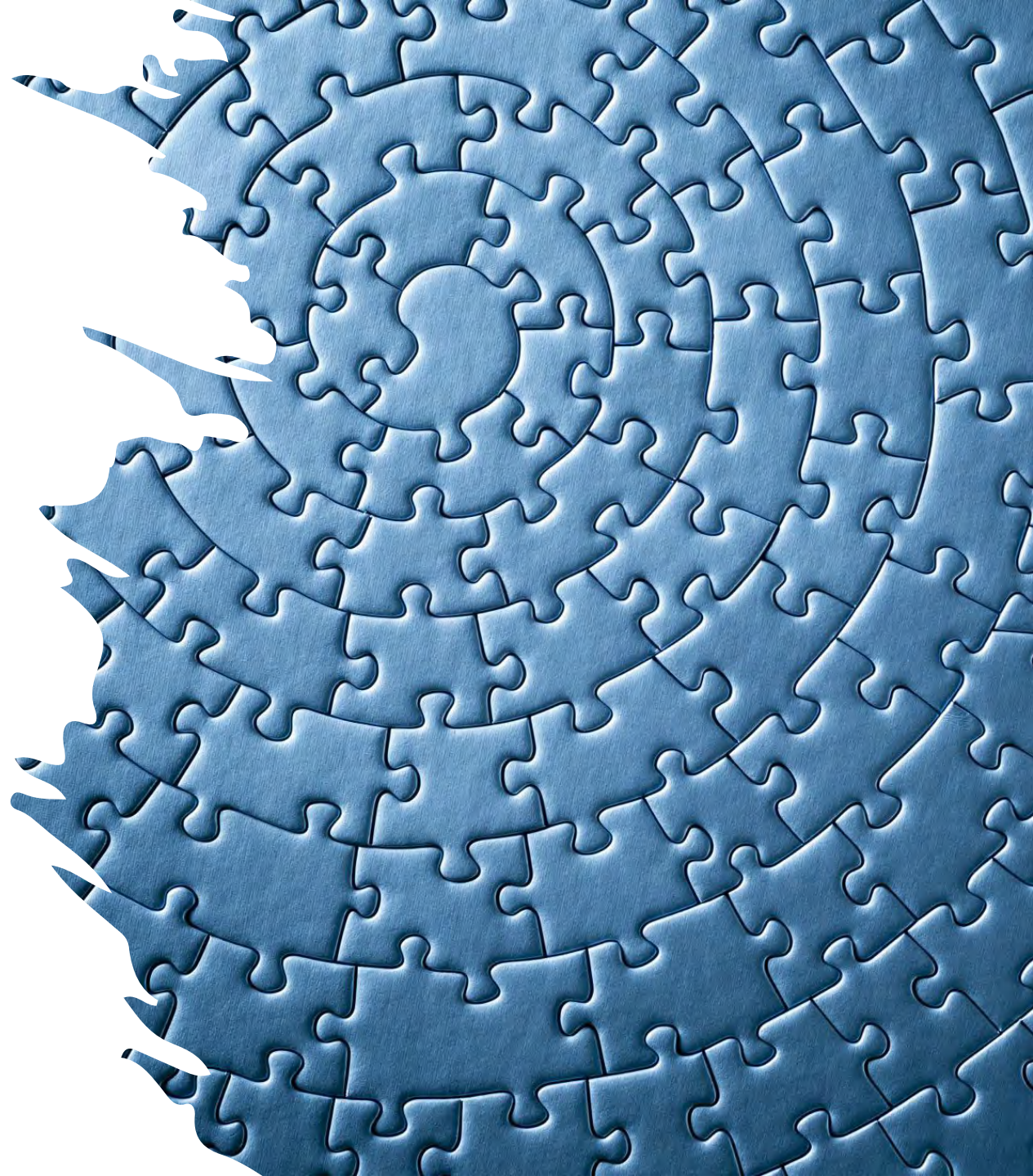


THE THING IS... A MIXED TRACK RECORD

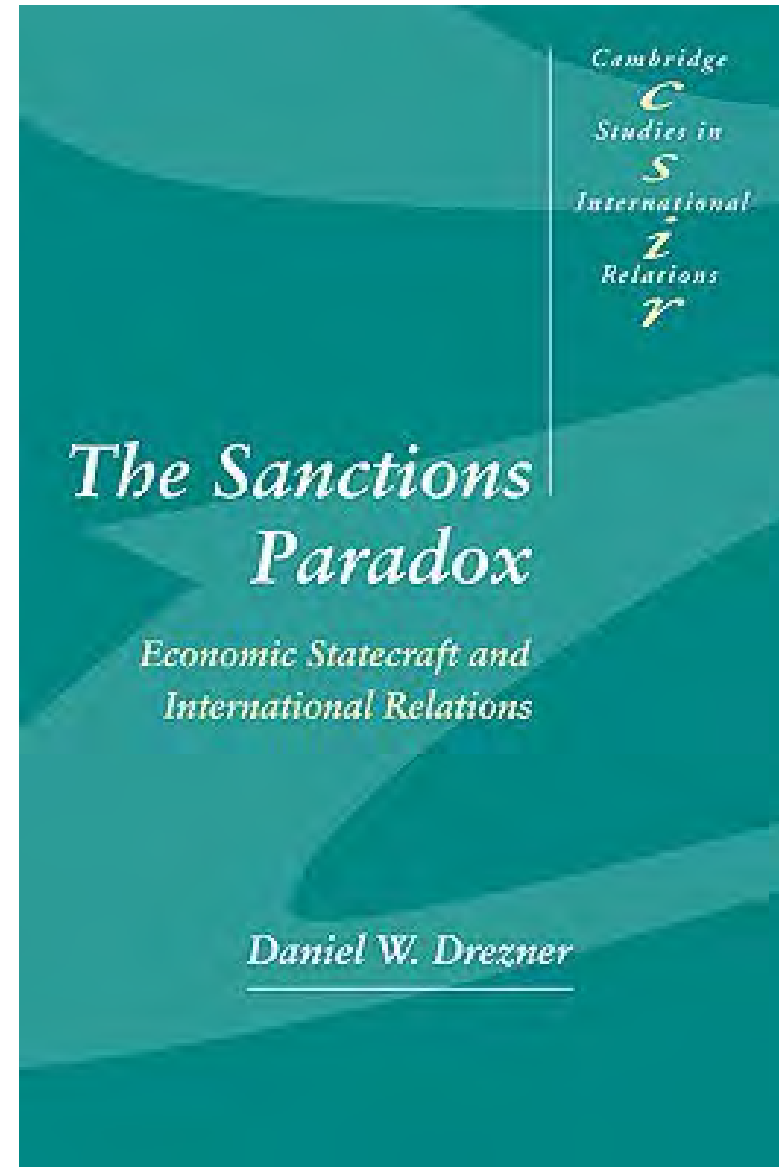
- **Statistical mediocrity**
 - **PIIE**
 - **TIES**
 - **TSC**
 - **EUSANCT**
 - **GSDB**
- **High-profile failures**
 - **Cuba**
 - **Iraq**
 - **Russia**



THE PUZZLE:
WHY SO MANY
SANCTIONS WITH
SUCH LIMITED
SUCCESS?



IT'S ALMOST...
PARADOXICAL



THE NUT SLIDE

- Sanctions preferred to other policy alternatives
- Sanctions are not just about coercion → other purposes
- The technology of sanctions has improved
- The politics of sanctions is constant
- We are now entering dangerous territory



HOW THIS TALK WILL PROCEED

Explaining	Explaining their popularity
Categorizing	Categorizing their purposes
Evaluating	Evaluating their utility
Describing	Describing their evolution
Predicting	Predicting where we go from here

WHAT WE KNOW: A CAVEAT



An amalgam of current thinking

Masks some differences of opinion



These are probabilistic statements

There are no guarantees in economic statecraft

WHY ARE SANCTIONS SO POPULAR?

Growing demand

Globalization

Lack of alternatives

Politics

GREATER NEED

Disintegration of the liberal international order

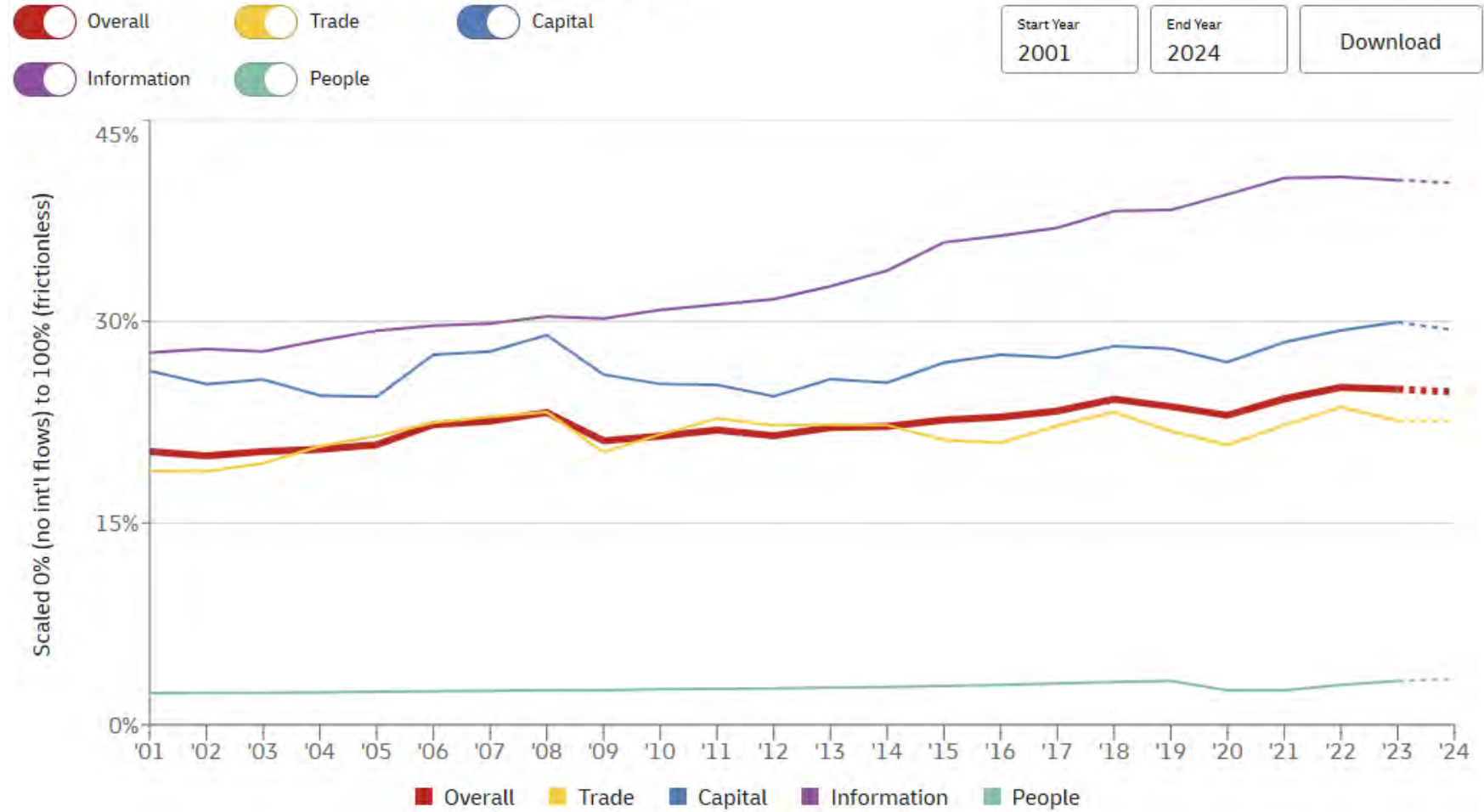
Perceived decline in hegemonic power

Sanctions as norm enforcement, signal of power

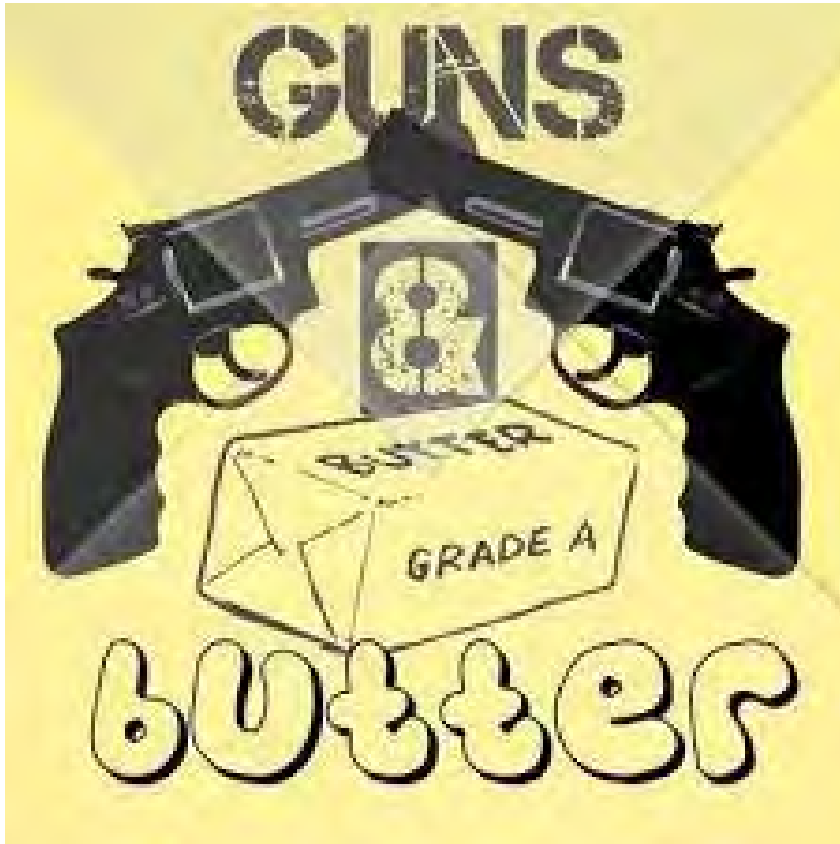
Renewed interest in economic security

GLOBALIZATION AND SANCTIONS

Figure 1: DHL Global Connectedness Index Depth Trends



THE QUASI-DECLINING APPEAL OF POLICY ALTERNATIVES



WORLD TRADE
ORGANIZATION



Economic Statecraft

NEW EDITION

David A. Baldwin

WITH A NEW PREFACE BY THE AUTHOR

AND AN AFTERWORD BY ETHAN B. KAPSTEIN

DAVID BALDWIN WAS RIGHT

“Information about the utility of a single technique or category of techniques *has no significance whatever* for decision-making until it is set in the context of explicit or implicit assumptions about the comparative utility of alternative techniques. To the statesman only the *relative* utility of policy instruments matters.”

“Policy option of first resort”

The United States of Sanctions

The Use and Abuse of Economic Coercion

Daniel W. Drezner



**THE TREASURY
2021 SANCTIONS
REVIEW**

POLITICS: SANCTIONS AS THE GOLDILOCKS OPTION

Use of force? Too hot!



Diplomatic censure? Too cold!



Economic sanctions? Just right!



MYRIAD
PURPOSES
OF
ECONOMIC
SANCTIONS

DETERRENCE

COERCION

DENIAL

DETERRENCE FROM SANCTIONS

THE THEORY:

- Sanctions today signal when they are likely to be used in the future
- Even if sanctions fail to compel, they can deter future actions
- How norm adherence works

THE EVIDENCE:

- Very difficult to prove
- Some supportive evidence for nonproliferation, human rights
- Unclear effect for great powers



THE MANY PATHWAYS OF COERCION

- Rational cost-benefit
- Interest group pressure
- Normative opprobrium
- Elite regime change
- Revolution from below



CONDITIONS FOR SUCCESS

- **Well-defined demand**
 - **Costs on the target elite**
 - **Institutional support**
 - **No black knights**
 - **Low expectations of future conflict**
- 

WELL-DEFINED DEMANDS



HIGH COSTS TO TARGET ELITE

WHY

- Sanctions outlaw ordinary market activity → incentives to cheat
- Target regimes will shift costs to the least powerful
- Target regimes will shift blame to sanctioning states

HOW

- Multilateral cooperation
- Geographical proximity to target
- Financial relationship
- Bandwagoning by private-sector actors



SANCTIONS

INSTITUTIONAL SUPPORT

- **Ordinarily, expectations of backsliding**
- **Institutions permit coordination, reassurance, training**

THE TYPE OF INSTITUTION MATTERS





NO BLACK
KNIGHTS

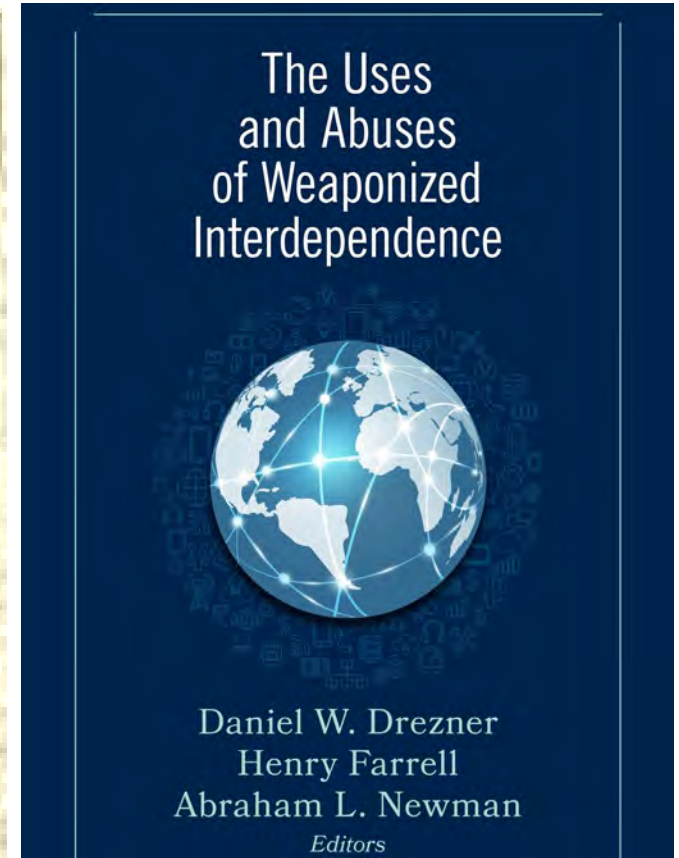


ABOUT BLACK KNIGHTS...

- **The black knight needs to be a viable substitute**
- **The post-sanctions relationship is more durable**
- **Likelier to exist in a bipolar or multipolar world**

CONFLICT EXPECTATIONS





HISTORY OF U.S. SANCTIONS IN ONE SLIDE

WHY WEAPONIZED INTERDEPENDENCE INCREASES APPETITE FOR SANCTIONS

- Hurts target elites
- Minimal need for cooperation
- Private sector de-risking
- No black knights



BIPARTISAN ENTHUSIASM

“Together with partners around the world, we have imposed what many believe is the most effective set of financial and economic sanctions in history.”

**David Cohen, *“The Evolution of U.S. Financial Power,”*
12/11/2014**

“Sanctions are going back in full effect and new ones are coming... These will indeed end up being the strongest sanctions in history when we are complete.”

**Mike Pompeo, *“After the Deal: A New Iran Strategy,”*
5/21/2018**

WHAT WEAPONIZED INTERDEPENDENCE CAN'T FIX

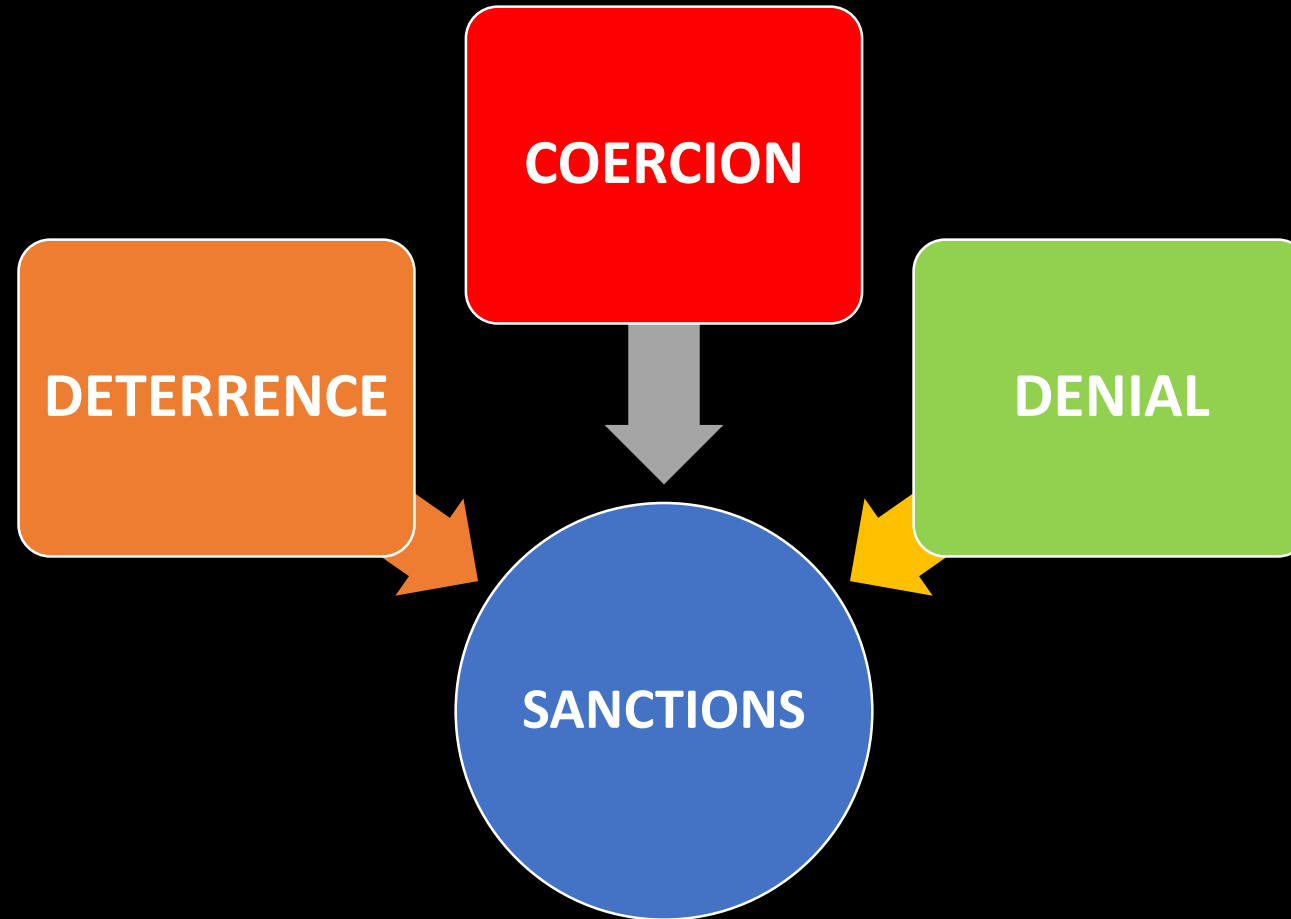
Excessive ambitions

Unclear demands

High expectations of future
conflict

Inability to remove sanctions

THE OLD U.S. PROBLEM: TOO MANY PURPOSES



THE SANCTIONS AGAINST RUSSIA

~~DETERRENCE~~

~~COERCION~~

WARFARE

S A N C T I O N S

DENIAL IS RARELY POSSIBLE

Requires comprehensive multilateral cooperation

Outlaws ordinary market activity → increasing the incentive to bust sanctions

Tensions within the sender coalition

The target can find substitutes

Partial exception: goods with monopoly suppliers (high-tech military goods)

THE DIFFERENT DYNAMICS OF SANCTIONS

FINANCIAL COERCION

- Articulate clear demands
- Maximize economic pain
- Private sector de-risking
- Financial compliance mechanisms
- Multilateral cooperation a bonus

STRATEGIC DENIAL

- No demands
- Sustainable economic pain
- Mixed motives for private sector
- Good-faith compliance is more difficult
- Multilateral cooperation is necessary



IEEPA



**THE NEW U.S. PROBLEM:
TARIFFS AS SANCTIONS**

TOO MANY TARIFFS

- So many tariffs and sanctions!
- Some short-term wins
- Long-term issues:
 - T.A.L.C.
 - Anti-coercion measures
 - Threats to the dollar
 - Legal status



A FINAL WORD ABOUT SANCTIONING GREAT POWERS



- Most able and willing to resist sanctions
- Some demands cannot be achieved with economic coercion alone
- Sanctioning great powers has a risky track record
 - Japan 1941
 - CoCom 1950
- Countersanctions
- Massive implications for the global economy