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ECONOMIC STATECRAFT

The United States Must Bolster Its Economic Tools to Enhance National Security

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Cover: Barbed razor wire in front of shipping containers representing trade sanctions, embargoes, tariffs, and trade barriers. (Amani A / Shutterstock)

ECONOMIC STATECRAFT:

THE UNITED STATES MUST BOLSTER ITS ECONOMIC TOOLS TO ENHANCE NATIONAL SECURITY

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The United States relies excessively on sanctions and export controls, though it has a vast array of economic policy tools at its disposal. Adversarial countries have learned to adapt to economic pressure and suppress the threat of coercion. The United States must adjust its policies to keep up with the changing global economy and emerging challenges.

Our recommendations:

- Democratic and military allies must forge stronger ties with each other via a new economic partnership model to improve the security outlook
- The Trump Administration must develop a strategy of economic statecraft that relies on incentives rather than just coercion
- Congress must approve more funding for government agencies that oversee the use of economic tools in foreign policy matters

The United States sanctioned more than 9,000 individuals and companies between 2000 and 2021, a 10-fold increase in just two decades, according to Treasury Department data. Nearly 5,000 subjects have been added to the Specially Designated Nationals and Blocked Persons list – a published tally of individuals and companies subject to sanctions – since Vladimir Putin's unjustified invasion of Ukraine in 2022, bringing the total to over 14,000. This is three times more than any other country, and the United States targets a third of all nations in some form, based on a *Washington Post* investigation. Export controls follow a similar trajectory.

But the United States has been only minimally successful in mitigating major threats.

While it is undoubtedly true that these tools create economic consequences, coercive economic instruments depend on internal pressure to generate the desired policy response. And many of the countries that are targets of sanctions and export controls suppress pressure points that are key to making economic security policy measures successful – things like opposition parties, nongovernmental organizations, a transparent media, and a free and democratic society.

Further complicating U.S. strategy is that countries that threaten national security interests are often sprawling kleptocracies with captured industries that make policy application, enforcement, and investigations daunting. Sanctions are likely to be more effective when directed at smaller targets, such as companies and individuals.

The United States must continue to use its strategic advantage, even if sanctions and export controls have not been as fruitful as policymakers in Washington would like: For example, outgoing Treasury Secretary Janet Yellen has admitted that sanctions have not been very effective at engendering the changes they seek from Iran, the second most comprehensively sanctioned country behind Russia.

But Washington is well-positioned to influence foreign policy and security matters, given that the United States has the world's largest economy and a currency that underlies global trade.

Globalization and the unattractive reality of military conflict mean that economic doctrine will be critical in shaping the future. U.S. adversaries such as the Chinese Communist Party and Russia use economics and finance to build influence in foreign countries, creating political leverage through investments, economic dependency, and the allocation of capital.

So Washington should invest more in creating a comprehensive strategy with tools capable of influencing policy decisions in the international community. Sanctions will continue to be a vital element of U.S. strategy. However, overreliance will lead to countries developing ways to adjust to and work around the impact of sanctions.

Europe's reliance on Russian energy – and Russia's weaponization of that dependence – complicates the efficacy of international sanctions. Similarly, Iran's government-backed shadow economy continues to consolidate the regime's control. Concerningly, countries like these utilize legitimate and opaque markets to counter and evade sanctions and export controls to build their capacity to undermine democratic policy responses.

The United States and its allies must change their approach to meet the new challenges. Some efforts are already under way.

In 2023, the European Union released a new economic-security model that focuses on risk management. In a related move, the United Kingdom recently introduced legislation permitting secondary sanctions.

Meanwhile, authoritarian and nonaligned countries increasingly engage in dialogue that encourages decoupling from Western markets. These alternate markets don't need to compete with the U.S. economy. They just need to be stable and productive enough to provide an option for rogue countries looking to operate outside of the U.S. orbit.

A new U.S. administration presents an opportunity to improve the current condition of economic statecraft. Economic tension and retaliation will only increase. Washington's typical response of isolating and creating financial duress for targets will remain appropriate in some cases. But a new model will be necessary as the economic landscape continues to adapt to manage the risks associated with U.S. sanctions.

Democratic and military allies must forge stronger ties with each other via a new economic partnership model to improve the security outlook

Economic resiliency is top of mind for international policymakers. Japan's recent Economic Security Protection Act prioritizes building its defense against economic dependency from foreign threats. The European Union's 2023 economic security strategy displays the same priorities. The emphasis on derisking shows the need for a new economic outlook in which partnerships are based on diplomatic and military alliances that promote security norms globally.

Countries are already in the process of "friendshoring" their supply chains – rerouting them to nations perceived as friendly or low risk. A significant step forward would be for the United States to spearhead relationships that eliminate trade barriers and make the flow of goods easier. This could foster stronger economic ties and mutual benefits among member nations. A related mechanism could be a sister organization that operates in sync with the NATO military alliance and extends membership to democratic partners.

Within this framework, it is crucial to focus on critical technologies and minerals that enhance security cooperation and supply chain resiliency in sectors vulnerable to coercion. By doing so, the United States can pave the way for smoother economic collaboration that prioritizes risk management and security. This action would align with Article 2 of NATO's founding North Atlantic Treaty, which calls for members to "eliminate conflict in their international economic policies and encourage economic collaboration between any or all of them."

This new emphasis on economic alliances will be critical in creating a forum in which participants cooperate to establish equivalence on economic tools, such as sanctions, tariffs, and export controls. Furthermore, a stronger relationship with international partners can entice innovation on key technologies while mitigating the potential for members to gain excessive leverage over one another.

The Trump Administration must develop a strategy of economic statecraft that relies on incentives rather than just coercion

Sanctions are successful around 40% of the time, according to research from the Center for New American Security – a relatively impressive number when analyzing the complete scope of sanctions. However, much of the success is credited to smaller countries without significant global economic presence. States with a major role in international markets, valuable industries, and opaque practices will be better equipped to absorb the economic and political pressure from sanctions and export controls as they predicate their economic relationships on political risk and ideologies rather than financial return.

Adopting or developing alternative mechanisms of economic statecraft should focus on incentives rather than coercion. This shift would better position the United States to engage with countries partnering with adversarial states which are hoping to cultivate new markets where the United States has minimal influence.

A strategy that prioritizes inducement could bring significant advantages. By attracting countries vulnerable to exploitation, the United States could prevent situations like Europe's energy dependency on Russian goods. Incentive-based tools not only offer the opportunity to form new relationships but also the potential for countries to develop stronger ties with the U.S. economy. As an example, offering debt relief in exchange for new trade agreements and investment opportunities in critical goods could be a strategy with equal return.

Such a step could segue to underutilized tools such as those advocated for by outgoing Deputy National Security Advisor Daleep Singh, including sovereign loan guarantees and resilience funds. Other mechanisms should include technological alliances, like the Chip Four partnership and infrastructure development. These would be valuable additions to initiatives that already have immense impact, such as Prosper Africa and the Millenium Challenge Corporation.

Congress must approve more funding for government agencies that oversee the use of economic tools in foreign policy matters

If policymakers hope to keep sanctions and export controls as key instruments in their arsenal, then they must provide the resources necessary for the government units responsible for their success. Yet the Bureau of Industry and Security (BIS) and the Office of Foreign Assets Control (OFAC) continue to need support in their enforcement, personnel, and technological functions.

Despite having the most comprehensive set of sanctions globally, OFAC only took 17 enforcement actions in 2023 and only five in 2024, as of October. By allocating more funds to the Treasury Department's Office of Terrorism and Financial Intelligence, the United States could hire more attorneys in the OFAC enforcement division. This would make it more capable of pursuing legal action against sanctions violators. The same should apply to BIS's Office of Export Enforcement and Office of Enforcement Analysis. This would help deter sanctions evasion by discouraging (both allied and adversarial countries) from considering helping actors looking to evade sanctions.

Equally critical are economists and trade specialists who can accurately quantify the potential success and blowback of policy actions. The newly developed Sanctions Economic Analysis Unit within the Treasury Department is a good start in measuring long-term effectiveness and success. However, only two economists have been hired since 2023.

An enhanced analysis unit should be coupled with intelligence analysts who work with the intelligence community and private sector to assess evasion hubs, typologies, and weak points and can advise policymakers on enhancements. Ideally, this would be done through a newly established task force that works with the departments of Commerce, Treasury, and State as well as the Office of the U.S. Trade Representative.

Lastly, the United States should invest in a task force that puts economic security at the forefront of policy concerns for the executive branch. An office dedicated to tools of statecraft should enhance domestic economic security by tackling and eliminating weak points. This office should support existing mechanisms and mitigate vulnerabilities that leave the country susceptible to coercion.

Likewise, the task force should study weaknesses in trade partnerships and emerging foreign activity in critical industries to mitigate future risks. An advisory council should be part of the office and host subject-matter experts from the Treasury, Commerce, and State Departments, and other relevant offices and bureaus, such as the U.S. Trade Representative.

Washington has seen the consequences the economies of rogue countries face because of U.S. sanctions. But it's important to differentiate between economic pain and strategic success. The extent to which sanctions and export controls have been used does not reflect triumph as much as an excessive dependency on coercive pressure. Countries will continue to modify their economies and partnerships to diminish U.S. influence in economic policy responses. The question for policymakers is how to enhance the range of able instruments. The United States, together with international allies, should amplify the strength of their economic statecraft to bolster national and global security.

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