53. *Unilateral* **Sanctions**

Congress ***should***

- require an analysis that measures the economic cost to the U.S. economy of all current and proposed economic sanctions;
- provide compensation to U.S. companies whose investments are lost or devalued because of a U.S.-imposed sanction;
- establish a time limit on any new economic sanction;
- require an explicit national security justification for any new economic sanction; and
- grant China, a frequent target of proposed sanctions, a multi-year waiver for most-favored-nation trading status and facilitate its entry into the World Trade Organization.

The attempt to punish foreign governments through unilateral sanctions and secondary boycotts is an unwelcome obstacle on the road to greater freedom of commerce. That development bodes ill for U.S. citizens, for America's diplomatic relations with our major trading partners, and for the poor of the targeted nations who are the most likely victims of economic sanctions. U.S. government restrictions send the wrong message about America's belief in the positive influence of private investment and fail to recognize that U.S. companies help foster greater economic and political freedom for people in developing nations.

Why *Unilateral Sanctions Are Bad Policy*

Unilateral sanctions simply do not work. There are no examples of U.S. unilateral economic sanctions changing the basic character or significant policies of a foreign nation. The 35-year economic embargo of Cuba, a tiny country less than 90 miles from bur coast, is a monument to the ineffectiveness of unilateral economic sanctions as a foreign policy tool.

Yet. as Table 53.1 shows, the United States maintains sanctions against a number of countries, and several others are likely targets of future sanctions.

Supporters of sanctions often point to South Africa as a success story, but the facts tell a different tale. It is unrealistic to credit the U.S. congressional vote for sanctions in October 1986 with the overthrow of apartheid. It was not outside forces but powerful and well-organized domestic political forces that, after a three-decades-long struggle, achieved the peaceful overthrow of an anachronistic system that had no moral standing.

Because of the limited nature of the sanctions, the volume of U.S.–South African trade did change significantly, and many African governments

Table 53.1
U.S. Economic Sanctions

Countries in Which U.S. Economic Sanctions Are in Full Force — Total Embargo[a]	Countries on State-Sponsored Terrorism List— U.S. Restrictions on Financial Transactions	Countries on Drug Decertification List[b]	Likely Targets of Future Sanctions[c]
Cuba	Cuba	Afghanistan	China[d]
Iran	Iran	Burma (Myanmar)	Burma[e] (Myanmar)
Iraq	Iraq	Colombia	Nigeria
Libya	Libya	Iran	Indonesia
North Korea	North Korea	Nigeria	Mexico
	Syria	Syria	Pakistan
	Sudan		Angola
			Algeria
			Turkey
			Liberia
			Burundi

SOURCE: Personal communications with personnel at the U.S. Department of State.

[a]Legislation passed by Congress in 1996 places additional restrictions on foreign companies that invest in the energy sector in Iran and Libya or that use property confiscated in Cuba from American citizens.

[b]Countries that are decertified are not eligible for U.S. foreign assistance, except for anti-drug and humanitarian aid. The U.S. government is obliged to vote "no" on loan applications from these countries at multilateral development banks. National interest waivers have been granted to Lebanon, Pakistan, and Paraguay.

[c]These countries have been targeted for sanctions by lawmakers in recent bills or by the media.

[d]As an aftermath of the Tiananmen Square incident, the U.S. government restricts China's purchases of U.S.-made weapons and law enforcement materials.

[e]Sanctions are in place that deny U.S. visas to certain Burmese political leaders and that direct American votes against Burma in multilateral lending institutions; the executive branch decides on other actions.

that condemned apartheid continued to trade with South Africa behind the scenes. Disinvestment in South Africa led many Western companies to reduce their community-based funding of anti-apartheid organizations, according to the Investor Responsibility Research Center. After General Motors sold its plants, the new owners renewed sales to the South African military and police—which GM had ended—and reduced wages and total employment at the facilities.

To the extent that outsiders influenced developments in the country, it was through the discipline of market forces—banks were reluctant to make or renew loans in an unstable environment—and international expressions of opprobrium, such as banning South African participation in forums such as the Olympics. That helped shame the Afrikaner elite and, in combination with other forces, to lead to its abandonment of white-only rule.

It is also important to note that the economic sanctions against South Africa were multilateral, whereas all recent U.S. sanctions have been unilateral. In an effort to compel multilateral support from our allies, legislation passed by Congress in 1996 established secondary boycotts against firms doing business with Cuba, Iran, and Libya. Passed quickly in the wake of Cuba's shooting down of two airplanes flown by Cuban-Americans, the Cuban Liberty and Democratic Solidarity Act, sponsored by Sen. Jesse Helms (R-N.C.) and Rep. Dan Burton (R-Ind.), bars entry to the United States to CEOs of foreign companies that engage in commerce involving properties seized from Americans by Cuba many years ago. It also allows Americans to sue those foreign companies for triple damages in U.S. courts. Considering that South Africa is routinely cited by supporters of sanctions, it is worth noting that Nelson Mandela announced his government's opposition to Helms-Burton.

Such sanctions harm our diplomatic relations with friendly countries, as evidenced by the threat of our major trading partners to retaliate against American measures that penalize their companies. Other nations object particularly to the extraterritorial authority the U.S. government assumed over citizens of foreign countries.

It is vainglory to believe that by adopting unilateral sanctions America is "leading by example," since nations throughout the world not only have refused to support recent U.S. sanctions but have actively opposed them. Leaders in France, Italy, Britain, Germany, and much of the rest of the world view economic sanctions as counterproductive and generally favor them only in extraordinary circumstances, such as war. Great Britain,

for example, never supported the sanctions against South Africa and believes its constructive engagement policy was successful.

Without multilateral support, American trade sanctions can succeed only if a U.S. company is a monopoly supplier of a good or service to the targeted nation, which is not the case virtually anywhere in the world. In the absence of a monopoly, U.S. unilateral sanctions simply transfer business from an American company to a foreign competitor in the same market.

The goals of U.S. economic sanctions are often unrealistic. A bill seriously considered by Congress in 1996 would have banned all investment in Burma (Myanmar) unless the president of the United States certified "that an elected government of Burma has been allowed to take office." Clearly, the details of the situation in Burma differ from those of the situations in other nations, yet setting a standard that requires a trading partner to have an elected government is a dangerous precedent, since that would lead to questions about whether U.S. companies would some day be prevented from doing business in the vast majority of countries in Africa and the Middle East, and much of the rest of Asia, including China.

Our major trading partners are unlikely to support any future congressionally imposed ban on doing business in Burma. To have any hope of effectiveness, such a boycott would require the cooperation of China, Singapore, and other Asian nations, which is not likely to happen. In fact, Asian countries are choosing, not isolation, but closer engagement with Burma, having invited it to participate in the Association of Southeast Asian Nations. As has happened elsewhere in the world, U.S. unilateral sanctions against Burma will serve primarily to transfer business from American to foreign firms without accomplishing larger goals. To date, those U.S. corporations that have pulled out of Burma have seen their investments replaced by companies from Singapore and Western Europe.

As economic leaders, American companies should be encouraged to enter, not discouraged from entering, new markets. U.S. foreign investment not only is profitable for those companies that invest wisely; it also helps foster greater economic growth in developing nations. The companies help those nations advance their social, political, and economic institutions. The removal of American influence is often unfortunate because U.S. corporations tend to increase the wages and labor standards in the countries in which they operate. Companies engaged in long-term investments in Burma and elsewhere also build schools, hospitals, and roads that local

governments often cannot afford. U.S. companies operating in Nigeria donate more money to help poor residents than does the U.S. government, according to the Corporate Council on Africa.

Common-Sense Criteria for Sanctions

All current and future U.S. sanctions should undergo an economic cost analysis to make clear that sanctions involve economic tradeoffs for the American people. A 1988 study from Johns Hopkins University estimates that over a 25-year period the embargo against Cuba cost American companies $30 billion in lost exports, while the diplomatic benefits gained by the United States were difficult to pinpoint. To avoid becoming entangled by new U.S. sanctions against energy investments *by any company* in Iran and Libya, many European oil companies and suppliers are likely to redesign their procurement policies to exclude American equipment makers. That will put at risk $600 million in U.S. exports and 12,000 export-related jobs, according to the Petroleum Equipment Suppliers Association.

The illusion that sanctions are cost free also necessitates reintroducing the concept of private property into the sanctions debate. It is one thing to stop sending U.S. government dollars to a distasteful regime; it is quite another to prevent private individuals and companies from legally using their own property in another country. All future sanctions bills should contain appropriations to compensate American companies and individuals for investments lost or devalued as a result of a U.S. economic sanction. For example, if a U.S. company is lawfully extracting natural resources from mines in Indonesia and Congress bans all investment there, that corporation should be compensated for its losses. Such a ban is a form of "takings"—within the meaning of the Fifth Amendment—and should be treated as such. That would make clear the real costs of sanctions and should encourage lawmakers to allow any ongoing company investment in a country to continue unmolested and to place no new restrictions on additional investment by such a company. Compensation should include the net present value of a company's investment plus a premium based on reasonable expectations of future profit. In the absence of compensation, the most any future U.S. sanction should be allowed to do is to block investments by new entrants into the targeted country's market.

Congress should also place time limits on economic sanctions so that the force of inertia does not allow such a significant foreign policy decision to continue indefinitely without being reexamined. The 1996 sanctions

against Iran and Libya wisely carry a five-year sunset provision. Any sunset measure, however, should not interfere with the compensation paid to those whose investments are devalued by U.S. government action.

Congress should also require a finding that any sanction is in the "national security interest" of the United States. That finding ought to describe in specific terms how the conduct of the target country poses a threat to the security of the American people and how sanctions would materially reduce that threat. Such a requirement would not necessarily stop the use of sanctions, but it would raise the policy standard for sanctions beyond a show of distaste for another nation's domestic policies.

China and MFN Status

The annual ritual of attempting to deny China most-favored-nation (MFN) trading status serves no legitimate policy purpose and only reduces the stability of the U.S.-China relationship. MFN is itself a misnomer in that it does not grant China a "favored" trading position; it simply treats Chinese products the same as those from nearly all other countries in the world. Only seven countries do not have MFN status. It would be more appropriate to employ the term "normal trade relations." A measure to change MFN to "normal trade relations" was passed by the U.S. Senate in 1996 but did not become law.

The Clinton administration made a wise decision in 1994 when it de-linked human rights from trade and granted China its annual waiver for MFN. The next logical steps are to give China a multiyear waiver and to facilitate China's entry into the World Trade Organization. One emerging complaint against China is its significant trade "surplus" with the United States. Trade deficits, particularly between two nations, are not important economic indicators, do not represent job "losses," and should not be used to justify actions that restrict the flow of goods and services between nations.

Conclusion

The United States should maintain a flexible asylum policy to help victims of persecution from any country and should not provide financial assistance to oppressive regimes. But America cannot *force* other governments to become democratic, or even to treat their citizens humanely, though we should encourage, primarily through diplomatic means, moves toward more freedom.

Current sanction policies have hurt American companies while accomplishing little else. More engagement with the outside world, through increased tourism and a proliferation of trade and investment activity, is more likely to encourage the changes we would all like to see take place in Cuba, Burma, and elsewhere. Since dictatorships thrive by controlling the populace and finding scapegoats for domestic problems, greater interchange with the democratic, market-oriented United States would accomplish more than isolation.

Undoing current sanctions and refraining from imposing new unilateral sanctions against Burma, China, Nigeria, and other nations is the best policy course for the United States. Such sanctions are ineffective, eschew normal diplomatic channels, and undermine our international relations. U.S. companies are often hurt, not only directly, but indirectly because they gain a reputation as unreliable suppliers. Congress should at a minimum adopt reforms that make clear to the public the costs of such sanctions to individual companies and the U.S. economy as a whole. We should abandon the practice of attempting to improve the conduct of other nations by restricting the freedom of our own citizens.

Suggested *Readings*

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