

Testimony of

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“Schemes and Subversion: How Targets of Sanctions Undermine and Evade Sanctions”

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Thank you, Chairman Himes and Ranking Member Barr, for the opportunity to testify this afternoon. It is a privilege to speak to this Subcommittee and to be on this distinguished panel of witnesses.

Let me state at the outset that I am a scholar of international security. I am neither an economist nor a scholar of political economy. My scholarship and teaching primarily deal with United States national security and intelligence, the grand strategies of the great powers (both past and present), alliance politics, nuclear proliferation, and more recently cybersecurity.

My most recent book examines the nuclear proliferation disputes between the United States and four vulnerable and sometimes obstreperous allies—Israel, Pakistan, South Korea, and Taiwan—over a thirty-year period from roughly 1961 to 1990. Specifically, I sought to explain why and how different presidential administrations (from John F. Kennedy to Ronald Reagan) tried to balance the strategic objectives of containing the growth of the Soviet Union’s influence in the Middle East, South Asia, and the Middle East, on the one hand, and forestalling US allies from developing independent nuclear weapons capabilities, on the other hand. In several cases, administrations worked closely with other allies to impose controls on the export of dual-use technologies, to uncover nuclear smuggling rings, and to trace illicit financial transactions. On a few other occasions, administrations threatened to suspend conventional arms transfers and civilian nuclear cooperation to coerce the ally’s compliance with nonproliferation demands.¹

My fellow witnesses are more qualified to testify about the design and implementation of

¹ Jeffrey W. Taliaferro, *Defending Frenemies: Alliance Politics and Nuclear Nonproliferation in US Foreign Policy* (New York: Oxford University Press, 2019).

sanction regimes; about the various strategies and newer tools that targeted actors employ to evade or undermine sanctions; and to offer recommendations for how the Congress and the executive branch might craft more effective sanctions in the future. Instead, my role on this witness panel is to provide a broad overview of the geopolitics of the United States' use of sanctions against a variety of actors—great powers, regional powers, minor powers, corporations, non-state actors, and individuals—as well as the geopolitical implications of the evasion or subversion schemes employed by those targeted actors and their allies.

Economic and trade sanction have long been an important non-kinetic tool of coercive diplomacy among states. The Office of Foreign Asset Control (OFAC) in the US Department of the Treasury notes sanctions are based on “US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States.”²

The primary aim of sanctions—whether unilateral or multilateral, targeted or comprehensive—is to induce a change in the cost-benefit calculations of the target, and thus a change in the target's behavior. The actual imposition of the sanctions must be contingent on the target's observable behavior and the coercer must have both the capability and the resolve to do so.³ But as with other tools of statecraft, including kinetic force, the use of sanctions to secure a target's compliance with a coercer's demand is inherently difficult. There are no guarantees of coercive “success” even in disputes where the balance of material capabilities (power) clearly favors the coercer.⁴ Nonetheless, the threat and imposition of sanctions can serve other political objectives.

Since the late 1940s, the United States has invested in security institutions, such as the UN Security Council and NATO, for several reasons.⁵ These include: (1) to conserve its own material capabilities over the long-run by sharing the short-term costs of coercive diplomacy with other states; (2) to overcome domestic mobilization hurdles to participation through appeals to

² Office of Foreign Assets Control—Sanctions Programs and Information, <https://home.treasury.gov/policy-issues/office-of-foreign-assets-control-sanctions-programs-and-information> (accessed June 13, 2021)

³ The foundational work on coercion theories remains Thomas C. Schelling, *Arms and Influence* (New Haven: Yale University Press, 1966). For a good overview of the literature see Tamis Davis Biddle, “Coercion Theory: A Basic Introduction for Practitioners,” *Texas National Security Review* 3, no. 2 (2020): 94-109.

⁴ For a concise summary of the myriad reasons why coercive success often proves elusive regardless of the tools of statecraft employed see Robert J. Art and Kelly M. Greenhill, “Coercion: An Analytical Overview,” in Kelly M. Greenhill and Peter Krause, *Coercion: The Power to Hurt in International Politics* (New York: Oxford University Press 2018), pp. 18-19.

⁵ Anders Wivel and T. V. Paul define international institutions as “associational clusters among states with some bureaucratic structures that create and manage self-imposed and other imposed-constraints on state policies and behavior.” See “Exploring International Institutions and Power Politics,” in Wivel and Paul, eds., *International Institutions and Power Politics: Bridging the Divide* (Washington, DC: Georgetown University Press, 2019), p. 8.

international legitimacy and claims that any burden will be shared by allies and partners; (3) to leverage the legitimacy of these institutions to generate domestic pressure in other countries for their participation; and (4) to assist in signaling intent to adversaries, as well as neutrals, which might prevent conflicts from escalating.⁶

Over the past thirty years, the United States has worked through the UN Security Council, NATO, and other institutions to create and enforce multilateral sanctions regimes against states such as Iraq, Iran, Serbia, Libya, Russia, China, and North Korea (among others), for each of the above-mentioned reasons. Since the 2010s, the United States, alongside allies and partners and often working through international institutions, has increasingly employed targeted or “smart” sanctions—designed to impose costs on the elite and key supporters of the targeted regime while minimizing the pain felt by the state’s general population.⁷

Additionally, the United States has unilaterally threatened and imposed sanctions against a variety of targets. There are at least two reasons for this. First, unilateral sanctions can signal to domestic constituencies that the Congress and/or the administration of the day takes a particular issue “seriously,” or that they “intend to send a message,” or that they are resolved “to do something,” even if unilateral sanctions have little chance of inducing the target’s compliance in the foreseeable future. Second, unilateral sanctions can signal to foreign audiences— allies and partners, neutrals, and especially adversaries—the degree of resolve on the part of the Congress or the administration regarding an issue.

The United States has increasingly relied on economic and trade sanctions as important tools of statecraft. Targeted entities have included a variety of states, terrorist organizations, international criminal syndicates, private companies, and individuals. These actors have long employed a variety of means to evade or subvert unilateral sanctions as well as the multilateral sanction regimes the United States helps organize and enforce.

My fellow witnesses will discuss some of the newer tools and technologies used to facilitate sanctions evasion, such as cryptocurrencies, Central Bank Digital Currencies (CBDCs), and ransomware. However, I would like to highlight how shifting geopolitical dynamics are making it more difficult for the United States to credibly threaten and enforce sanctions while also giving targets additional means and opportunities to evade and subvert them.

Having won the Cold War and pushed the crumbling Soviet Union out the ranks of the great

⁶ Norrin M. Ripsman, “A Neoclassical Realist Explanation of International Institutions,” in Anders Wivel and T.V. Paul, eds., *International Institutions and Power Politics*, pp. 45-50.

⁷ For an overview of the scholarly debates over the efficacy of economic sanctions, in general, and of targeted (or “smart”) sanctions, in particular see Daniel W. Drezner, “Economic Sanctions in Theory and Practice: How Smart Are They?” in Greenhill and Krause, eds., *Coercion: The Power to Hurt in International Politics*, pp. 251-270.

powers, United States emerged as the unipole in 1990-1991.⁸ By definition, a unipolar international system has only one great power, a single state whose relative share of power—especially its extant military and economic capabilities—is too great to be counterbalanced in the near-term by any other state or possible combination of states. While preponderance does not give a unipole complete control over the external behavior of all other states, a unipole does face far weaker systemic constraints than those faced by the two superpowers in a bipolar system that existed during the Cold War or the several great powers in a multipolar system, such as the one that existed in Europe until World War II.⁹ For better or worse, for two decades, weak systemic constraints and the availability of opportunities to further improve its strategic position afforded the United States wide latitude in the pursuit of foreign and national security policies.¹⁰

This extreme imbalance of power had several consequences relevant to the subject of today's Subcommittee hearing.

First, the United States imposed economic and trade sanctions on and even waged wars against recalcitrant states, such as Iraq, Serbia, Libya, and Afghanistan, and non-state actors, such as al Qaeda and later the Islamic State (or ISIS), with relative impunity.¹¹ No other state or coalition of states had the material capabilities to deter the United States. And when confronting state adversaries against whom the use of kinetic force would have been cost prohibitive, such as North Korea and Iran, the imposition of economic and trade sanctions became a preferred tool for successive administrations and the Congress.

Second, the US military's command of the global commons and ability to sustain prolonged military operations in distant regions, along with the United States' economic and technological dominance, gave various state and non-state actors an incentive to develop asymmetric strategies.¹² One such strategy is hybrid interference, defined as "the synchronized use of multiple non-military means of interference tailored to heighten divisions within target

⁸ Joshua R. Itzkowitz Shiffrin, *Rising Titans, Falling Giants: How Great Powers Exploit Power Shifts* (Ithaca: Cornell University Press, 2018), pp.

⁹ See G. John Ikenberry, Michael Mastanduno, and William C. Wohlforth "Introduction: Unipolarity, State Behavior, and Systemic Consequences," *World Politics* 61, no. 1 (2009): 1-27; Stephen M. Walt, "Alliances in a Unipolar World," *World Politics* 61, no. 1 (2009): 86-120; and Stephen G. Brooks and William C. Wohlforth, *World out of Balance: International Relations and the Challenge of American Primacy*. (Princeton: Princeton University Press, 2008).

¹⁰ See Jeffrey W. Taliaferro, Steven E. Lobell, and Norrin M. Ripsman. "Introduction: Neoclassical Realism, the State, and Foreign Policy," in Steven E. Lobell, Norrin M. Ripsman and Jeffrey W. Taliaferro, eds., *Neoclassical Realism, the State, and Foreign Policy* (Cambridge: Cambridge University Press, 2009), pp. 1-41; and Norrin M. Ripsman, Jeffrey W. Taliaferro, and Steven E. Lobell, *Neoclassical Realist Theory of International Politics* (New York, NY: Oxford University Press, 2016), pp. 52-56.

¹¹ See Nuno P. Monteiro, *Theory of Unipolar Politics* (Cambridge: Cambridge University Press, 2014), pp. 144-178.

¹² Barry R. Posen, "Command of the Commons: The Military Foundation of U.S. Hegemony," *International Security* 28, no. 1 (2003): 5-46.

societies.”¹³ Hybrid interference employs a variety of state-controlled but non-kinetic tools “that are concealed to provide the divider with official deniability and manipulate targeted actors without elevating threat perceptions.”¹⁴ Such tools include clandestine diplomacy (e.g., covert assistance to opposition groups, criminal organizations, insurgents, and hackers), geoeconomics (e.g., the use of financial inducements and threats against select individuals or groups within the target state), and disinformation (e.g., the introduction of false or misleading information into the communication streams of the target state).

To date the most successful (and infamous) employment of hybrid interference directly targeting the United States was Russia’s two-year long operation to sway the outcome of the 2016 presidential election.¹⁵ Indeed, the clandestine employment of cybercriminal organizations and individual hackers by the foreign intelligence services of Russia, China, North Korea, and Iran, enable them to not only carry out hybrid interference campaigns targeting the United States, its allies, and strategic partners, but also to undermine various unilateral and multilateral sanctions. And all the while, the Russian, Chinese, North Korea, and Iranian governments can maintain plausible denial. Additionally, China has variously utilized its Belt and Road Initiative (BRI) development projects, the technology firm Huawei’s dominance of the market in 5G network infrastructure, and disinformation campaigns on social media to drive wedges between the United States and various allies in Western Europe, South Asia, and East Asia.¹⁶

Third, the unipolar distribution of power itself, as well as the diplomatic, military, and foreign economic initiatives undertaken by the Bill Clinton, George W. Bush, Barak Obama, and Donald J. Trump administrations, created incentives and opportunities for targets and other disaffected actors to collaborate to evade or subvert US sanctions. For example, Russia under President Vladimir Putin, seized the opportunity to provide a lifeline to the embattled regime of Venezuela’s president Nicolas Maduro by allowing the Russian oil company Rosneft to buy, transport, and sell Venezuelan crude oil. This arrangement allowed *Petróleos de Venezuela, S.A.* (PDVSA), and by extension Maduro’s government and power base, to profit from the sale. Rosneft ended formal operations in Venezuela in March 2020 after two successive rounds of US sanctions targeting the subsidies which enabled the sale of crude.¹⁷ But Rosneft sold its Venezuelan assets to a Russian state-owned company, thus giving Putin’s government both a

¹³ Mikael Wigell, "Hybrid Interference as a Wedge Strategy: A Theory of External Interference in Liberal Democracy." *International Affairs* 95, no. 2 (2019), pp. 255-275, at p. 262.

¹⁴ *Ibid.*, p. 256

¹⁵ See Wigell, “Hybrid Interference”; and Benjamin Jensen, Benjamin, Brandon Valeriano, and Ryan Maness, "Fancy Bears and Digital Trolls: Cyber Strategy with a Russian Twist," *Journal of Strategic Studies* 42, no. 2 (2019): 212-34.

¹⁶ Weifeng Zhou and Mario Esteban, "Beyond Balancing: China's Approach Towards the Belt and Road Initiative." *Journal of Contemporary China* 27.112 (2018): 487-501.

¹⁷ “Treasury Targets Additional Russian Oil Brokerage Firm for Continued Support of Maduro Regime,” U.S. Department of the Treasury, March 12, 2020, <https://home.treasury.gov/news/press-releases/sm937> (accessed June 15, 2021).

major stake in Venezuela's energy sector and strategic foothold in South America.¹⁸

Likewise, China has a long record of enabling North Korea to circumvent various UN Security Council sanctions aimed at coercing the surrender of its nuclear weapons. In December 2020, the US Department of State accused China of "flagrant violations" of its obligation to enforce UN sanctions citing evidence that Chinese firms not only continued to do business with North Korean officials and entities associated with the nuclear weapons program, but also helped North Korea launder money obtained through cyber threat in order to fund that weapons program.¹⁹ There is evidence that China may have loosened its protective stance on North Korea in recent years, whether in response to diplomatic pressure from the United States during the Trump administration, North Korean long-range missile tests in 2017, changing Chinese perceptions of Kim Jong Un's regime, or some combination of all three.²⁰ Nevertheless, Chinese president Xi Jinping is not about to "abandon" North Korea by ordering rigorous compliance with nonproliferation sanctions. The survival of North Korea, which is inextricably tied to the survival of the Kim dynasty, is of paramount strategic importance to China.

Fourth, and finally, as the Biden administration's *Interim National Security Strategic Guidance* acknowledges, "the distribution of power across the world is changing, creating new threats."²¹ The United States now faces two great power adversaries, a rising China and a revanchist Russia, as well as two regional power adversaries, Iran and North Korea. "Both Beijing and Moscow have invested heavily in efforts meant to check U.S. strengths and prevent us from defending our interests and allies around the world. Regional actors like Iran and North Korea continue to pursue game-changing capabilities and technologies, while threatening U.S. allies and partners and challenging regional stability."²² All four states will seek more creative means to evade the various economic and trade sanctions the United States seeks to enforce. They will also continue to help their respective allies and clients to subvert or evade sanctions.

One would expect the Congress and the executive branch to redouble efforts at vigorous sanctions enforcement. But in this changing geopolitical landscape, it might also behoove policymakers to be bit reticent in imposing sanctions against various targets and to lower

¹⁸ David L. Goldwyn, "Containing Russian Influence in Venezuela," The Atlantic Council, April 20, 2021, <https://www.atlanticcouncil.org/blogs/energysource/containing-russian-influence-in-venezuela/> (accessed June 15, 2021). Also see John E. Herbst and Jason Marczak, "Russia's intervention in Venezuela: What's at stake?" The Atlantic Council, September 12, 2019, <https://www.atlanticcouncil.org/in-depth-research-reports/report/russias-intervention-in-venezuela-whats-at-stake/> (accessed June 15, 2021).

¹⁹ David Brunnstrom, "U.S. accuses China of 'flagrant' N. Korea violations, offers \$5 million reward," Reuters, December 1, 2020, <https://www.reuters.com/article/usa-northkorea-china-idUSKBN28B540> (accessed June 15, 2021).

²⁰ Wenxin Li and Ji Young Kim. "Not a Blood Alliance Anymore: China's Evolving Policy toward UN Sanctions on North Korea." *Contemporary Security Policy* 41, no. 4 (2020): 610-31.

²¹ Joseph R. Biden, Jr., *Interim National Security Strategic Guidance* (Washington, DC: The White House, March 3, 2021) <https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf>

²² *Ibid.*, p. 7

expectations about what coercive (economic) diplomacy can achieve vis-a-vis such determined adversaries.