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From Isolation to Engagement: The Case Against Unilateral Sanctions

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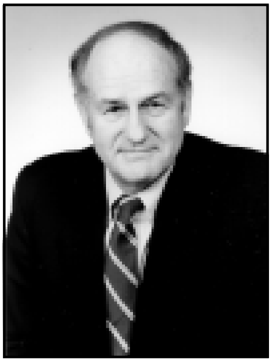

Donald V. Fites

In this country, policy discussions of free trade issues often revolve around the need to remove foreign trade barriers or correct other nations' unfair practices as a means to advance America's leadership in the world economy. In far too many cases, however, the obstacles we face in the global marketplace are entirely self-inflicted. At a time when exports by U.S. companies are increasing at an impressive rate, actions by our government compromise those efforts. At a time when 95 percent of our potential customers live beyond our borders, U.S. policymakers are restricting our access to 40 percent of the world's population.

In recent years, unilateral sanctions have become our country's foreign policy weapon of choice. Since 1993, the United States has imposed more than 60 unilateral foreign policy sanctions covering 35 countries. And the trend is growing. Despite a wealth of evidence that these sanctions, at best, rarely achieve their goals, and, at worst, are counterproductive, 26 new unilateral sanction measures have been introduced in the current session of Congress. To further complicate the matter, state and local governments are getting into the act with

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their own trade restrictions. And, at all levels, these sanctions aren't aimed just at obvious "rogue" regimes. In a growing number of cases, they target mainstream U.S. trading partners, such as Mexico, Indonesia, Turkey . . . and even Switzerland.

Unilateral Sanctions: "Pain Without Gain"

I find this proliferation of sanctions disturbing for several reasons. First, Caterpillar, the company with which I've been associated for more than 40 years, is particularly committed to free trade, in large part because of our unique competitive position. While more than half of our sales come from overseas, nearly three-quarters of our assets are based in the United States. So we don't have the same flexibility that some companies do to source products abroad. And, in the future, our dependence on export markets will be even greater. By 2010, we anticipate that 75 percent of our sales opportunities will come from overseas. What this all means is, when unilateral sanctions restrict the free flow of trade between the United States and other nations, we feel the effects sooner and more severely than many other companies.

Second, in all too many cases, these measures not only fail to achieve their goals, they wind up hurting American businesses and American workers by undermining our nation's competitiveness in world markets. As one observer summed it up, unilateral sanctions tend to be a classic case of "pain without gain."[1]

When the Carter administration cut off sales of American wheat to protest the Soviet invasion of Afghanistan, for example, other countries – principally France, Canada, Australia, and Argentina – stepped in to fill the void. Their expanded sales to the Soviet Union ensured that U.S. sanctions would have virtually no impact. So, it's fair to ask, who was punished? The Soviets certainly didn't pack up their gear and leave Afghanistan. They did pay an extra $225 million or so to buy wheat, soybeans and feedgrain from alternative suppliers, but that pales in comparison to the $2.3 billion in lost exports and lost government compensation suffered by American farmers. And that wasn't the end of it. To this day, Russia and other countries continue to restrict purchases of American wheat, for fear that the U.S. may again use agricultural exports as a foreign policy weapon.

Another example – one I remember all too well – would be the unilateral sanctions the United States aimed at the Soviets to stop them from building a gas pipeline into Western Europe in the early 1980s. That disastrous action was not just a case of misdirected sanctions in action, but also a reminder that such sanctions aren't tied to which party is in power.

The Reagan administration invoked these sanctions to punish the Soviets for a crackdown in Poland. How did the story play out? The pipeline was built, primarily with equipment supplied by a Japanese company.

Again, who was punished? Not the Soviets, who actually finished their pipeline ahead of schedule. Not the Japanese, who stepped in where Caterpillar and other U.S. companies were forbidden to go. The ones who paid the price were U.S. workers and their communities, who could have used this work to help offset the effects of a worldwide recession. In the process, U.S. policymakers, in effect, handed that market to a Japan-based manufacturer, which increased its economies of scale and enabled it to become a more formidable worldwide competitor.

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Just as damaging, Caterpillar, which had held 85 percent of the Soviet market, came to be seen – as had U.S. farmers a few years earlier – as an unreliable supplier. And this perception – that U.S. companies are at the mercy of a government prone to use unilateral threats to cut off trade and investment – has emerged again and again as a dangerous obstacle to U.S. competitiveness.

In other cases, that obstacle is less obvious, but no less dangerous. Airbus Industrie, for example, has often been portrayed in this country as a foreign threat to U.S. aerospace jobs. But, one could argue that the real threat to those jobs originates in Washington, not Toulouse.

Twenty-five years ago, Airbus' first line of jet aircraft, while assembled in Europe, contained more than 50 percent U.S. parts and components. To escape U.S. foreign policy export controls, Airbus by 1992 had reduced its sourcing of U.S.-controlled components to below 20 percent.

A U.S. supplier of oil-drilling equipment and technology recently was excluded from a contract to build an offshore oil rig in the North Sea. There would seem to be no danger of U.S. sanctions against Great Britain, but the potential customer feared that U.S. law might preclude a future decision to move the equipment to other, more politically sensitive locations.

Risking Jobs At Home, Credibility Abroad

This nation's future prosperity is tied to our competitiveness in global markets.

This is a high-stakes game. A study released earlier this year by the Institute for International Economics[2] found that in 1995 alone, between 200,000 and 250,000 U.S. jobs were lost due to unilateral U.S. trade sanctions that reduced our exports to 26 target countries by an estimated $15 billion to $20 billion. A 1994 Council on Competitiveness report found that just eight unilateral sanctions episodes cost the U.S. economy $6 billion in annual sales and 120,000 export-related jobs. And none of these figures takes into account the additional losses arising from lost U.S. investment opportunities, or the concerns of potential foreign customers about doing business with those "unreliable Americans."

This nation's future prosperity is tied to our competitiveness in global markets. Trade accounts for more than 30 percent of U.S. gross domestic product. And more than 12 million working Americans and their families depend on U.S. exports and access to global markets for their livelihoods.

Unilateral sanctions cut off our citizens from some of the most promising export markets, while at the same time limiting our opportunities to communicate American ideals and values to people in other parts of the world. For example, we have targeted countries like Russia, China, and Indonesia for economic sanctions on a number of issues. But these same countries are rapidly emerging as the markets of the future. By 2010, the number of middle-class consumers in those three nations could equal that of the United States, Europe and Japan combined. This issue becomes even more urgent for suppliers of capital equipment, from construction equipment to transport aircraft. The initial choice of such a supplier drives follow-on sales of additional equipment, support services and parts for decades into the future. Since it can be prohibitively expensive to switch suppliers, a market the U.S. loses up front may be lost forever.

At the risk of sounding like a broken record, the question begs to be asked again: Who's really being punished? Sadly, it's American companies and American workers.

The Constructive Alternative: Active Engagement

We in the American business community need to continually remind our leaders that unilateral sanctions don't work, and that they impose a very high cost right here at home. But we need to do more. We need to offer constructive alternatives that advance our nation's interests – and our values – around the world.

To that end, Caterpillar has joined with more than 650 large and small businesses, farm organizations and trade groups from all regions and segments of the U.S. economy to form USA★Engage. (I would urge any reader who wants to explore this issue further to contact USA★Engage at (202)628-7515, or visit the organization's web site at "www.usaengage.org".)

One of the chief objectives of this coalition is to awaken our leaders to the need to abandon unilateral sanctions as our foreign policy weapon of choice . . . to focus instead on more effective and constructive alternatives to what some in Washington refer to as "the lazy man's" approach to foreign policy.

The first alternative we propose is education through engagement. If we want other nations to share certain values with us, there's no substitute for sharing our values with them through a policy of active engagement at all levels – political, diplomatic, economic, charitable, religious, educational, and cultural. That's the way to promote freedom, human rights, security, and prosperity.

Ultimately, the problem with unilateral sanctions is that they cut the United States off from much of the rest of the world – isolating our nation and depriving other countries of the benefits of full engagement with us. The whole range of American activity in other nations transmits our values and ideals. But it has been our experience that trade and investment are particularly powerful tools for helping those values take root and grow.

American businesspeople not only provide American products – they stimulate further business activity and establish American practices, both in the marketplace and in the workplace. Ideas flow through engagement and, in a growing economy supported by free trade, these ideas can expand the influence and resolve of a growing middle class. This middle class, in the long run, can be a far more potent weapon against corruption and abuse of power than sanctions could ever presume to be.

Second, we need a more effective *process* for resolving foreign policy issues without being the first player at the table to ante up our workers as a bargaining chip in a no-win game of economic poker. There's no question that much of our world remains a dangerous place. There may be times when we must resort to sanctions to protect our national security. But a unilateral approach should be considered only after Congress and the executive branch have gone through a disciplined, deliberative process of examining all the alternatives, including diplomatic initiatives and multilateral measures.

If we have no choice but to consider sanctions, they should be judged against several criteria, including their prospects of achieving their intended results, their potential to damage other national interests and the potential costs they will impose on Americans.

Finally, we need to make sure that any existing or future sanctions pass the test of *accountability*. That is, we need to review them closely every two years, and only extend those that clearly are advancing our foreign policy goals. We should sunset those that aren't in favor of other, more constructive approaches.

What it all comes down to is this: at many levels, the United States must be willing to play, not just *a* leadership role in the world, but *the* leadership role. And we can't lead by leaving the field. We can only lead through active engagement.

[1] Professor Donald Losman, U.S. Industrial College of the Armed Forces.

[2] "U.S. Economic Sanctions: Their Impact on Trade, Jobs and Wages," Institute for International Economics April 1997 study, quoted by USA★Engage.

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