Journal of
International Relations,
Diplomacy & Global Affairs

United States Financial Sanctions and the Sustainability of Dollar Power: A Literature Based Study of Economic Statecraft

Mark Muller & Hellen Mitchell

Stratford Peer Reviewed Journals and Book Publishing
Journal of International Relations, Diplomacy & Global Affairs
Volume 1||Issue 1||Page 37-51 ||August||2026|
Email: info@stratfordjournals.org.

United States Financial Sanctions and the Sustainability of Dollar Power: A Literature Based Study of Economic Statecraft

[*1]Mark Muller & [2]Hellen Mitchell

***How to cite this article*: Muller, M. & Mitchell, H. (2026). United States Financial Sanctions and the Sustainability of Dollar Power: A Literature Based Study of Economic Statecraft. *Journal of International Relations, Diplomacy & Global Affairs*. Vol 1(1) pp. 37-51.**

Abstract

This study examines the effectiveness and long term sustainability of United States financial sanctions as an instrument of economic statecraft. The study addresses the disagreement between research that questions sanctions effectiveness and scholarship showing that coercive threats, coalition support, target institutions, and financial network position can improve outcomes. A literature based design was used to synthesize peer reviewed studies and academic books indexed in Google Scholar. The findings show that United States financial power is strengthened by the central position of the dollar and related financial networks, but sanctions effectiveness remains conditional on bargaining conditions, multilateral cooperation, target vulnerability, and third party behavior. The literature also indicates that repeated financial coercion can encourage reserve diversification and alternative payment arrangements. The study concludes that United States sanctions should be selective, coordinated with major partners, linked to clear diplomatic objectives, and accompanied by relief conditions to protect long term coercive capacity.

Keywords: *Financial sanctions, Economic statecraft, United States, Dollar power, Economic coercion, International relations*

1.0 Introduction

Economic sanctions occupy an established place within the study of economic statecraft because they use economic relationships to pursue political objectives. Baldwin (2020) argues that economic instruments should be evaluated as techniques of statecraft rather than dismissed simply because they do not always compel complete policy reversal. This approach is important for the United States because sanctions provide an option between diplomatic protest and military force. The policy value of sanctions therefore depends on the objective sought, the costs imposed on the target, the costs carried by the sender, and the availability of alternative instruments. The literature accordingly treats effectiveness as a question of conditions and comparative utility rather than as a simple judgment about whether sanctions work in every case.

The United States is an important case because its financial influence is connected to the international role of the dollar and to the central position of American institutions within global financial networks. Farrell and Newman (2019) show that asymmetric economic networks can give states located at central nodes the capacity to gather information and restrict access to important network functions. McDowell (2023) applies this logic to United States financial power and argues that dollar dominance gives Washington an exceptional capacity to restrict foreign actors from dollar based assets and financial channels. These studies explain why financial sanctions can impose substantial costs without requiring the territorial control associated with military coercion.

The form of sanctions has also changed. Drezner (2015) observes that economic coercion has moved from broad trade embargoes toward targeted financial sanctions. He argues that targeted financial measures are attractive because they can impose substantial economic costs while seeking to reduce some of the negative effects associated with comprehensive restrictions. This development has increased the importance of financial regulation, banking access, asset restrictions, and transaction controls in foreign policy. For the United States, the international use of the dollar expands the reach of these measures beyond direct bilateral trade and allows sanctions to affect firms and financial institutions connected to dollar based transactions.

The effectiveness of sanctions remains disputed in international relations scholarship. Pape (1997) challenged optimistic assessments of sanctions and concluded that economic sanctions had little independent utility for achieving major noneconomic political objectives in the cases he reassessed. Drezner (2003), however, argues that studies focusing only on imposed sanctions can underestimate coercive success because targets may concede after a threat and before sanctions are imposed. His statistical analysis supports the argument that successful coercion can occur at the threat stage. The disagreement therefore concerns both substantive effectiveness and the way sanctions outcomes are measured.

Research also shows that sanctions outcomes depend on international and domestic conditions. Bapat and Morgan (2009) find that multilateral sanctions appear to succeed more frequently than unilateral sanctions in the Threat and Imposition of Economic Sanctions data set, referred to as TIES, while McLean and Whang (2010) show that support from the major trading partners of a target state increases the probability of sanctions success. Lektzian and Souva (2007) argue that target political institutions shape the transmission of economic costs into political pressure. Early (2011) further demonstrates that third party trade and aid can weaken sanctions by providing alternative economic relationships. These findings caution against treating sanctions as an instrument with a fixed probability of success.

This paper examines United States financial sanctions through a literature based case study. It connects research on sanctions effectiveness with scholarship on network power and the international role of the dollar. The central question is how financial sanctions can strengthen United States coercive diplomacy while also creating incentives for target states and other governments to reduce exposure to American financial power. Drezner (2015) identifies possible resistance to United States financial primacy as an important research question, while McDowell (2023) develops a systematic account of how financial sanctions can generate political incentives for anti dollar policies. The paper therefore evaluates both immediate coercive capacity and long term sustainability.

2.0 Problem Statement

United States foreign policy has increasingly relied on financial sanctions, yet the academic literature does not support the assumption that greater economic pressure automatically produces political compliance. Pape (1997) finds that many claimed sanctions successes cannot be attributed to economic pressure alone. Drezner (2003) shows that this conclusion can be affected by selection because successful threats may never become imposed sanctions. Peksen (2019) similarly concludes that the sanctions literature contains important disagreements about measurement, timing, target behavior, and the interaction between sanctions and other foreign policy instruments. The policy problem is therefore not whether sanctions are universally effective, but how to identify the conditions under which they contribute to a defined diplomatic objective.

A second problem concerns the source of United States financial leverage. Farrell and Newman (2019) show that central positions in international networks can produce coercive advantages, while McDowell (2023) argues that the global role of the dollar gives the United States unusual financial power. The same dependence that creates leverage can also create incentives for exposed states to reduce their reliance on dollar based assets and payment channels. Sanusi et al. (2025) find that greater use of United States financial sanctions is associated with a reduction in the dollar share of global reserve currencies. Bianchi and Sosa-Padilla (2025) further show in a monetary model that anticipation of financial sanctions can reduce the convenience yield and holdings of dollar assets.

The literature therefore presents a policy tension between present coercive capacity and future financial influence. Financial sanctions can exploit existing dependence, but repeated use may encourage adaptation that weakens the leverage on which the instrument depends. McDowell (2023) does not argue that sanctions will necessarily remove the dollar from its leading international position. He instead argues that target adaptation can reduce the future effectiveness of United States financial coercion. This paper addresses the problem by integrating the sanctions effectiveness literature with research on financial network power and dollar diversification. The purpose is to identify conditions that allow the United States to use financial sanctions without unnecessarily weakening their future diplomatic utility.

3.0 Objectives of the Study

The general objective of the study is to assess the effectiveness and long term sustainability of United States financial sanctions as an instrument of economic statecraft. The specific objectives are to examine the theoretical basis of sanctions in economic statecraft, assess the conditions associated with sanctions success, evaluate how multilateral cooperation and third party behavior affect outcomes, analyze how the dollar and global financial networks expand United States coercive capacity, examine evidence that sanctions encourage financial adaptation, and develop policy recommendations for the selective and diplomatically coordinated use of financial sanctions.

4.0 Literature Review

4.1 Economic Statecraft and Sanctions

Baldwin (2020) provides a broad foundation for understanding sanctions as one component of economic statecraft. His framework rejects the assumption that economic instruments should be judged only by whether they force complete capitulation. Instead, the utility of a statecraft instrument depends on the goals pursued, the costs involved, and the alternatives available. This approach is relevant to financial sanctions because they can serve several functions. They can impose costs, communicate resolve, limit access to resources, constrain transactions, and support bargaining. A sanction can therefore have foreign policy value even when it does not independently produce a complete change in the target government position.

The statecraft perspective also requires attention to sender costs. A policy that imposes severe costs on a target can still be unattractive if it produces larger economic, diplomatic, or strategic costs for the sender. Baldwin (2020) emphasizes comparative evaluation among instruments. This principle implies that sanctions should be assessed against feasible alternatives such as negotiation, inducements, legal measures, military action, or inaction. For the United States, financial sanctions are often attractive because they can use existing financial relationships rather than direct force. Their value, however, depends on preserving the institutions and relationships that make financial pressure possible.

Drezner (2015) places targeted financial sanctions within the evolution of economic coercion. He argues that the shift away from comprehensive trade embargoes has increased the attractiveness of sanctions because financial restrictions can concentrate pressure more directly on important actors and transactions. The change also reflects the development of globally integrated capital markets. This creates new opportunities for coercion but also raises questions about learning and adaptation by target states. Drezner specifically asks whether repeated financial sanctions could generate resistance to United States primacy in the global financial system. This question connects sanctions policy with the broader international political economy of currency and financial infrastructure.

The literature therefore treats sanctions as more than a bilateral reduction in trade. Modern financial sanctions operate through banking relationships, payment systems, asset access, and legal exposure across international markets. Farrell and Newman (2019) explain how states can use central network positions to observe transactions and restrict access to important nodes. McDowell (2023) shows that the dollar gives the United States a particularly strong position because many international actors require access to dollar assets and dollar based finance. These arguments provide the theoretical basis for examining United States sanctions as a form of network enabled economic statecraft.

4.2 Sanctions Effectiveness and Bargaining

Pape (1997) presents one of the strongest criticisms of economic sanctions as a coercive instrument. Reassessing cases previously identified as successful, he argues that many outcomes attributed to sanctions were better explained by military force, other forms of pressure, or limited policy disputes. His analysis concludes that sanctions had little independent usefulness for major noneconomic objectives. The study remains important because it demands careful causal attribution. Economic hardship alone cannot be treated as proof that sanctions caused political compliance. A credible evaluation must identify whether the target changed policy because of the sanctions rather than because of another simultaneous development.

Drezner (2003) challenges conclusions drawn only from cases in which sanctions were imposed. His bargaining model predicts that a target willing to concede will often do so when sanctions are threatened, before the economic penalty is implemented. As a result, a dataset limited to imposed sanctions can contain a disproportionate number of difficult cases in which bargaining already failed. Drezner reports statistical support for this selection argument in sanctions involving economic and regulatory goals. The implication is that sanctions effectiveness should be studied across the full bargaining process, including threats, concessions, implementation, adjustment, and termination.

Peksen (2019) reviews the sanctions effectiveness literature and identifies several methodological problems that prevent simple conclusions. He notes that studies differ in how they classify unsuccessful cases, often use static data that cannot fully represent changing conditions over time, and frequently rely on state centered bargaining models even when sanctions are directed at nonstate actors. He also argues that sanctions are often studied separately from incentives and diplomatic pressure that accompany them. These limitations support an analytical approach that treats sanctions as part of a wider foreign policy strategy rather than as an isolated intervention.

The bargaining literature also indicates that the target must believe the costs of resistance exceed the expected costs of concession. This relationship depends on the target objective, the political value attached to the disputed issue, and expectations about the duration of pressure. Lektzian and Souva (2007) show that economic pain does not translate uniformly into political pressure because political institutions shape which groups bear costs and how leaders remain in office. Sanctions can therefore produce substantial economic damage without creating the political mechanism required for policy change. Effectiveness depends on the connection between economic restriction and the decision making structure of the target.

This scholarship supports a conditional interpretation of sanctions. Pape (1997) demonstrates that many sanctions cases do not justify strong claims of success. Drezner (2003) shows that successful threats can be missed when analysis begins only after sanctions are imposed. Peksen (2019) shows that research design and the interaction of sanctions with other instruments affect conclusions. The combined literature does not justify either universal optimism or universal rejection. It instead supports case specific assessment of objectives, bargaining stages, target incentives, political institutions, and the contribution of other diplomatic measures.

4.3 Multilateral Cooperation and Third Party Responses

International cooperation is a central condition in sanctions research because target states may redirect trade and finance when alternative partners remain available. Bapat and Morgan (2009) use the TIES data and find that multilateral sanctions appear to work more frequently than unilateral sanctions. Their analysis also shows that the effect of multilateralism depends on the number of issues involved and the participation of international institutions. These findings indicate that coalition size alone is not sufficient. Coordination must reduce alternative economic channels and maintain agreement on the political objective of the sanctions.

McLean and Whang (2010) refine the cooperation argument by focusing on the major trading partners of the target state. Their empirical results show that sanctions are more likely to succeed when these important partners support the sanctioning effort. The study also finds that broad international cooperation can be less necessary when the sender is itself the principal trading partner of the target because the sender already possesses strong economic leverage. This finding is relevant to United States policy because formal coalition size may be less important than whether the states and firms controlling critical commercial and financial relationships participate in enforcement.

Early (2011) examines sanctions busting in episodes of United States sanctions from 1950 to 2006. He finds that third party behavior can undermine sanctions when states expand trade or aid relationships with a target. His analysis distinguishes politically motivated assistance from commercially motivated sanctions busting and finds that the combination can have a strong negative effect on sanctions success. This research demonstrates that sanctions design cannot focus only on the sender and target. The incentives of third parties can determine whether economic pressure is sustained or replaced by alternative transactions.

The cooperation literature has two diplomatic implications. First, sanctions should be preceded by consultation with states that control important trade, finance, transport, or technology relationships with the target. Second, coalition management remains necessary after sanctions begin because third party incentives can change as new commercial opportunities appear. Bapat and Morgan (2009), McLean and Whang (2010), and Early (2011) collectively show that the external environment of the target shapes sanctions effectiveness. United States coercive capacity is therefore stronger when sanctions are embedded in sustained diplomatic coordination rather than announced as an independent financial measure.

4.4 Domestic Political Effects of Sanctions

Sanctions operate through domestic political mechanisms inside the target state. Lektzian and Souva (2007) argue that sanctions are more likely to generate policy change when they impose costs on groups whose support is important to political leaders. Their analysis indicates that nondemocratic leaders can be more resistant because they depend on smaller political coalitions and can protect core supporters while shifting costs to other groups. This finding explains why severe economic damage does not always produce political compliance. The distribution of costs matters as much as the aggregate size of the economic loss.

Peksen and Drury (2010) examine the political consequences of sanctions using cross national data. They find that both immediate and longer term sanctions effects are associated with lower levels of democratic freedoms in target states. They also find that comprehensive sanctions have a greater negative effect than limited sanctions. Their explanation emphasizes the ability of targeted governments to use economic hardship and external pressure to justify restrictions on political liberties and weaken opposition groups. This evidence raises an important policy concern because a sanction intended to alter government conduct can also change the domestic environment in ways that protect the targeted leadership.

These studies challenge the assumption that public hardship will necessarily generate pressure for concession. Lektzian and Souva (2007) show that leaders can distribute costs according to political incentives, while Peksen and Drury (2010) show that sanctions can be associated with reduced political freedoms. The political effect therefore depends on how resources, repression, and political accountability operate inside the target state. United States sanctions policy should not assume that aggregate economic pain will translate into policy change through public dissatisfaction.

The domestic political literature also supports greater attention to targeted measures. Drezner (2015) argues that targeted financial sanctions are attractive partly because they seek to impose significant costs with fewer negative effects than comprehensive sanctions. Peksen and Drury (2010) find that comprehensive sanctions have stronger negative effects on democratic freedoms than limited sanctions. These studies do not establish that targeted sanctions eliminate humanitarian or political harm. They support a narrower conclusion that sanction design influences how costs are distributed and that broad restrictions can produce additional political consequences that should be included in policy evaluation.

4.5 Financial Networks and United States Dollar Power

Farrell and Newman (2019) develop the concept of weaponized interdependence to explain how global networks can create asymmetric power. Their analysis identifies two mechanisms. The panopticon effect concerns the ability of actors located at central network nodes to obtain information, while the chokepoint effect concerns the ability to restrict access to important network functions. These mechanisms show that interdependence does not always distribute power evenly. States with authority over central nodes can convert network position into coercive capacity. The framework is directly relevant to financial sanctions because international payments and banking relationships are organized through networks with concentrated points of access.

The United States benefits from this network structure because the dollar remains central to international finance. McDowell (2023) argues that dollar dominance gives the United States an unmatched capacity to deny foreign actors access to dollar assets and the dollar based financial system. This power allows sanctions to reach beyond direct economic relationships with the target. A foreign bank or firm can face strong incentives to comply when access to dollar transactions is more valuable than continued business with a sanctioned actor. Financial sanctions therefore derive part of their effectiveness from the opportunity costs created by exclusion from a widely used currency network.

Drezner (2015) explains that the development of targeted financial sanctions is connected to globalized capital markets. Financial sanctions can concentrate pressure on firms, banks, officials, or sectors that depend on international finance. This approach can be more precise than a general trade embargo, but it also depends on accurate information, legal enforcement, and the willingness of intermediaries to comply. The effectiveness of financial sanctions is therefore partly institutional. It relies on the credibility of enforcement and on the continuing importance of the financial channels controlled or influenced by the sender.

Network power also changes the role of private actors. Banks, payment intermediaries, and multinational firms make compliance decisions based on legal exposure and access to financial markets. Farrell and Newman (2019) show that network centrality allows states to exercise power through infrastructures that connect private actors across borders. McDowell (2023) applies this logic to the dollar system. The result is that United States financial sanctions can influence actors that are not direct parties to the original diplomatic dispute. This expands coercive reach, but it can also increase the number of governments and firms that have incentives to seek alternative arrangements.

The literature therefore identifies a structural advantage that distinguishes United States financial sanctions from ordinary bilateral restrictions. The sanctioning power does not arise only from the size of the American economy. It also arises from the international demand for dollar assets, payment access, and financial services. Farrell and Newman (2019) explain the network mechanism, while McDowell (2023) explains how dollar dominance strengthens the exercise of American financial power. The durability of sanctions capacity consequently depends on the continued attractiveness and centrality of the financial system through which coercion is exercised.

4.6 Sanctions and the Sustainability of Dollar Power

The same financial centrality that enables sanctions can create incentives for adaptation. McDowell (2023) argues that United States financial sanctions generate political risk for governments that depend on the dollar for reserves or international payments. When states believe future access can be restricted for political reasons, they may adopt policies intended to reduce dollar exposure. These measures can include changes in reserve composition or efforts to expand the use of alternative currencies for international transactions. McDowell emphasizes that such policies do not automatically remove the dollar from its leading position, but they can reduce the future reach of United States financial coercion.

Sanusi et al. (2025) provide empirical evidence on the relationship between United States financial sanctions and the dollar share of global foreign exchange reserves. Using quarterly data from 1999 to 2022 and a Least Absolute Shrinkage and Selection Operator model, referred to as LASSO, they find that increased imposition of United States financial sanctions reduces the dollar share of global reserve currencies. The authors also state that the dollar has shown substantial resilience as the leading reserve currency. Their result therefore supports a limited conclusion. Sanctions may contribute to reserve diversification even while the dollar remains dominant.

Bianchi and Sosa-Padilla (2025) examine the issue through a monetary model. They show that anticipation of international financial sanctions can reduce the convenience yield associated with dollar assets and can reduce holdings of those assets. Their analysis also finds welfare losses across countries under the modeled sanctions environment. The study strengthens the theoretical argument that sanctions risk can influence currency demand before sanctions are actually imposed. This is important because financial power can be affected by expectations about future political use, not only by restrictions already implemented.

The long term policy issue is therefore cumulative rather than immediate. McDowell (2023) argues that greater use of financial sanctions is unlikely by itself to end the leading international role of the dollar, but target adaptation can reduce the effectiveness of future coercion. Sanusi et al. (2025) identify an empirical association between sanctions and reserve diversification, while Bianchi and Sosa-Padilla (2025) provide a theoretical mechanism through expected sanctions risk. These studies support a strategy that treats dollar based coercive capacity as a resource that can be weakened at the margin by repeated political use.

5.0 Methodology

5.1 Research Design

The study uses a literature based research design to synthesize established and recent scholarship on economic sanctions, financial networks, and dollar power. Snyder (2019) explains that a literature review can function as a research methodology when it follows a transparent process for source selection, synthesis, and evaluation. This approach is appropriate because the research question requires comparison among competing explanations of sanctions effectiveness and integration of findings from international relations and international political economy. The United States is treated as the focal case because the literature identifies a distinctive relationship between United States financial coercion and the international role of the dollar.

5.2 Source Selection

Source selection was restricted to academic works indexed in Google Scholar and available for verification through journal publishers, university press pages, academic repositories, or institutional research portals. Searches were completed in September 2026. The review prioritizes peer reviewed journal articles and academic books that directly address economic statecraft, sanctions effectiveness, coalition behavior, target political institutions, financial network power, United States financial sanctions, or dollar diversification. Foundational studies were retained when they established major theoretical or empirical debates. Recent peer reviewed studies through 2025 were included where they directly examined financial sanctions and the international role of the dollar. The final analytical corpus contains fifteen academic sources.

The principal search concepts were economic statecraft, economic sanctions effectiveness, United States financial sanctions, sanctions bargaining, multilateral sanctions, sanctions busting, target political institutions, targeted financial sanctions, weaponized interdependence, dollar dominance, and financial sanctions reserve diversification. Sources were excluded when their central subject did not address the research question or when bibliographic details could not be verified on a legitimate academic or publisher website. Nonacademic commentary was not used as evidence for the findings of the study.

5.3 Method of Analysis

The selected literature was analyzed thematically. The first theme concerned the theoretical role of economic instruments in statecraft. The second concerned sanctions success and the bargaining process. The third examined multilateral cooperation, major trading partners, and third party sanctions busting. The fourth examined domestic political mechanisms in target states. The fifth examined network centrality and the international role of the dollar. The final theme examined evidence that financial coercion can encourage diversification and alternative financial arrangements. Findings were compared across these themes to identify areas of agreement, disagreement, and policy relevance.

The analysis does not calculate a new sanctions success rate because the cited studies use different case definitions, time periods, objectives, and measures of success. Pape (1997), Drezner (2003), and Peksen (2019) demonstrate that these methodological choices can substantially affect conclusions. The study therefore uses qualitative synthesis rather than combining incompatible estimates. Claims in the findings section are limited to conclusions supported by the selected literature and are presented with author and year citations for verification.

5.4 Study Limitations

The study has three main limitations. First, it relies on published academic literature and does not independently test sanctions episodes with original quantitative data. Second, the focus on the United States limits direct generalization to states that do not control a major international currency or central financial network position. Third, recent research on sanctions and dollar diversification remains developing, so causal estimates may change as longer time series become available. Sanusi et al. (2025) provide empirical evidence of a relationship between United States sanctions and reserve composition, while Bianchi and Sosa-Padilla (2025) provide a theoretical model. These contributions support further testing rather than a claim that sanctions alone determine the future international role of the dollar.

6.0 Key Results and Findings

6.1 Sanctions Effectiveness is Conditional

The first finding is that financial sanctions should not be treated as either universally effective or universally ineffective. Pape (1997) shows that many apparent sanctions successes do not demonstrate independent coercive effectiveness. Drezner (2003) shows that successful coercion can occur before implementation, which means analyses of imposed sanctions can undercount success. Peksen (2019) further identifies differences in measurement, timing, and interaction with other policy instruments. The combined evidence supports a conditional assessment in which sanctions are judged according to the political objective, bargaining stage, target vulnerability, and contribution of accompanying diplomatic measures.

The second finding is that international cooperation improves the prospects of sustained pressure when cooperation closes important alternatives. Bapat and Morgan (2009) find greater success for multilateral sanctions in their data. McLean and Whang (2010) show that support from a target major trading partners is especially important. These studies indicate that coalition quality is more important than the simple number of participating states. A coalition that excludes major commercial or financial partners may leave the target with sufficient alternatives to resist pressure.

The third finding is that third party behavior can directly weaken sanctions. Early (2011) demonstrates that sanctions busting through expanded trade or aid can reduce the effectiveness of United States sanctions. This means that sanctions policy must account for the economic incentives of states outside the formal dispute. A target does not need complete economic isolation to reduce pressure. It may only require enough alternative finance, trade, or assistance to protect politically important sectors and supporters. Effective sanctions therefore require continued diplomatic engagement with states that can provide replacement economic relationships.

The fourth finding is that domestic political institutions influence whether economic costs become political concessions. Lektzian and Souva (2007) show that nondemocratic leaders can protect smaller governing coalitions and shift costs away from core supporters. Peksen and Drury (2010) find that sanctions can reduce democratic freedoms, with stronger negative effects from comprehensive restrictions. These findings show that higher economic damage is not a sufficient indicator of political effectiveness. Sanctions design must consider who bears the costs, who controls resources, and whether the target leadership can use external pressure to strengthen domestic control.

6.2 Dollar Centrality Expands Coercive Capacity

The literature strongly supports the conclusion that the international role of the dollar increases United States coercive capacity. Farrell and Newman (2019) show that central network positions can provide surveillance and exclusion advantages. McDowell (2023) explains that dollar dominance allows the United States to restrict access to dollar based assets and financial channels. The combination of network centrality and legal authority gives financial sanctions a reach that exceeds ordinary bilateral economic pressure. Actors outside the United States can alter behavior because continued access to the dollar system is economically important.

This structural advantage helps explain the rise of targeted financial sanctions. Drezner (2015) connects the expansion of financial sanctions to globalized capital markets and argues that targeted measures can impose significant costs with fewer negative effects than broad trade embargoes. The effectiveness of this approach depends on the ability to identify relevant financial relationships and enforce restrictions across intermediaries. United States financial sanctions are therefore strongest where the target depends on international banking, dollar settlement, foreign assets, or institutions that place high value on access to American financial markets.

Dollar centrality also creates leverage through expected compliance by private actors. Farrell and Newman (2019) show that network structures allow states to exercise power through central nodes used by firms and institutions. McDowell (2023) demonstrates that access to dollar finance increases the cost of resisting United States restrictions. Private compliance can therefore amplify official sanctions. This mechanism is important because the economic pressure does not require every government to adopt identical national sanctions. Financial institutions may independently reduce exposure when the risk of losing access to dollar markets exceeds the value of continuing transactions with a sanctioned actor.

The finding has an important qualification. The power of financial sanctions depends on the continued desirability of the network from which exclusion is threatened. McDowell (2023) argues that dollar based coercion is possible because actors value participation in the dollar system. Farrell and Newman (2019) similarly emphasize the importance of asymmetric network structures. If alternative networks become more usable, the opportunity cost of exclusion can fall. The durability of United States coercive power is therefore linked to the economic and institutional attractiveness of the financial system that provides the leverage.

6.3 Repeated Financial Coercion Encourages Adaptation

The literature indicates that repeated financial coercion can encourage target adaptation. McDowell (2023) argues that sanctions create political risk in the international currency system and can motivate governments to reduce exposure to the dollar. This does not require an immediate replacement of the dollar as the leading currency. A state can reduce vulnerability at the margin by changing reserve composition, developing alternative payment arrangements, or encouraging trade settlement in other currencies. These adjustments can weaken future sanctions even if they do not transform the entire international monetary system.

Sanusi et al. (2025) provide empirical support for this concern. Their analysis finds that increased United States financial sanctions reduce the dollar share of global reserve currencies over the period studied. The authors also recognize the continued resilience of the dollar. The result therefore does not establish imminent loss of dollar leadership. It indicates that sanctions can be one factor associated with portfolio adjustment by central banks. For United States policy, even gradual diversification matters because sanctions effectiveness depends on the value targets attach to dollar access.

Bianchi and Sosa-Padilla (2025) add an expectations based mechanism. Their model shows that anticipation of possible sanctions can reduce the convenience yield of dollar assets and lower holdings of those assets. This means that financial adaptation can begin before a government is actually sanctioned. States that consider themselves exposed to future coercion may alter financial behavior in response to perceived political risk. The long term effect of sanctions policy therefore depends partly on expectations created among states that are not current targets.

The combined literature supports a sustainability principle. Financial sanctions should be used where the expected foreign policy benefit is sufficient to justify the strategic cost of encouraging adaptation. McDowell (2023) argues for a more selective approach because targets are learning to reduce vulnerability. Sanusi et al. (2025) and Bianchi and Sosa-Padilla (2025) provide empirical and theoretical support for the possibility that sanctions risk affects dollar demand. The policy objective should therefore be to preserve high leverage for disputes in which financial coercion serves a clear and important diplomatic purpose.

6.4 Diplomatic and Political Costs Limit Sanctions

Sanctions also create diplomatic costs when coalition partners do not share the same objectives or economic incentives. Bapat and Morgan (2009) show that international institutional involvement and issue structure affect multilateral outcomes. McLean and Whang (2010) demonstrate the importance of major trading partner support. Early (2011) shows that third parties can undermine sanctions through replacement trade or aid. These findings indicate that successful sanctions require diplomacy before and during implementation. Enforcement cannot substitute for coalition management when partners have incentives to maintain economic relationships with the target.

Domestic effects in target states also create policy risks. Lektzian and Souva (2007) show that political institutions shape the ability of leaders to transfer economic costs away from core supporters. Peksen and Drury (2010) find that sanctions can be associated with deterioration in democratic freedoms and that comprehensive measures have stronger negative effects. These results caution against evaluating sanctions only through aggregate economic indicators. A policy can reduce national income or financial access while failing to pressure the political actors capable of changing policy.

The literature therefore supports clear relief conditions. Drezner (2003) emphasizes bargaining and the importance of understanding the decision to concede before or during sanctions. Peksen (2019) argues that sanctions should be analyzed together with incentives and diplomatic pressure. A sanction that does not specify the policy change required for relief can weaken bargaining because the target may doubt that compliance will produce a material benefit. Clear conditions also allow coalition partners to evaluate whether the sanctions remain connected to an agreed political objective.

The overall finding is that financial sanctions are strongest when economic leverage and diplomatic strategy reinforce each other. Dollar centrality gives the United States substantial capacity to impose costs, but the literature does not support the use of that capacity without defined objectives, coalition planning, target analysis, and termination criteria. Baldwin (2020) requires comparison among available instruments, while McDowell (2023) warns that repeated financial coercion can encourage adaptation. The strategic question is therefore not how often sanctions can be imposed, but when their expected contribution to foreign policy justifies the economic and political consequences.

7.0 Summary

The study reviewed literature on economic statecraft, sanctions effectiveness, coalition behavior, target political institutions, financial network power, and the international role of the dollar. The literature shows that sanctions outcomes vary according to bargaining conditions, target vulnerability, coalition support, and third party responses. Pape (1997) questions the independent effectiveness of many sanctions cases, while Drezner (2003) shows that threats can succeed before sanctions are imposed. Bapat and Morgan (2009), McLean and Whang (2010), Lektzian and Souva (2007), and Early (2011) identify international and domestic conditions that shape outcomes.

The review also shows that United States financial sanctions derive unusual reach from dollar centrality and global financial networks. Farrell and Newman (2019) explain how central network positions can provide coercive power, while McDowell (2023) connects that power directly to dollar based finance. Drezner (2015) explains the shift toward targeted financial sanctions. Recent research adds a sustainability concern. Sanusi et al. (2025) find that increased United States financial sanctions reduce the dollar share of global reserves, while Bianchi and Sosa-Padilla (2025) show that anticipated sanctions can reduce demand for dollar assets in their model.

8.0 Conclusion

United States financial sanctions remain a significant instrument of economic statecraft because the international financial system gives Washington substantial capacity to impose costs without direct military force. The literature, however, does not support the assumption that financial pressure automatically produces political compliance. Sanctions effectiveness depends on clear objectives, bargaining conditions, target political institutions, cooperation from important third parties, and the availability of alternative economic relationships. The strongest conclusion from the literature is therefore conditional. Financial sanctions can contribute to foreign policy objectives when they are designed around the political mechanism expected to produce change.

The sustainability of this instrument depends on restraint as well as capability. Farrell and Newman (2019) and McDowell (2023) show that United States financial power rests on central network positions and the international importance of the dollar. Sanusi et al. (2025) and Bianchi and Sosa-Padilla (2025) indicate that sanctions risk can encourage changes in reserve behavior and demand for dollar assets. These studies do not establish an imminent end to dollar dominance. They show that repeated coercive use can create incentives that reduce future vulnerability to United States pressure. Financial sanctions should therefore be treated as a strategic resource whose long term value depends on selective and coordinated use.

9.0 Recommendations

United States policymakers should link every major financial sanctions program to a precise political objective and a defined condition for relief. This recommendation follows from the bargaining analysis of Drezner (2003) and the methodological concerns identified by Peksen (2019). Targets should be able to identify the policy change required for sanctions adjustment or termination. Clear conditions improve the credibility of bargaining, help coalition partners evaluate progress, and reduce the risk that sanctions become detached from the original diplomatic purpose.

The United States should prioritize cooperation with the most important trading and financial partners of the target state before expanding sanctions. Bapat and Morgan (2009) find that multilateral sanctions can outperform unilateral measures, while McLean and Whang (2010) show that support from major trading partners is particularly important. Early (2011) demonstrates that third party trade and aid can weaken sanctions. Coalition diplomacy should therefore focus on actors that control economically significant alternatives rather than seeking broad participation that does not materially affect target options.

Sanctions design should concentrate costs on actors and transactions connected to the disputed policy while limiting broad restrictions on civilian economic activity. Drezner (2015) explains the policy appeal of targeted financial sanctions, and Peksen and Drury (2010) find stronger negative effects on democratic freedoms from comprehensive sanctions than from limited measures. Targeting does not eliminate political or humanitarian risks, but the literature supports careful distribution of costs and regular assessment of who is actually bearing the economic burden.

United States policymakers should also consider the long term effect of sanctions on the financial system that provides coercive leverage. McDowell (2023) argues that repeated sanctions can encourage anti dollar adaptation. Sanusi et al. (2025) find that greater use of financial sanctions is associated with a lower dollar share in global reserves, while Bianchi and Sosa-Padilla (2025) show that expected sanctions risk can reduce holdings of dollar assets. Financial coercion should therefore be reserved for objectives whose strategic importance justifies the risk of encouraging alternative financial arrangements.

Further research should test the relationship between sanctions exposure and financial adaptation using longer time series and more disaggregated data. Future studies should distinguish reserve diversification, payment currency changes, alternative financial infrastructure, and private sector compliance. They should also examine whether adaptation by one sanctioned state reduces the effectiveness of later sanctions against other states. This research would extend the questions raised by Drezner (2015), McDowell (2023), Sanusi et al. (2025), and Bianchi and Sosa-Padilla (2025) and would provide stronger evidence on the long term sustainability of network based economic coercion.

References

Baldwin, D. A. (2020). Economic statecraft: New edition. Princeton University Press. https://books.google.com/books/about/Economic_Statecraft.html?id=0THZDwAAQBAJ. https://scholar.google.com/scholar?q=Economic+Statecraft+New+Edition+David+A+Baldwin+2020.

Bapat, N. A., and Morgan, T. C. (2009). Multilateral versus unilateral sanctions reconsidered: A test using new data. International Studies Quarterly, 53(4), 1075 to 1094. https://doi.org/10.1111/j.1468-2478.2009.00569.x. https://scholar.google.com/scholar?q=Multilateral+Versus+Unilateral+Sanctions+Reconsidered+A+Test+Using+New+Data+Bapat+Morgan+2009.

Bianchi, J., and Sosa-Padilla, C. (2025). International sanctions and dollar dominance. The Economic Journal, 135(672), 2567 to 2577. https://doi.org/10.1093/ej/ueaf052. https://scholar.google.com/scholar?q=International+Sanctions+and+Dollar+Dominance+Bianchi+Sosa-Padilla+2025.

Drezner, D. W. (2003). The hidden hand of economic coercion. International Organization, 57(3), 643 to 659. https://doi.org/10.1017/S0020818303573052. https://scholar.google.com/scholar?q=The+Hidden+Hand+of+Economic+Coercion+Drezner+2003.

Drezner, D. W. (2015). Targeted sanctions in a world of global finance. International Interactions, 41(4), 755 to 764. https://doi.org/10.1080/03050629.2015.1041297. https://scholar.google.com/scholar?q=Targeted+Sanctions+in+a+World+of+Global+Finance+Drezner+2015.

Early, B. R. (2011). Unmasking the black knights: Sanctions busters and their effects on the success of economic sanctions. Foreign Policy Analysis, 7(4), 381 to 402. https://doi.org/10.1111/j.1743-8594.2011.00143.x. https://scholar.google.com/scholar?q=Unmasking+the+Black+Knights+Sanctions+Busters+and+Their+Effects+on+the+Success+of+Economic+Sanctions+Early+2011.

Farrell, H., and Newman, A. L. (2019). Weaponized interdependence: How global economic networks shape state coercion. International Security, 44(1), 42 to 79. https://doi.org/10.1162/isec_a_00351. https://scholar.google.com/scholar?q=Weaponized+Interdependence+How+Global+Economic+Networks+Shape+State+Coercion+Farrell+Newman+2019.

Lektzian, D., and Souva, M. (2007). An institutional theory of sanctions onset and success. Journal of Conflict Resolution, 51(6), 848 to 871. https://doi.org/10.1177/0022002707306811. https://scholar.google.com/scholar?q=An+Institutional+Theory+of+Sanctions+Onset+and+Success+Lektzian+Souva+2007.

McDowell, D. (2023). Bucking the buck: US financial sanctions and the international backlash against the dollar. Oxford University Press.

https://doi.org/10.1093/oso/9780197679876.001.0001. https://scholar.google.com/scholar?q=Bucking+the+Buck+US+Financial+Sanctions+and+the+International+Backlash+against+the+Dollar+McDowell+2023.

McLean, E. V., and Whang, T. (2010). Friends or foes? Major trading partners and the success of economic sanctions. International Studies Quarterly, 54(2), 427 to 447. https://doi.org/10.1111/j.1468-2478.2010.00594.x. https://scholar.google.com/scholar?q=Friends+or+Foes+Major+Trading+Partners+and+the+Success+of+Economic+Sanctions+McLean+Whang+2010.

Pape, R. A. (1997). Why economic sanctions do not work. International Security, 22(2), 90 to 136. https://doi.org/10.1162/isec.22.2.90. https://scholar.google.com/scholar?q=Why+Economic+Sanctions+Do+Not+Work+Pape+1997.

Peksen, D. (2019). When do imposed economic sanctions work? A critical review of the sanctions effectiveness literature. Defence and Peace Economics, 30(6), 635 to 647. https://doi.org/10.1080/10242694.2019.1625250. https://scholar.google.com/scholar?q=When+Do+Imposed+Economic+Sanctions+Work+A+Critical+Review+of+the+Sanctions+Effectiveness+Literature+Peksen+2019.

Peksen, D., and Drury, A. C. (2010). Coercive or corrosive: The negative impact of economic sanctions on democracy. International Interactions, 36(3), 240 to 264. https://doi.org/10.1080/03050629.2010.502436. https://scholar.google.com/scholar?q=Coercive+or+Corrosive+The+Negative+Impact+of+Economic+Sanctions+on+Democracy+Peksen+Drury+2010.

Sanusi, A. R., Mamman, S. O., Iliyasu, J., and Abubakar, A. B. (2025). Financial sanctions and the share of US dollar in global reserve currencies: Evidence from the Least Absolute Shrinkage and Selection Operator LASSO model. Applied Economics Letters, 32(2), 218 to 221. https://doi.org/10.1080/13504851.2023.2261617. https://scholar.google.com/scholar?q=Financial+sanctions+and+the+share+of+US+dollar+in+global+reserve+currencies+Sanusi+Mamman+Iliyasu+Abubakar+2025.

Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. Journal of Business Research, 104, 333 to 339. https://doi.org/10.1016/j.jbusres.2019.07.039. https://scholar.google.com/scholar?q=Literature+review+as+a+research+methodology+An+overview+and+guidelines+Snyder+2019.