

Executive Summary

How does the United States confront the ambitions of rogue and revisionist powers without resorting to war? For decades, the answer to this question has been to deploy weapons from its economic arsenal: sanctions, export controls, financial restrictions, and numerous related measures. Yet these tools have often disappointed when the stakes were high, especially with regard to Russia. Both the design and enforcement of sanctions have been deficient, and the targets of sanctions have learned to survive them.

The pressures facing sanctions enforcers and evaders have come to resemble the exertions of Alice and the Red Queen in Lewis Carroll's classic work *Through the Looking Glass*: a frantic sprint in which neither one progresses, even though both have been running "very fast for a long time." This report employs the Red Queen metaphor to assess one of the most persistent criticisms of U.S. sanctions policy: diminishing returns over time.

This analysis provides the context and rationale for three principal courses of action to enhance the effectiveness of U.S. economic warfare:

- Deploying secondary sanctions more aggressively to disrupt adversarial networks;
- Implementing targeted actions to constrain and contain the subjects of the report's two primary case studies: Russia and Iran; and
- Breaking the cycle of sanctions adaptation, where adversaries continuously develop new evasion techniques in response to U.S. actions, forcing the United States and its allies to expend ever-increasing resources to catch up.

Lessons Learned

Four lessons emerged from the U.S. government's summer 2024 campaign against the Russia-China wartime economic axis:

- 1. Exposure and Sanctions Work (Up to a Point):** While Washington continued allowing limited Russian energy sales, it succeeded in targeting and revealing many key arteries of Moscow's illicit military economy. Nevertheless, sellers of sanctioned goods like microelectronics continued to work their way into Russia's military economy.
- 2. Secondary Sanctions Bite:** One week before Treasury's Moscow Exchange designations, Raiffeisen Bank Russia (the largest European bank still operating inside the country) halted outgoing dollar payments. Even the prospect of secondary sanctions changes behavior.
- 3. Workarounds Are Inevitable:** When yuan payments froze for three weeks, Russian firms adapted. They shifted to smaller Chinese intermediaries. Investigating and interdicting these workarounds will require deeper coordination with transshipping states, especially across Russia's borderlands.
- 4. Russia's Adaptive Sanctions Evading Network is Global in Scale:** The Kremlin's supply lines stretch from Bulgaria to the British Virgin Islands, from Turkey, Serbia, and the United Arab Emirates to Vietnam. While whacking these moles as the United States has done before is one option, perhaps there are steps that policymakers can take to change how they run their race of the Red Queen?

Policy Recommendations

Washington has inadvertently crafted a sanctions regime that punishes rogue states like Russia without denying them the ability to wage war in the first place. Sanctions alone, especially when reactive, parceled out over time, and fragmented, are not enough to cripple a determined adversary. The following five steps can still change the Red Queen dynamic by denying, degrading, and disrupting the economic enablers of Russian aggression against Ukraine.

Step 1: Target Russia's National Wealth Fund

- Energy exports and tax revenues have not been enough to sustain Putin's war against Ukraine, requiring the Russian government to siphon \$63 billion from its National Wealth Fund (NWF) since 2022.
- To force Russia to drain further the NWF, the West must drastically cut the G7's price cap on foreign purchases of Russian crude.

Step 2: Cut the G7's Price Cap to the Bone

- The G7's price cap policy has been a colossal exception to the Russia sanctions regime.
- The West should lower the G7 price cap to around the average cost of production of Russian crude and even consider ending the exemption altogether.

Step 3: Leverage Economic Power More Effectively via Secondary Sanctions

- The full potential of secondary sanctions against Russia remains untapped.
- Russia's need for dollars remains long-established, stable, and substantial.

Step 4: Stronger Export Control Enforcement

- Russia's trade through third-party countries has enabled it to evade sanctions faster than the West can impose them.
- The West must commit to fully enforcing their own policies against homegrown actors who flout sanctions.

Step 5: Reinforce the Sanctions Infrastructure With Manpower, Intelligence, and Capacity

- Economic warfare demands sustained investment, rapid targeting capabilities, and interagency speed.
- Congress should increase funding and personnel for Treasury's Office of Foreign Assets Control (OFAC) and its enforcement counterparts; intelligence, designations, and coordinated execution must be scaled with the challenge.

Full monograph available at: <https://www.fdd.org/analysis/2025/12/09/winning-the-race-of-the-red-queen-how-u-s-sanctions-can-outpace-russias-evasion>