

# From Crisis to Opportunity:

A Policy Playbook  
on Nonproliferation  
Sanctions

December 2020



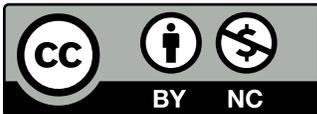
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## About This Report

Recommended Citation:

Millar, Alistair, George A. Lopez, David Cortright, and Linda Gerber. *From Crisis to Opportunity: A Policy Playbook on Nonproliferation Sanctions*. Notre Dame, IN: Keough School of Global Affairs, 2020. <https://doi.org/10.7274/r0-zmap-7787>



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## Executive summary

The incoming administration of President-Elect Joseph R. Biden, Jr., will have considerable work to do in reconnecting with US allies and repairing the damage done to multilateral tools of statecraft, especially nonproliferation sanctions. As the new administration addresses the crisis in nonproliferation diplomacy, it will have the opportunity not only to fix the damage caused by President Donald Trump's administration, but also to refine and improve the role of sanctions and diplomacy in stemming the spread of weapons of mass destruction.

The use of multilateral sanctions paired with diplomacy and incentives-based bargaining was once a hallmark of US nonproliferation policy and helped to advance security goals in South Africa, Iraq, Libya, North Korea, Iran, and other countries. President Trump rejected cooperative approaches and **misused** these instruments of diplomatic persuasion as unilateral means of punishment and coercion.<sup>1</sup> The result was a string of nuclear security reversals and an increase in global proliferation dangers. Repairing the harm caused by these misguided policies will be an urgent imperative for the new administration.

Over the past four years, the Trump administration has presided over an unraveling of US nonproliferation policy that has **raised** the risk of nuclear catastrophe.<sup>2</sup> The White House has revoked arms reduction agreements, including the landmark Intermediate-Range Nuclear Forces Treaty negotiated by the Reagan administration. It has failed to reach an agreement with Russia on extending the New START treaty, risking an end to bilateral arms control and mutual on-site verification. The administration's high-visibility theatrics with North Korean leader Kim Jong-Un collapsed in failure, and Pyongyang has continued to develop its nuclear weapons and ballistic missile programs. The United States walked away from a nuclear deal with Iran that placed significant limits on its nuclear program and instead re-imposed punitive sanctions on the Iranian people. Tehran responded by resuming prohibited uranium enrichment.

We argue for a greater commitment to incentives-based bargaining and strategies for reciprocal threat reduction to reduce nuclear dangers and enhance international cooperation for peace and security.

From crisis we see an opportunity for change. In this policy paper, we trace the negative consequences of Washington's misuse of sanctions, argue for a recalibration of US nonproliferation policy, and articulate specific recommendations for the incoming Biden administration. They include:

- renewing and deepening strategic arms reduction with Russia;
- strengthening multilateral efforts for cooperative nonproliferation;
- using sanctions and incentives to negotiate and restore nonproliferation agreements with North Korea and Iran;
- creating an independent National Commission on Economic Statecraft to overhaul US sanctions policy based on the following principles:
  - focus on multilateral sanctions rather than unilateral measures
  - emphasize inducement strategies
  - utilize targeted sanctions that avoid harm to innocent populations

Throughout this report, we argue for a greater commitment to incentives-based bargaining and strategies for reciprocal threat reduction to reduce nuclear dangers and enhance international cooperation for peace and security.

## Sanctions and North Korea

President Donald Trump's high-visibility diplomacy with Kim Jong-Un in Singapore in 2018 and Hanoi in 2019 led to some initial tension reduction but did not halt or slow North Korea's nuclear weapons programs. Pyongyang has refrained from nuclear test explosions since 2017, but it has steadily expanded its missile development and testing as well as nuclear production capabilities. A recent [report](#) from the International Atomic Energy Agency (IAEA) indicates that North Korea has continued the production of highly enriched uranium for the development of nuclear warheads.<sup>3</sup> In October 2020 Pyongyang paraded what appeared to be a large [intercontinental ballistic missile](#) along with other new missiles.<sup>4</sup> The nuclear threat from North Korea remains significant, and in the view of some has become [more serious](#).<sup>5</sup>

For nearly three decades, the United States has combined multilateral sanctions imposed by the UN Security Council with regional and unilateral sanctions as instruments of diplomacy to stifle North Korea's nuclear weapons and ballistic missile programs. Nonproliferation policies against North Korea achieved some limited success in the past when they included economic and political incentives and security assurances. The [1994 Agreed Framework](#) halted Pyongyang's nuclear production and reprocessing activities in exchange for promises from the United States and neighboring states to meet the regime's energy needs and negotiate for the normalization of diplomatic and commercial relations.<sup>6</sup> The agreement worked for a few years but broke down amidst compliance failures on both sides.

In 2005 the Six-Party talks<sup>7</sup> led to a joint statement of principles for the phased denuclearization of the Korean Peninsula. Washington offered inducements and stated officially that it has [no intention](#) to invade or attack North Korea.<sup>8</sup> Pyongyang responded with some conciliatory gestures, but the diplomatic process ground to a halt amidst North Korean criticism of US sanctions on Banco Delta Asia of Macau, which was charged with laundering money for the regime.

## The Trump administration lacked a multilateral strategy linking sanctions and incentives to constrain North Korea's nuclear program.

After imposing sanctions against North Korea in 2006, the Security Council later increased the pressure on Pyongyang, imposing a range of new sanctions in Resolutions 2270 and 2321 (2016) and 2397 (2017). These measures included bans on exports of coal, iron, steel, oil, and other commodities, along with steps to encourage greater enforcement of the sanctions. Over the years, the United States also strengthened its unilateral financial restrictions on the regime, blacklisting major North Korean banks.

The Trump administration shunned further UN Security Council sanctions, however, and opted for personal diplomacy with Kim Jong-Un. The administration lacked a multilateral strategy linking sanctions and incentives to constrain North Korea's nuclear program.

## Sanctions and Iran

Multilateral diplomacy and EU and UN sanctions were successful in Iran. The 2015 [Joint Comprehensive Plan of Action \(JCPOA\)](#) established significant constraints on Iran's nuclear program.<sup>9</sup> Iran reduced its stockpile of enriched uranium by 98 percent, shut down two-thirds of its centrifuges, significantly curtailed its remaining enrichment capacity, eliminated its ability to produce plutonium, and accepted the most comprehensive and intrusive weapons inspection system ever operationalized.

In response to the confirmation of Iranian compliance with these terms, the UN Security Council unanimously adopted Resolution 2231 (July 2015) lifting sanctions.<sup>10</sup> The resolution created the legal framework for all member states to engage in economic trade, investment, banking, and travel with Iran. It also included novel "snap-back" provisions for the re-instatement of sanctions if council members found Iran in noncompliance with the agreement. The termination of sanctions was the inducement Iran accepted as the condition for nuclear restraint. For three years, as [documented](#) in a dozen IAEA inspection reports, Iran fully implemented the terms of the agreement.<sup>11</sup>

The Trump administration nonetheless repudiated the JCPOA and reinstated US sanctions to force compliance with [a set of political demands](#) that went far beyond nuclear security. The White House stood alone in this action, without the support of UN member states or significant US allies.<sup>12</sup> The administration attempted in August 2020 to win approval for invoking the snap-back provisions for renewed sanctions, but the [Security Council refused](#), with 13 of the 15 council member states rejecting the request.<sup>13</sup> Only the Dominican Republic sided with the United States. Undaunted by this diplomatic defeat, the Trump administration continued its "[maximum pressure](#)" policy, increasing economic pressure on Tehran and using the power of the dollar to [reduce Iranian oil exports and paralyze its economy](#).<sup>14</sup>

## The Iranian people have paid the price for US sanctions.

The Iranian people have paid the price for these measures. The Iranian rial lost more than [60 percent](#) of its value in the first year after sanctions were re-imposed, eroding the savings of many people.<sup>15</sup> Although US sanctions include some [exemptions for humanitarian goods](#), restrictions on financing made it difficult for relief groups to send needed goods and services, especially for specialized medicines during the COVID pandemic.<sup>16</sup> As Iran developed the highest infection rate in the Middle East, the United States not only refused to ease sanctions but imposed [additional banking restrictions](#) and sought to [block Tehran's petition](#) to the International Monetary Fund for a humanitarian loan to fight the virus.<sup>17</sup>

## Misusing sanctions

Since the end of the Cold War, multilateral and unilateral sanctions have become the go-to instrument of American foreign policy, imposed to address international challenges from ending civilian wars and territorial aggression, to thwarting nuclear proliferation, mass atrocities, and terrorism. US unilateral sanctions have moved increasingly from targeting national governments to imposing sanctions on thousands of specially designated individuals and entities in dozens of countries. By one [recent count](#), the United States has nearly 8,000 sanctions in place, barring trade and financial transactions with terrorist groups, drug kingpins, and money launderers, in addition to punishing government leaders, military forces, and commercial companies.<sup>18</sup> The Trump administration took sanctions to a new dimension of overreach in [sanctioning judges and other officials](#) of the International Criminal Court.<sup>19</sup>

US presidents and Congressional leaders of both political parties have participated equally in the practice of misusing sanctions. The White House has issued sweeping executive orders that expand presidential sanctioning authority, and members of Congress have adopted legislation mandating coercive measures on Iran, Libya, and other countries. Nearly twenty-five years ago, Richard Haass, now president of the Council on Foreign Relations, referred to this explosion in sanctions cases as “[sanctioning madness](#).”<sup>20</sup> He argued that while sanctions can be effective at times for specific purposes, the constant resort to unilateral sanctions is often counterproductive and creates economic and diplomatic costs for the United States.

Last year former State Department official Peter Harrell raised concerns that the Trump administration had taken aggressive sanctions policy to a [whole new level](#), adding a record-setting 1,500 people, companies, and entities to Treasury Department-managed sanctions in 2018 alone.<sup>21</sup>

The harmful impacts of US sanctions have worsened because of the extraordinary use of secondary sanctions that punish not only those targeted for alleged wrongdoing but also countries and companies that associate with those targets. These extraterritorial

Sanctions are a tool to achieve diplomatic agreement, not to impose economic punishment. They are most effective when combined with incentives for compliance, within a bargaining framework to achieve negotiated denuclearization.

measures impose financial sanctions on banks, businesses, and agencies in other countries that do not implement US unilateral sanctions. They are forced to comply with US foreign policy demands as a condition for continuing to do business in the United States. *The Economist* described this policy and Washington's profligate use of sanctions as "financial carpet bombing."<sup>22</sup> German officials have condemned US secondary sanctions as unacceptable attacks on European sovereignty that are in conflict with international law.<sup>23</sup>

Former US Secretary of the Treasury Jacob Lew **warned** in 2019 against "aggressive unilateralism."<sup>24</sup> The US decision to withdraw from the nuclear deal, without evidence of Iranian violations, he said, "leaves the world pointing a finger at the US as the deal breaker, and our closest European allies looking for ways to circumvent the dollar-based financial system."

Sanctions are a tool to achieve diplomatic agreement, Lew argued, not to impose economic punishment. They are most effective when combined with incentives for compliance, within a bargaining framework to achieve negotiated denuclearization. Carrot-and-stick diplomacy has been a primary means of addressing proliferation threats and upholding international norms against nuclear weapons. As Lew **said** on an earlier occasion, "[s]ince the goal of sanctions is to pressure bad actors to change their policy, we must be prepared to provide relief from sanctions when we succeed. If we fail to follow through, we undermine our own credibility and damage our ability to use sanctions to drive policy change."<sup>25</sup>

## Incentivizing cooperation

Evidence from multiple cases shows the value of offering inducements to achieve nonproliferation and other policy objectives. An incentive is defined as an offer of benefit by a sender in exchange for a specific action or policy adjustment by the recipient. Examples of successful uses of incentives include the agreements to [remove nuclear weapons](#) from Ukraine, Kazakhstan, and Belarus at the end of the Cold War, the [denuclearization of Argentina and Brazil](#) in the 1980s, and the initial success of the 1994 Agreed Framework with North Korea.<sup>26</sup> In these cases, pledges of economic assistance and security assurances from the United States and a desire to escape sanctions and international isolation helped to persuade each state to remove nuclear weapons or shut down incipient nuclear programs.

Incentives help to foster tension reduction, which can be achieved through independent initiatives and reciprocal gestures of restraint.

Incentives help to foster [tension reduction](#), which can be achieved through independent initiatives and reciprocal gestures of restraint in the context of a well-articulated [diplomatic strategy](#).<sup>27</sup> The classic example of this model was President George H.W. Bush's Presidential Nuclear Initiatives in September 1991, in which the United States took independent action to eliminate thousands of theater-based tactical nuclear weapons. A month later Soviet President Mikhail Gorbachev announced similar reciprocal action for the removal of Soviet tactical weapons. These mutual initiatives led to the

elimination of an [estimated 17,000 nuclear weapons](#) from US and Soviet arsenals, the largest single act of denuclearization in history.<sup>28</sup> These examples illustrate the value of inducement programs and independent initiatives for achieving nuclear weapons reduction.

One of the most significant inducements for nonproliferation diplomacy is the offer to lift sanctions. As the Iran case and other examples illustrate, the combination of inducement packages and offers to lift sanctions can be persuasive in the quest of a well-articulated strategy for nonproliferation. Incentives [increase the effectiveness](#) of sanctions, thereby improving the prospects of positive policy outcomes.<sup>29</sup> Sanctions are most effective when they are linked to credible offers of inducements for compliance.

Offers of sanctions relief may be more acceptable politically if they are linked to acts of reciprocal restraint by the recipient country. As the Biden administration seeks to restore the Iran deal, it could [coordinate with European allies](#) in urging Tehran to halt or roll back its recent increase in low-enriched uranium, indicating that a positive gesture on Iran's part would be met with parallel action to suspend some of the excessive sanctions imposed by the Trump administration.<sup>30</sup> This could lay the groundwork for a renewed JCPOA that reduces Iran's fissile material output to levels at or below those specified in the 2015 agreement.

## Making sanctions work

The incoming Biden administration should take an evidence-based approach to establishing a more effective US sanctions policy. Research [shows](#) that sanctions have three main functions—coercing, constraining, and signaling—and that they are more effective at constraining and signaling than coercing.<sup>31</sup> On their own, sanctions are not capable of forcing an adversary to change objectionable policies. The impact of sanctions depends on how well they are integrated with diplomacy and other policy approaches. As scholar Andrea Charron has observed, sanctions can create [speed bumps](#) that restrict access to strategic goods, raise the costs of wrongful policies, and stigmatize the targeted regime, but policy change depends on the decisions of the targeted regime and the outcome of its negotiations with external actors.<sup>32</sup>

Sanctions effectiveness also depends on seeking specific [achievable objectives](#) rather than demanding broad structural transformations.<sup>33</sup> UN sanctions in Iraq were [partially successful](#) in convincing Saddam Hussein to accept weapons inspections and demarcated borders with Kuwait, but the US [insistence on regime change](#) impeded prospects for normalizing diplomatic relations and paved the way for war.<sup>34</sup>

Multilateral sanctions are generally [more effective](#) than unilateral measures, especially when frontline states and the major trading partners of the targeted regime cooperate in the enforcement of sanctions.<sup>35</sup> Without multilateral enforcement, unilateral measures enable targeted entities to access alternative sources of trade and finance, which are commonly available in a globalized economy. Iran has responded to renewed US sanctions by expanding its oil exports and economic ties with China, just as Cuba survived the more than half-century US blockade from the 1960s by depending upon trade and aid with the Soviet Union.

By definition, UN Security Council sanctions involve collective action. They provide legal and political authority for states to cooperate in sanctions enforcement, although not all states choose to do so. The effectiveness of UN sanctions is **enhanced** through the creation of multilateral and national monitoring mechanisms, the active engagement of Security Council sanctions committees, and the use of panels of experts.<sup>36</sup>

The reports of sanctions expert panels often contain detailed information about sanctions evasion by targeted regimes and their enablers. The reports of the North Korea panel, for example, reveal elaborate networks of smuggling that provide illicit revenue streams for the Pyongyang regime.<sup>37</sup> The effective enforcement of Security Council sanctions requires greater attention to the role of international criminal networks and money laundering operations.

UN sanctions signal normative disapproval from the international community and contribute to the economic, political, and cultural isolation of targeted regimes. The desire to escape such isolation was a **factor** in South Africa's political transformation and its decision to dismantle its nuclear weapons program in the late 1980s.<sup>38</sup> Similar motives shaped Libya's decisions to end its support for international terrorism in the 1990s and halt its weapons of mass destruction programs in 2003. At times, the threat of UN sanctions can be a form of signaling that motivates targeted leaders to offer concessions, opening the door to political bargaining that may help in reaching negotiated settlements.

Cooperative approaches multiply political resolve and strengthen pressures, while also widening the range of available incentives that can be offered. For the Security Council the most relevant and effective incentive is the offer to suspend or lift sanctions when the targeted regime complies with UN demands. In the case of Iran, the council kept its commitment to the lifting of sanctions and maintained that stance even in the face of US opposition.

US secondary sanctions often target financial institutions, locking down major banks and denying access to dollar financing. These banking sanctions cast a chill over an entire economy and [generate broad economic hardships](#) that can be equivalent to the effects of general trade sanctions.<sup>39</sup> This may cause harm to innocent populations who have no say in the policies Washington is trying to influence. These concerns have sparked renewed debate about the humanitarian impacts of sanctions, especially during the COVID pandemic, as reflected in a number of recent [reports](#) on the [negative impact](#) of unilateral coercive measures.<sup>40</sup>

In the 1990s, amidst widespread [concern](#) about the severe humanitarian impacts of trade sanctions in Iraq, the United Nations shifted toward the use of targeted measures.<sup>41</sup> Since then the focus of UN policy has been on selective measures that freeze the assets and prevent the travel of listed individuals and entities, and on arms embargoes that deny access to weapons, technologies, and services used for nuclear proliferation and/or military and police repression. These targeted sanctions are intended to apply pressures on decision makers and stakeholders who are responsible for wrongful policies, not on innocent civilians. They impose restrictions on products and activities that threaten international security, not on goods and services that are essential to human welfare and commerce.

Through its emphasis on “maximum pressure” and the use of broadly based banking restrictions, the United States has turned away from the strategy of targeted sanctions. By imposing severe sanctions that can harm civilians, the United States leaves itself vulnerable to [charges](#) of disregarding humanitarian principles, increasing the risks of political backlash against US policy.<sup>42</sup>

## Conclusion: The way forward

One of the reasons US nonproliferation sanctions have lost their way is that policymakers place too much emphasis on coercion. Producing policy changes in a targeted regime occurs only when sanctions are combined with incentives and active diplomacy—all in service of a larger set of strategic goals. Rather than being a tool of nonproliferation policy, sanctions have too often become the entirety of that policy. Below we suggest directions for a more effective and calibrated nonproliferation policy that includes sanctions as part of a broader package of incentives and diplomacy.

*Extend New START.* The immediate priority for US nonproliferation policy is to conclude an agreement with Russia to extend the New START treaty. Preserving the treaty's verification mechanisms and ceilings on strategic weapons is imperative for US and world security. The treaty allows for extension up to five years by a simple agreement of the two presidents. Russian President Vladimir Putin proposed a five-year and then one-year extension, which the Trump administration [rejected](#), insisting on the addition of a freeze on the deployment of new nuclear warheads.<sup>43</sup> A warhead freeze would be welcome in principle, but the technical requirements for verifying such a commitment would be formidable and involve detailed negotiations.

In addition to agreeing on an extension of the New START treaty, the United States should consider other tension-reduction initiatives. One suggestion, as [proposed recently](#) by former Defense Secretary William Perry and others, would be for the United States to reduce missile defense spending.<sup>44</sup> This would save money on a gargantuan program that has yet to demonstrate technical feasibility, despite the expenditure of more than \$300 billion since the 1980s, and that has prompted Russia to develop new offensive weapons systems to circumvent US defenses. The announcement of a cut in missile defense spending could be combined with an invitation for Moscow to show parallel restraint in its [new missile programs](#),<sup>45</sup> and could set a positive tone for renewed negotiations on freezing and reducing nuclear arsenals.

*Engage with North Korea.* It should be obvious by now that pressures alone will not succeed in persuading Pyongyang to denuclearize. The United States should pursue a more pragmatic and balanced diplomatic approach that engages in [reciprocal and proportional measures](#) to achieve gradual steps toward limiting Pyongyang's missile and nuclear capabilities, while also working for the normalization of diplomatic and commercial relations on the Korean peninsula.<sup>46</sup> Complete denuclearization remains the ultimate goal, but it should be placed within a more realistic strategy for achieving verifiable steps of nuclear restraint.

To move in this direction, the United States should consider an independent initiative, perhaps borrowing a page from President George H.W. Bush's 1991 Nuclear Initiatives. Washington could suspend certain sanctions for an initial period, inviting Pyongyang to consider a parallel gesture in response. This could be persuasive to the regime. During the February 2019 talks with Trump in Hanoi, Kim Jong-Un made [sanctions relief](#) his top demand and reportedly offered to make the freeze on nuclear and long-range missile testing permanent.<sup>47</sup> This suggests that an initial offer of easing sanctions pressures, in exchange for this kind of reciprocal concession, could establish the basis for restarting constructive negotiations.

As US-North Korea talks resume, it will be necessary to bring South Korea and China into the process, as well as Japan and Russia. But the United States will need to take the initiative and provide leadership to jumpstart a new and more realistic diplomatic process.

*Seek renewed agreement with Iran.* Negotiations to maintain and restore limitations on Iran's nuclear program will be complicated considering the US withdrawal from the agreement and re-imposition of sanctions, and also because of Iran's resumption of uranium enrichment and threats from members of parliament to [remove UN inspectors](#) and further expand enrichment.<sup>48</sup> To address these concerns, it would be appropriate for Washington to seek a commitment from Tehran to restrain uranium enrichment and remain in compliance with the other provisions of the JCPOA as a basis for reaching a renewed agreement. The US [strategy with Iran](#) should seek not only to renew and hopefully strengthen restrictions

on Iran's nuclear program, but to gain Iranian cooperation in de-escalating regional tensions.<sup>49</sup> Reengaging European states and other partners in the JCPOA will help to advance these objectives.

Sanctions relief could help to pave the way for progress with Iran. Washington should be prepared to offer sanctions suspension and the promise of a more complete lifting of nonproliferation sanctions in return for reciprocal restraint from Tehran. An initiative to temporarily suspend some sanctions could set a positive tone for negotiations and lay the groundwork for reaching renewed agreement and steps toward tension reduction.

*Overhaul US sanctions policy.* It is long past time for a systematic review and overhaul of US policy and practice related to nonproliferation sanctions. The overly aggressive use of unilateral sanctions has failed to achieve proliferation objectives, while isolating the United States from the rest of the world and causing humanitarian hardships for innocent people.

A fundamental rethinking of the role of sanctions in US foreign policy is needed. We propose the creation of an independent National Commission on Economic Statecraft that would seek to forge a new consensus on the role of sanctions and incentives in addressing nonproliferation and security policy objectives. The proposed commission would seek input from relevant sectors of the federal government, including the State Department, the National Security Council, and the Treasury Department, and from Congress, including the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs. It would also seek advice and recommendations from the private sector and from academic experts and independent research groups. It would be important to seek input as well from international actors, including representatives of UN Security Council member states, and from sanctions officials in the UN Secretariat, the [European Commission](#), and the foreign ministries of [Switzerland](#), [Canada](#), [Sweden](#), [Germany](#), and other states that have previously supported sanctions reform efforts.<sup>50</sup> Engaging with all of the aforementioned parties will also enhance the viability of implementing the recommendations of the National Commission's report.

As Biden prepares to take office, we suggest the following principles to guide the work of the proposed National Commission and for the development of new approaches for US economic statecraft:

### **1. Lead through cooperation**

Focus on multilateral rather than unilateral sanctions. Improve the effectiveness of sanctions by establishing stronger monitoring and enforcement mechanisms in cooperation with the United Nations and other states. Include sunset clauses and review procedures that allow for lifting or adjusting sanctions as conditions change.

### **2. Be constructive**

Utilize sanctions as tools of persuasion within diplomatic strategies designed to achieve negotiated solutions. Combine sanctions with incentives such as security assurances, economic and technological assistance, and sanctions relief, in response to concrete steps toward compliance. Utilize “snap-back” provisions where appropriate to respond to noncompliance.

### **3. Protect the innocent**

Focus on the use of targeted sanctions that apply pressure on individuals and entities responsible for wrongful policies and avoid causing harm to everyday people and vulnerable populations. Continue to improve legal procedures for listing and delisting those subjects to targeted sanctions. Support efforts to monitor the social and economic impacts of sanctions and address humanitarian needs that arise.

## Key Recommendations

**Extend the New START treaty and renew arms reduction negotiations with Russia**, and lay the groundwork for possible future arms control agreements involving other nuclear weapons states.

**Engage with North Korea for gradual denuclearization** to create the conditions for stability and peace on the Korean peninsula.

**Seek agreement with Iran** to renew the JCPOA and encourage multilateral cooperation to reduce regional tensions.

**Establish an independent National Commission on Economic Statecraft** to overhaul US sanctions policy and inform improvements to nonproliferation diplomacy by the US and the international community.

## Notes

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Special thanks to the Keough School's Kroc Institute and to the Fourth Freedom Forum for their contributions to this report.



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