A second thought on economic sanctions

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President Woodrow Wilson famously declared in 1919: *"A nation boycotted is a nation that is in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force. It is a terrible remedy."* Since Wilson, economic sanctions have been a perennial staple of US foreign policy, currently touted as effective 'coercive diplomacy' in the case of Iran and its ostensible nuclear ambitions.

Indeed, compared to previous sanctions regimes, the US-led multilateral sanctions visited upon the Iranian economy have wreaked indubitable damage upon it. As Juan Zarate details in his recently published book, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, the unprecedented power of the sanctions to cause economic harm is directly commensurate with the unique position major US banks play in the global financial system and the digital information revolution enabling that position.

Simply put, all financial roads pass through US banks. The anti-terror financing measures articulated in the USA Patriot Act of 2001, developed from earlier US Treasury anti-money laundering initiatives, constitute the 'big data' systemic heart of the sanctions regime. The money can be followed and frozen.

The exploitation of US financial dominance to implement the sanctions upon Iran is enabled by a concomitant technology-driven phenomenon: the renaissance of US oil and natural gas production by virtue of hydraulic fracturing/horizontal drilling and real-time, micro-seismic data transmission and analysis. The steady decline of US crude oil imports has in turn enabled Saudi Arabia, as swing marginal producer, to replace Iranian crude exports in the global market without an increase in world prices. Put another way, while the sanctions on Iran have not produced a price increase, they have arguably put a floor under prices tolerable to both producers and consumers.

The Obama Administration touts its management of the financially-based economic warfare directed at Iran in contrast to that of its predecessors. And comparisons are made to US drone strike hegemony similarly developed under its watch.

But, as former Secretary of Defense Robert Gates has cautioned regarding the use of drones, there may well be strategically compelling reasons to harbour severe doubts regarding the new financial warfare. Secretary Gates's point about drone reliance is essentially Darwinian. In the knowledge universe, adaptation to momentary superiority is inevitable. Just as Al Qaeda terrorists have continued to adapt to, and exploit the Internet and social media, so the objects of US financial instruments of control will adapt.

Iran's exposure to the financial stranglehold placed upon it is a consequence of its conventional participation in the global economy, which in turn still depends upon the dollar's place as the global reserve currency. But workarounds can become alternatives. The continued distortion, indeed manipulation of US banking beyond generally accepted norms of combating money laundering and criminal enterprises, may indeed encourage financial alternatives to the strategic detriment of the US financial sector.

Effective sanctions also create winners and losers. In the case of Iran, the Revolutionary Guards (IRGC) have clearly been winners. As the financial sanctions have removed 'secular' participants from the Iranian economy in sector after sector, the IRGC has profited from the vacuum, and by some estimates now control more than 10 percent of the entire economy. If sanctions were to be lifted, those in the revolutionary elite who have profited from their imposition will be loath to relinquish their gains.

Within the US government, conversely, the human capital devoted to administering Iran sanctions has grown substantially, in step with the successively byzantine network of measures put into place by Congress year after year. If institutional history is any guide, the sanctions apparatus will not be terminated, even in the case of an otherwise successful negotiation with Iran over its nuclear program. Indeed, the sanctions bar in Washington legal circles continues to grow.

The point, in sum, about the advertised success of the 'smart' financial sanctions - their indubitable capacity to do real harm to the Iranian economy - is that the success is temporary, contingent upon a moment in the global oil trade, and not without consequences inimical to ordinary commerce.

In fact, it will remain for historians to judge whether it is the financial warfare waged upon Iran that brought the country to the negotiating table. The fact is Iran's progress to so-called nuclear 'break out' capability occurred in the teeth of ever more draconian sanctions. Commentary in Iran since the announcement of the interim agreement indicates that those who have profited from the country's internal sanctions workarounds oppose a final settlement and by extension the dismantling of the sanctions. For the numerous winners - ordinary Iranians - there will be powerful losers.

Outside Iran, the principal naysayers to the interim agreement - the seemingly strange bedfellows Israel and Saudi Arabia - may also have reasons beyond the nuclear issues per se to prefer the status quo of an Iran ostracized from the global and regional marketplace. Saudi Arabia's role as the world's global crude oil swing producer has already been noted. Iran's full participation in crude oil trade with Asia, coupled with the production renaissance in the United States, could make for hitherto unseen competition.

Besides Turkey, Iran is the only country with the human capital capable at present of matching Israel's economic might, and, with a population exceeding 70 million, the potential to exceed it. And Turkey does not possess Iran's natural resource base.

No one can predict that the ongoing nuclear negotiations will result in a comprehensive success. Indeed, the interim deal is little more, substantively, than an agreement to negotiate under the rubric that nothing is decided until everything is decided. The sanctions relief proffered is both modest and contingent. The veritable blockade of Iran's economy remains structurally intact.

Predictably, those who believe in the efficacy of financial warfare insist that the Obama Administration continue to escalate the campaign and join forces with Congress to enact further sanctions to 'bring Iran's economy to its knees.' Proponents warn that the modest, provisional relief accorded Iran in the interim agreement, coupled with its open-ended negotiating calendar, in effect permits the Iranian regime to have its cake and eat it too: enjoy sufficient economic relief and remain in a state of permanent de facto break-out capability.

Patrick Clawson, Director of Research at the Washington Institute for Near East Policy, who has long pressed for maximum confrontation with Iran, also takes this view: double down on sanctions precisely in order to increase the chances for a comprehensive agreement. He proposes, however, an approach that has the potential to break apart the bureaucratic technology of financial warfare that Congress has legislated to go by itself. Specifically, he proposes that the next sanctions legislation include a provision that if a verifiable comprehensive agreement is reached, the President has the authority to repeal all sanctions on Iran, period.

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Given the inertial force of economic sanctions in US policymaking, such a stratagem has much to recommend it. And, in the event of success, rather than trumpeting the instrumentality of economic sanctions, US policymakers would do well to embark upon unilateral disarmament.

The United States has embarked upon an ambitious trade negotiations with Asian countries - the Trans-Pacific Partnership - and with the European Union - the Transatlantic Trade and Investment Partnership. By their nature, economic sanctions depart from the principle of free trade among sovereign states, governed by equitable and transparent rules of engagement. If diplomatic negotiations succeed between Iran and the P5+1 countries, would it not make strategic sense for the United States to stand down its arsenal of financial weaponry?

While highly improbable, such an act of unilateral disarmament would send an unmistakable message that the United States has redoubled its commitment to the benefits of global trade. Moreover, after the lessons of US misadventures in Iraq and Afghanistan and blowback from the Snowden revelations, perhaps it is time to wipe the foreign relations playbook clean, and think again about the essentials of national security interests and tools of diplomacy. ■