

Fighting the Last War

BY NORMAN A. BAILEY

It is time for a revitalized economic statecraft.

Statecraft is the use of the instruments of state power in the achievement of foreign policy and national security goals. Economic statecraft is the use of the economic instruments of state power, and as such, is one of a short list of instruments of power employed in this manner. The others are diplomatic statecraft, or the art of international negotiation; public statecraft or propaganda; subversion; military display; and war.

Economic statecraft has a long history. For centuries, countries have sought to impose economic costs and/or bestow economic benefits upon other countries to further their international objectives. Since World War I, however, economic statecraft has steadily gained in importance within the general panorama of international relations. Sometimes this emphasis has caused crises which have degenerated into the use of more violent measures of statecraft, such as subversion and war. The German attempt to enforce its blockade of Great Britain and France during World War I through submarine warfare led directly to the entry of the United States into the war on the side of the Allies. The sinking of the *Lusitania* by a submarine was presented to the American republic by the Wilson government as an example of unrestricted submarine warfare. When the ship was examined recently by divers, it was discovered that it had, in fact, been carrying military contraband in violation of the rules of neutrality. Cessation of exports of oil and scrap iron to Japan in 1939–1941 by the United States is considered the main reason for the suicidal attack on Pearl Harbor by the Japanese in December of 1941.

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The strategies utilized in the pursuit of economic statecraft are of two kinds—negative and positive; that is, the attempted punishment or reward of other countries or groups of countries through economic action. The negative strategies include pre-emptive buying (the attempt to deny the access of another country to raw materials of importance to that country) and the counterfeiting of another country's currency to attempt to cause inflation. The most coercive economic measure that can be taken by one country against another is a formal blockade, which in international law is an act of war. Blockade as a strategy has fallen out of common use in modern times, the only example being the partial blockade of Cuba by the United States during the so-called missile crisis of 1962. Perhaps it should be dusted off and used more often. A blockade of Iraq, relatively easy to enforce because of the terrain involved and the lack of substantial air and naval power of the regime, might well have caused the fall of the Saddam government without resort to war.

By far the most common negative economic strategy used in statecraft, however, is economic sanctions imposed by countries, groups of countries, or by regional or international entities, such as the United Nations and the European Union. Economic sanctions are of two kinds—trade sanctions and financial sanctions. Ever since the League of Nations imposed trade sanctions on Italy in 1935 when that country invaded Ethiopia, another member country, scarcely a year has gone by without a plethora of trade sanctions being declared. As was the case with the League sanctions against Italy, which excluded oil, probably the only commodity which might in fact have forced Italy to abandon its invasion, these sanctions have been generally ineffective for many reasons, primarily because they create significant incentives on the part of governments and private organizations to evade them. The same phenomenon occurs when governments attempt to legislate personal preferences, such as Prohibition from 1920–1933 and the so-called “war on drugs” now, which ensure that violating the law becomes so potentially profitable that enforcement efforts are generally ineffective and extremely costly. More often than not, however, the real motivation for the imposition of trade sanctions is to demonstrate to the domestic constituency of the country imposing them that it is doing “something” beyond diplomacy and rhetoric to address a particular problem, but without accepting the risks and costs involved in taking more coercive action.

More recently, financial sanctions have been increasingly used to better effect. Denial of access to important capital markets, which must be used to finance trade, lead to the reduction of incentives to violate trade sanctions, and can be more effective than simple prohibition and are

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easier to enforce. Saddam's Iraq found trade sanctions easy to circumvent, partly due to corruption among the UN officials charged with enforcing them, whereas Iran is finding that financial sanctions have been more punishing and harder to evade. The use by Iran of the Venezuelan banking system to evade financial sanctions, for example, has been counteracted by simply sanctioning those Venezuelan entities involved.

Positive measures of economic statecraft involve so-called foreign aid—loans and grants to other countries to induce them to support the foreign policy goals of the country providing the assistance—and the negotiation and implementation of trade agreements of a bilateral or multilateral nature. Grants and loans made to another country or group of countries is an ancient practice and can be very effective, especially in the form of a threat to cease such assistance. It is well-known that all things being equal the threat is more effective than the act, and that is true for every aspect of statecraft, including the economic. A good deal of the voluminous literature on foreign aid and economic development could have been eliminated by simply recognizing that with the exception of natural disaster relief, countries seldom provide resources to other countries for charitable reasons as opposed to political reasons. Corruption in the use of such resources, for example, is damaging to development, but development is not the purpose of the activity, and the achievement of its real purpose may actually require the existence of corruption on the part of the elites of the recipient countries.

Trade agreements, however, ranging from facilitative measures to free trade areas, customs unions, and common markets, are not only often effective politically in associating other countries with the foreign policy goals of the initiating country or countries, but are unique among the instruments of economic statecraft in actually being economically beneficial for all parties involved and for the world as a whole.

The international panorama is, however, becoming more and more complex, and at present countries only

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represent one group of important actors. Non-country actors, including corporations, banks, guerrilla and insurgent groups, terrorist organizations, criminal syndicates, and non-governmental organizations are becoming increasingly significant players in our post-Westphalian world, and analysis and strategic planning for this new world is woefully behind the reality. This is also true for economic statecraft. Criminal syndicates, for example, are commercial entities, which differ from the normal business enterprise only because the goods or services they provide are illegal. They can be combatted by legalizing their activities, or by measures such as the equivalent of financial sanctions, namely making money-laundering more difficult, but they cannot be effectively combatted by purely repressive tactics. For example, the Afghan farmers who grow the poppies used for the production of heroin could be paid for their crops with profit and the flowers

used to produce morphine instead, sold at cost or given at no cost to African countries where surgical operations are sometimes done with aspirin as the only anesthesia.

Terrorist groups, insurgent groups, and environmental non-governmental organizations, however, have non-commercial goals and cannot be effectively combatted (if one wishes to do so) by treating them as commercial entities. In such cases, economic measures are ineffective. Assistance provided to Hamas, for example, does not induce that organization to abandon terrorist activities. On the contrary, it facilitates them. Investigators and analysts need to devote much more effort and time in studying these emerging international actors and devising policies and strategies that are designed to deal with them, rather than mindlessly following practices appropriate to the state system.

In economic statecraft as in military strategy, we must stop fighting the last war. ◆