Understanding Economic Statecraft

By Norman A. Bailey

Two new analytical studies offer important insights.

As the years pass by, both states and the increasingly important non-state actors in international relations make greater and greater use of the instruments of economic statecraft, the importance of which, in backing up diplomacy and supplementing other elements of statecraft, can hardly be exaggerated. Two recent developments in the field have been particularly significant: the role of financial sanctions in the strategic mix; and even more so, the place of cyber attacks as a tactic in the implementation of economic strategies.

Curiously, despite its rapidly increasing role in the execution of the external policies of both states and non-state actors, there has been a dearth of recent academic and policy studies. I have been a practitioner and teacher of economic statecraft for over thirty years, but I have to teach my courses without a text, since the last one on the subject was published in 2002. Given the rapidly changing landscape, it might just as well have been published in 1902.

Some works on certain aspects of the subject have indeed recently been published, especially Juan Zarate's book on his experiences with financial sanctions at the Treasury Department and Nicholas Lambert's splendid history of the financial warfare preparations made by Great Britain for eventual conflict with Germany prior to World War I. Both these books were reviewed by me in a previous issue of *TIE.* But that is about all, except for the occasional article.

That has now changed, thanks to an excellent study by the Hudson Institute entitled *Cyber-Enabled Economic Warfare: An Evolving Challenge,* and a series on economic statecraft, just inaugurated by the Center for a New American Security, the first issue of which is entitled *American Economic Power and the New Face of Financial Warfare.* Thus, both salient aspects of contemporary economic statecraft are finally being addressed.

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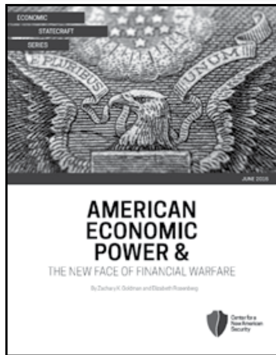
The Hudson study is edited with extensive introductory and concluding chapters by Samantha F. Ravitch. The six individual chapters cover various aspects of the overall subject and the fact they are so readable is either a tribute to their respective authors or to the editing skills of Ravitch. Topics covered include the denial to Iran of the use of the Swift financial clearing house; a fascinating piece on intellectual property piracy as a modern form of privateering; the need for a response to financial cyber-threats; and the vulnerability of critical infrastructure, with emphasis on transportation.

In her introduction, Ravitch points out that "…the contemporary evolution of economic warfare within the new realities of cyberspace has not received the focused, comprehensive scrutiny and policy attention that it warrants." This monograph is an excellent start towards addressing that deficiency. Many highly interesting topics are covered, including intellectual piracy, mentioned above; the abysmal deficiency of U.S. countermeasures to cyber-attacks, and the increased use of cyber-intelligence to circumvent the normal circuits of commerce. She concludes that, "The U.S. seems to believe it is sufficient to prepare for cyber threats without really understanding either the actors and plans behind them or the wide variations therein."

In her concluding chapter, Ravitch points to Russia, China, and Iran as the major state sources of cyber-attacks of all kinds. She also underlines the damage done by insiders who defect and reveal sources and methods. She emphasizes the lack of preparedness of U.S. public agencies and private corporations and banks, as well as the lack of attention paid to offensive cyber-capabilities.

CNAS is to be congratulated on initiating a series of studies on "…the coercive tools of economic statecraft." The initial study, authored by Zachary K. Goldman and Elizabeth Rosenberg, surveys the historical record of the use by the United States of its economic and financial power and then evaluates the more recent use of so-called "smart sanctions," emphasizing the increasing application of financial sanctions to specific individuals and organizations in the target countries. It makes the point that the United States, although a major trading power, is only one of several, whereas in the financial arena the United States continues for the time being to hold a dominant position. It is therefore much easier for targeted countries or non-state actors to evade trade sanctions than financial sanctions. The crafting and supervision of financial sanctions is also more centralized in the Treasury Department, whereas trade sanctions are overseen by several departments of government, including State, Defense, and Commerce. Results of the new emphasis on financial sanctions are reviewed, including the highly successful sanctions against Iran, which according to the study were primarily responsible for the agreement by Iran to enter into negotiations for the limitation of its nuclear weapons program.



Finally, appropriate emphasis is placed on the necessity for the United States to maintain and strengthen both its economy and its financial structure if it is to be able to continue to use coercive economic measures in the future.

That has now changed. It is much easier for targeted countries or non-state actors to evade trade sanctions than financial sanctions.

An excellent list of requirements for future success concludes the study.

Both of these analytical studies are to be highly recommended, particularly given the dearth of materials on the subject matter, which as we have said, is of rapidly increasing importance in an ever-more complex and confusing world. ◆