IRANIAN ECONOMIC WARFARE

President Barack Obama talks with President Hassan Rouhani of Iran during a phone call in the Oval Office, Sept. 27, 2013. Photo by: Pete Souza
The United States has been in an economic war with the Islamic Republic of Iran in one form or another since the 1979 hostage crisis. This war intensified in 2007 when President George W. Bush ordered sanctions designed to force Iran to give up nuclear ambitions.

The sanctions were increased multiple times under President Obama. According to The New American: “David Axelrod, senior advisor to the president, said on ABC’s This Week on March 4th of this year [2012] that the president had succeeded in “bringing the entire world together over the last few years with the most withering economic sanctions that have ever been administered against any country.” On August 1st, both the House and Senate approved even more sanctions, which the president signed into law.”

There should be little doubt as to whether the sanctions were serious or powerful. Yet, there should be substantial doubt with regard to whether or not the sanctions have been effective in terms...
of achieving their primary objective. In fact, some observers believe that the Iranians matched the United States in the economic war, albeit at great cost. We threw everything at them, inflicting “a currency collapse, hyperinflation, and a bank run and... caused a scarcity of food, gasoline and consumer goods, through the expedient of cutting Iran out of the global payments system.”4 Despite this, we have seen no real evidence of slowdown in Iranian nuclear development and the government remains as defiant as ever. Even if the Obama administration would like to credit the sanctions process for bringing Iran into negotiations,
the truth may be much less flattering. According to the Los Angeles Times:

“Sanctions did not bring Iran to the table. Not only Iranian officials but other undeniably objective observers concur that the reason negotiations have commenced is emphatically not because Iran could endure the pain no longer.

“Total nonsense,” scoffed former U.S. Ambassador William Miller when I put the question to him. Miller has closely monitored Iranian affairs since he was stationed in that country in the 1960s, and has close contacts with the current leadership. “Sanctions only made them more defiant,” and they always had ways of getting around them. The deal that’s being discussed now is almost exactly the same one the Iranians offered back in 2003—full transparency on their nuclear program, but recognition of Iran’s right to enrich uranium.”
This is one of the great untold stories of the past few years, at least untold in the American media. Iran, with an economy equal to a little over 3% of that of the United States, and roughly the size of New Jersey, went toe-to-toe against the economic might of the United States and remained standing. The failure to provide a knockout punch, however, risks damaging American credibility at a crucial time when financial warfare and sanctions appear to be the only instruments of power that the current administration is willing to deploy in an increasingly complex world. The United States backed down on the sanctions and accepted a 10-year-old Iranian proposal that had been repeatedly rejected by both
Presidents Bush and Obama. We loosened sanctions without getting anything new in return. Quoting James Rickards, author of “The Death of Money”:

“Iran had fought the United States to a standstill in its financial war, despite enormous disruption to the Iranian economy. The U.S.-Iranian financial war of 2012–13 illustrates how nations that could not stand up to the United States militarily could prove a tough match when the battlefield is financial or electronic.”

To be clear, there has been considerable collateral damage inflicted upon the Iranian people, but not all of Iran has suffered. In fact, the leadership, especially the “supreme leader” Khamenei and his
Khamenei is about 40% greater than the total annual oil exports from Iran. It also is a powerful base of funds from which retaliatory economic warfare might be launched. Some estimate this to be far in excess of the wealth controlled by the Shah at his peak prior to the 1979 revolution that deposed him.13

HOW IRAN SURVIVED SANCTIONS

The simple answer to how Iran could survive under sanctions is that they learned to operate without using the dollar. By instituting new payment arrangements as well as utilizing centuries-old mechanisms, Iran found a way to buy and sell without access to American-controlled systems.14 They used gold,15 barter,16 non-dollar currencies, and hawala17 (an ancient Arabic method of transferring funds) to circumvent controls. According to Immigration and Customs Enforcement (as quoted in The Cornerstone Report):

“The hawala system can be utilized by criminal organizations to transfer funds in or out of a country with little or no detection...”
by law enforcement. Hawalas allow the transfer of millions, if not billions of dollars tracked only by a secret code and disposable scraps of paper. Transfers of money take place based on communications between members of a network of hawaladars...18

Oil for gold also became commonplace in significant transactions with Turkey and India, among others. The growth in gold trade became so significant that the United States attempted to enforce a gold ban on Iran in July 2013.19 When the gold trade tightened, Iran began processing sales in other non-dollar currencies. Although less convenient than the dollar-based system, it was ultimately effective and exposed the reality that there are other currencies in the world. In some cases, it actually provided a convenience to not have to convert currencies back to dollars for trade.

The Iranians also worked through Chinese and Russian banks that served as fronts for them to the international system. Iran had used Western banks for this purpose during the Bush administration, but the banks were caught and had to pay stiff penalties.20 Chinese banks supported some $40 billion in transactions, largely avoiding the political pressure because of the political complications for the U.S. Russian, Turkish, and Indian banks also supported Iranian oil sales in spite of U.S. sanctions.21

Even British banks had found it difficult to turn down the profits associated with helping Iran circumvent American sanctions. Standard Chartered was responsible for $250 billion in transactions, and when caught paid over $300 million in fines.22 Interestingly, British resentment of American sanctions can be summed up in the following email comment quoted from Reuters:

“You fucking Americans. Who are you to tell us that we’re not going to deal with Iranians.23

It’s one thing to quietly attempt to go around the sanctions. It’s quite another, however, to boldly reject them. Yet, that is precisely what Vladimir Putin’s Russia did in a multi-billion dollar deal announced in advance of the Winter Olympics.24 This was perhaps foreshadowing of how Putin would respond to American complaints after seizing Crimea.

Even after the negotiated agreement allowed increased Iranian oil shipments, the Islamic Republic has found creative ways to blow past the limits.25 There seems to be little, if any interest in abiding by the watered-down agreements.

IMPLICATIONS GOING FORWARD

One of the consequences has been the exposure of American weakness. Once Iran demonstrated that it could survive, despite serious hardship, without the dollar-based system, others took notice. Many accurately expected the sanctions approach to fail or at least fall far short of its objectives. I made the following observation in my blog on February 22, 2012:

“The economic weapon the government is using against Iran is sadly exposing our greatest vulnerability. In essence, to punish Iran for continued nuclear development, we have threatened to deprive them of access to the U.S. dollar. That is a serious threat and has serious implications for the domestic Iranian economy. The

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problem is that at the end of the day, the world may prefer to have their oil rather than our paper. Certainly that is what the market is telling us as the price of oil in dollars has been rising.

Given the global situation, do we remain so arrogant as to believe that the world prefers American paper to oil from any source? At a minimum, we know that the amount of American paper available (whether in the form of currency or Treasury debt) has and continues to grow exponentially while the amount of available oil reserves are reasonably stagnant (at least by comparison). Add to this the fact that oil has enormous use and the demand for it will grow markedly over the long term. As for American paper? Nearly every major nation of the world including our best trading partners have begun to question (some publicly, some privately) its long-term usefulness.26

Frighteningly, I wasn’t alone in this observation. In fact, it almost seemed as if the defeat of sanctions was part of a larger plan being instituted with the involvement of Russia, China, and the BRICS nations to de-Americanize the world and destroy the dollar.27 Putin has long been close to Iran and sympathized with their position regarding dollar-based attacks.28 When the United States cut Iran off from dollar-based transactions, the Russians helped build alternative payment systems that in turn undermined the dollar. Then, when sanctions were placed against Russia, Putin requested Iranian assistance in circumventing them.29

The Islamic world was also watching closely as sanctions were imposed, with some expecting their failure to expose American weakness. Consider this from February 2012, “How Iran Changed the World” in al-Akhbar, a daily Arabic-language newspaper:

“Imagine: Iran stops selling oil to the EU; China tells the US to take a hike on currency values; India starts trading in large quantities of rupees; Russia’s central bank becomes a depot for holding dollars that don’t need to pass through New York; the creation of a global payment messaging system competing with SWIFT. Now imagine that a combination of actions—triggered only by an attempt to circumvent some really very silly sanctions—can suddenly unleash some unexpected possibilities that were beyond the realm of imagination a mere few years ago.

Imagine the emergence, say, of regional economic hubs, powered by the currencies of the local hegemonic powers, where bartering natural resources, goods and services becomes as commonplace as transactions involving currency transfers. Because of the frailty inherent in dealing with these new local currencies and a bartering system, nations tend to trade most with those closest to them in geography and culture. Shocking? Maybe not. Sometimes it just takes a need for change... and a handy tipping point.

“This is not the time to fan the flames,” someone should have told the United States. “You and your pals are sitting in a jalopy tottering on the cliff’s edge — why
risk making moves now?” they should have warned. “Be a little less arrogant”…

But Washington is absolutely, irrevocably, dangerously fixated on showing Iran who’s boss, and spends a good part of every day trying to tighten the screws around the Islamic Republic. For the most part, the US’s pursuit of this dubious objective has instead stripped it of the vital political tools it once wielded. No more UN Security Council resolutions, no more unscrutinized military adventures. The only thing left is the nefarious tentacles of the United States Department of Treasury and its financial weapons.30

Unfortunately, the “Almighty Dollar” has been shown to be mortal after all. Sanctions were unable to achieve their objective and the world has seen it. With the Russian conflict over the Ukraine, the issue has become increasingly serious.”

CYBER BATTLES

Of course, sanctions, oil sales, and currency battles are just part of the economic war already underway. Iran has borrowed from the Unrestricted Warfare playbook and created combination efforts built around a cyber strategy.31 The Iranians coordinated specific attacks directly targeting American banks as retaliation for economic sanctions. Even the largest banks were found to be vulnerable to disruption and the tactics were beyond what had been previously experienced.32 This shouldn’t be a surprise. Iran has built a very sophisticated hacking network. According to Foreign Policy:

“In March 2012, Ayatollah Ali Khameini, the Supreme Leader of Iran, publicly announced the creation [of] a new Supreme Council of Cyberspace to oversee the defense of the Islamic republic’s computer networks and develop new ways of infiltrating or attacking the computer networks of its enemies. Less than two years later, security experts and U.S. intelligence, officials are alarmed by how quickly Iran has managed to develop its cyber warfare capabilities—and by how much it’s willing to use them.33"
The Iranians have become a “first-tier cyber power.” They have launched sophisticated attacks against military websites. It took four months and $10 million to clear Iranian penetration from the Navy Marine Corps Intranet. The Iranians also penetrated major energy networks and control systems with the potential to damage or sabotage pipelines, energy distribution, and the electric grid. A disruption in any of these areas has the potential to create catastrophic economic and human costs.

Iranian cyber efforts have also targeted U.S. officials to seek intelligence, undermine sanctions and detect vulnerabilities. This is an extraordinarily broad effort: utilizing Facebook, fake emails, password theft, and other clandestine tactics to augment more direct attacks.

Iran has developed a cyber army intended to win 21st Century wars. It is also responding to the cyber capabilities reportedly demonstrated by the United States and Israel that disabled 1,000 centrifuges used to enrich uranium: the so-called Stuxnet virus attack. The Iranians adapted to alleged U.S. government attacks and developed their own capabilities with frightening speed.

THIS IS WAR

The Iranian leadership has made it clear that it is preparing for a multi-phased war with the United States using physical, economic and cyber means. After decades of Iranian-sponsored terrorist attacks, there is now sufficient evidence to conclude that the war is underway in the economic and cyber realms as well. The American reduction of sanctions in response to a promise of transparency regarding nuclear development is only a slight detour in direction, not a pathway to ending conflict. We cannot be complacent. The government of Iran was not beaten by sanctions and remains as defiant as ever. It was just February when the “supreme leader” Khamenei openly called for his cyber hacking units to prepare for war. By May, despite the promise of eased tensions, Khamenei was calling for renewed jihad “until America was no more.” We face a number of national security challenges. Economic war with Iran is certainly among the most serious.

ABOUT THE AUTHOR

Mr. Freeman (CFA) is the author of Secret Weapon: How Economic Terrorism Brought Down the U.S. Stock Market (www.secretweapon.org) and Game Plan: Your Secret Weapon to Protect Yourself From Economic Attack (Regnery, 2014). He authors the blog: www.globaleconomicwarfare.com.

ENDNOTES


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