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‘Smart’ sanctions take toll on Syria

By Matthew Epstein and Ahmed Saeed

US-inspired financial weapons hurt Assad regime

After the terrorist attacks of September 11 2001, the US Treasury Department developed a toolkit of “smart” sanctions and shared its ideas and expertise globally.

The Arab spring has revealed how comprehensively these ideas were absorbed by US allies in the Middle East. Alongside popular uprisings there has been another revolution – this one in the way wealthy Arab states exercise coercive diplomacy.

This development was evident early this year when an international consensus quickly formed to pass a UN Security Council resolution freezing Libyan and Gaddafi family assets globally. This was remarkably effective, capturing more than $100bn of assets and severely damaging Colonel Muammar Gaddafi’s ability to wage war.

But the case of Syria provides an even better demonstration of how “smart” sanctions have, over the past decade, become a powerful and widely accepted tool in international relations, and how they are no longer reliant on Security Council approval.

In the face of Assad’s brutal response to the Syrian rebellion, an international coalition spearheaded by Arab states is pursuing multilateral sanctions to undermine the regime.

Known as the Friends of the Syrian People International Working Group on Sanctions, the group includes more than 60 countries – an extraordinary consensus considering the UN has been left sidelined by Russian intransigence.

For sanctions to be effective, broad international support is required. During the past decade the US unsuccessfully targeted the Syrian government with various financial sanctions, trying to counter the regime’s support for terrorism, weapons proliferation, and the destabilisation of Iraq and Lebanon.

With few exceptions, these measures and the broader concept of multilateral sanctions implemented outside the UN were largely met with scepticism and apathy.

The politics of the Arab spring, however, changed the calculus for oil-rich Arab nations such as Qatar and Saudi Arabia.

In November the Arab League announced its own package of sanctions, including a freeze on Syrian government assets and a ban on transactions with its central bank. Because 50 per cent of Syria’s exports go to the Arab world and 25 per cent of its imports originate there, sanctions implemented by Syria’s neighbours are particularly potent.

The sophistication of these actions was unsurprising in light of the years spent by the Treasury Department’s Office of Terrorism and Financial Intelligence alerting central banks, finance ministries and security services worldwide on the finer points of constructing financial sanctions. As a result, the US now stands as one voice among many implementing sanctions to weaken the Syrian government.

These sanctions have real teeth – in a way possessed by no other diplomatic tool apart from the use of force. Last month a ship suspected of carrying military helicopters to Syria was forced to turn back to Russia because its UK-based insurer terminated its coverage. The Russians protested that the shipment did not violate any UN resolution or international law, which is exactly the point. Where the UN process fails, a powerful alternative exists.

A sanctions programme that originates in the Middle East, and that enjoys the support of leading regional governments, also inevitably narrows the gap that often exists between talking points delivered to foreign interlocutors and implementation on the ground.

Lebanon, for example, has sometimes been criticised for its relatively slow implementation of UN-backed sanctions against Iran.

And yet Lebanese banks – also historically an important window for Syria to the outside financial world – have been quietly implementing multilateral sanctions. They are motivated by a desire to avoid jeopardising international banking relationships, but implementation is also eased by widespread regional support. Lebanese banks have also reportedly reduced lending operations in Syria, worsening credit conditions for their war-torn neighbour.

And this month the United Arab Emirates central bank followed suit, ordering banks to report all accounts and transactions for blacklisted entities, including Syria’s largest and systemically important financial institutions. This is a significant development considering the UAE’s status as the region’s most active financial hub.

With US, EU and Arab measures taken together, the impact has been clear across a range of economic and financial metrics. In May, Syria's oil minister conceded that sanctions had sapped $4bn from the economy and caused widespread fuel shortages and power blackouts. By all accounts inflation has soared more than 50 per cent, the Syrian pound plunged at least 30 per cent, and foreign reserves are in steady decline.

Although the International Monetary Fund has stopped providing figures on the Syrian economy since the conflict broke out, the head of the Middle East department reported a 40 per cent drop in the local stock market and private sector deposits down a quarter. Unsurprisingly, the IMF expects a significant contraction in Syria's gross domestic product this year with sanctions playing a primary role.

As a result of this co-ordinated multilateral action, the Syrian regime is far more isolated today than at any point in its history. The economic viability of the state weighs heavily on the ruling elite, and sanctions are affecting its ability to wage war on its own population.

The next meeting of the Friends of the Syrian People International Working Group on Sanctions is scheduled for this month in Doha. At that time, we should expect the financial noose to tighten further.

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