CHAPTER 12

PROBLEMS OF ECONOMIC STATECRAFT: RETHINKING ENGAGEMENT

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February 2003 marked the 12th anniversary of the liberation of Kuwait by the United States and its global allies and their near-total victory over the military forces of Iraqi President Saddam Hussein in Operation DESERT STORM. However, much to the surprise of members of the first Bush administration, academic scholars, military analysts, media pundits, foreign policy experts, and the average layman, Saddam Hussein remained in power in Iraq and continued to successfully defy the international community. Regardless of the military success of the U.S. war with Iraq prosecuted by the second Bush administration in 2003, Saddam's longevity should, in itself, serve as a significant warning to policymakers that something may be amiss in the formulation and execution of U.S. foreign policy. In this chapter I reexamine the fundamental intellectual and strategic assumptions of what is known as "engagement," the foreign policy doctrine that guided U.S. behavior toward Iraq in the decade preceding Saddam's invasion of Kuwait. Despite the wholesale failure of U.S. strategy toward Iraq before 1990, the fundamental assumptions that guided U.S. engagement policies have remained largely unexamined. This failure to acknowledge historic mistakes raises the disturbing possibility that similar failures of engagement may occur in Washington's strategic relationships with other problematic international actors and rogue states.

Engagement in Practice: U.S. Relations with Iraq, 1982-1990

Engagement serves as a core policy doctrine of U.S. national security strategy in the twenty-first century.[1] In practice, implementing engagement relies heavily on the manipulation on the economic elements of national power, primarily in the areas of trade and finance, to influence the behavior of other states. Engagement uses economic interdependence, or mutual dependence, to create ties that, in theory, should bind states together. Robert Keohane and Joseph Nye suggest that economic interdependence should be understood in terms of the power to influence, or the effects on each state of their trade linkages. Indeed, as many scholars have indicated, states have long recognized the truth that power generally flows from asymmetrical (or imbalanced) interdependence.[2] In keeping with this tradition, Keohane and Nye stress that when planning an effective diplomatic strategy, "It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependent relationship as a source of power in bargaining over an issue and perhaps to affect other issues."[3] At its core, economic statecraft is founded on the principle of asymmetrical power.

In 1979 political turmoil in the Middle East forever changed the regional strategic landscape. In January of that year a groundswell of Islamist protesters drove the Shah of Iran from the Persian throne; in December, the Soviet Union launched its ruinous war in Afghanistan; and in September 1980, Iraq invaded Iran. Thus, the Middle East stage was radically changed as the Reagan administration entered the White House. In the minds of Ronald Reagan's foreign policy team, U.S. national interests in the oil-rich Persian Gulf now faced two significant new threats: communist expansionism by direct military means from the

Soviet Union and the spread of anti-U.S. Islamic fundamentalism from Iran. With these two factors in mind, Iraq's sponsorship of international terrorism was seen as a lesser of evils, and therefore Baghdad was perceived as a potential partner that could serve U.S. strategic interests in the region.

In terms of strategic formulation, the ends (or goals) were clear: block both Soviet expansion and the further expansion of radical Islam into the Gulf region. The way in which these goals could be achieved was identified as the transformation of Iraq into a pro-U.S. country vis-à-vis a policy of engagement. The means to be deployed would be a combination of three elements of national power: 1) limited military support, 2) increased diplomatic and political intercourse, and 3) heavy economic incentives; with the latter being the key element. What was the risk assessment of such a strategy? There was little chance that U.S.-Iraq relations could be made any worse than they were at the time, thus, it seemed that almost any strategy that could increase U.S. influence in with Baghdad was worth a try. If the strategy worked, the United States would achieve its regional political goals and possibly even score a broader battle in the Cold War by weaning a Soviet client state away from Moscow. The only possible negative outcome was a domestic political backlash by those who would accuse the administration of negotiating with a terrorist-sponsoring state. However, there were no well-organized anti-Saddam groups of Iraqis in the United States that could pressure Congress (unlike the powerful Cuban-American community) to block White House overtures. Due to the huge leverage Washington held over Tel Aviv by its yearly military and financial aid packages, any potential pressure that the Israeli lobby might decide to mount was considered manageable. Finally, it must be remembered that these events transpired during one of its most strained periods of the Cold War. Virtually all opposition to a change in policy toward Iraq could be bent on the traditional wheel of geopolitical Cold War national security interests. In short, the risk assessment suggested a high potential gain, with a minimal potential loss; as a result, engagement was given the green light.

In March 1982, the U.S. Government officially began engaging Saddam Hussein by removing Iraq from the list of state sponsors of terrorism. The official reason was to recognize Iraq's improved record,[4] a claim that a Defense Department official later rebutted in stating, "No one had any doubts about [the Iraqis'] continued involvement in terrorism. . . . The real reason was to help them succeed in the war against Iran."[5] Thus Iraq, no longer on the list of terrorist states subject to highly binding export restrictions on weapon purchases and technology exports, became eligible for U.S. Government-financed credits designed to promote the export of U.S. goods. It was presumed that after Iraq began to benefit from and become reliant on U.S. economic linkages, the United States would be able to induce Iraq to behave more in accordance with international norms. Engagement of Saddam's regime was anchored on the assumption that trade interdependence would be asymmetrical in favor of the United States, and that, in turn, the United States would be able to shape Iraq's behavior, using trade as a tool of influence. In November 1984, after Reagan's reelection, Washington resumed full diplomatic ties with Baghdad.

The contextual setting of the time strongly suggested that such a strategy had an excellent chance of success. As a result of war-related disruptions in shipping through the Persian Gulf, Iraq's oil revenues had shrunk from $22 billion in 1980 to approximately $9.5 billion in 1982. Iraq was dependent on imports for 75 percent of its food supply, and it was deep in debt.[6] Thus, it comes as no surprise that three of the main areas of trade that Reagan administration officials focused on for engagement with Iraq were in the realms of oil, agriculture, and finance. By 1984 the U.S. Agriculture Department's Commodity Credit Corporation (CCC) had extended to Iraq $513 million in credits to purchase U.S. farm products. In 1985 the U.S. Export-Import Bank extended more than $684 million in short- and long-term credits to Iraq for the construction of a strategic oil pipeline through Jordan that would have the capacity for a million barrels per day. In terms of military assistance, the United States still officially maintained a stance of neutrality in the Iran-Iraq war. However, the United States sold to Iraq a wide variety of "dual-use" items. For instance, Iraq purchased more than 100 helicopters from manufacturers in the United States, which in export documents were designated for civilian and recreational purposes. Upon arrival in Iraq, they immediately were diverted to the front with Iran, with no ensuing protest from Washington. The Reagan administration also gave the "nod and wink" to the illegal transfer of U.S. weapons from third countries, including sales of Tube-launched, Optically tracked, Wire-guided (TOW) anti-tank missiles, helicopters, small arms, mortars, and munitions from Egypt, Jordan, Kuwait, and Saudi Arabia. However, of greater military value was the intelligence data supplied to Iraq from U.S. satellite photography. In 1984 President Reagan signed a national security directive authorizing intelligence-sharing with Iraq, a move analysts would later describe as having saved the Iraqis from being overrun in several key battles.[7]

U.S. engagement incentives continued to grow throughout the remainder of Reagan's term in office. Under the first Bush administration, however, the use of the economic tools of statecraft moved to a higher level. His transition team argued, "Trade is the best key to political influence."[8] By 1989, Iraq had become the single biggest market for U.S. rice exporters, with sales running to $180 million. Sales of wheat, flour, livestock feed, cotton, and other commodities amounted to more than $345 million in additional income for U.S. farmers and agribusinesses. In 1990 the U.S. Department of Agriculture proposed allocating $1 billion in new credits to Iraq, bringing the total to more than $2 billion.[9] These selected examples only begin to portray the variety of ways in which the United States attempted to engage Iraq with economic incentives.

Considering what we now know about Iraq in the years that have passed since the Gulf War, it is only pointed rhetoric to ask if the policy was a success. However, even before the Gulf War, it was apparent to many observers that engagement of Iraq was not working. Despite Saddam's official opening of Kurdistan to foreign reporters, atrocities against the Kurds continued unabated in 1989 and 1990. Amnesty International documented the kidnapping and torture of more than 300 Kurdish children as human hostages in an attempt to intimidate Kurdish separatists in the north of Iraq,[10] and the U.S. Government's own human rights report clearly stated that even *perceived* political and military opposition to the Iraqi government was routinely dealt with through the torture and execution of suspected Kurds.[11] Some of the most disturbing warning signs of Saddam's continued predatory profile come from the review of Iraq's supposedly clandestine program to develop weapons of mass destruction. As early as March 1985 Assistant Secretary of Defense Richard Perle urged that the United States impose a "non-nuclear assurance" clause as a written condition for exporting advanced computers. Perle, who was known as one of the administration's most hard-line hawks in his anti-Soviet views, was not convinced that economic statecraft (in the form of technology transfers) should be used in the attempt to wean Iraq away from Moscow. However, those who were certain that such transfers were necessary to convince the Iraqis of Washington's friendship overruled Perle and others in the administration.[12]

From 1985 to 1990, U.S. controls on exports of specialized, high-technology dual-use products were steadily weakened despite repeated protests from high-ranking officials in the Energy and Defense Departments.[13] However, in retrospect it is clear that until the invasion of Kuwait in 1990, the U.S. foreign policy agencies that had embraced the economic tools of statecraft (primarily State and Commerce) were able to continually override those agencies focused on national security (Defense and the Central Intelligence Agency [CIA]). Correspondingly, the Iraqi record on terrorism remained largely unchanged. In 1982 Iraq was tied to the attempted assassination of the Israeli ambassador to London, the hit man being a colonel in the Iraqi intelligence services. After expelling the well-known Palestinian terrorist, Abu Nidal, under pressure from the U.S. Congress, Saddam proceeded to patch up relations with Yasir Arafat, who thanked the Iraqi leader for his "donations" of weapons to reequip the Palestine Liberation Organization after it had been driven out of Beirut by Israeli forces. In October 1985 the Iraqi government assisted the escape of the terrorists responsible for the murder of wheelchair-bound U.S. citizen Leon Klinghoffer on the cruise ship, *Achille Lauro*, and Baghdad refused to revoke the diplomatic passport held by Abu Abbas, the lead terrorist in the high-profile attack. In 1985 two Iraqi-based terrorists were captured in Rome in transit to planned attacks on American targets. Despite official public denials from the U.S. executive branch, it was acknowledged in a then-classified Reagan administration document that Iraq continued to support terrorism.[14]

Probably the most damning evidence of engagement's ineffectiveness in altering Iraq's behavior comes from a review of that country's use of chemical weapons against Iranian soldiers and Iraqi civilians. In 1983 the first of four reports of the use of chemical weapons against Iranian forces was received in Washington, and in 1984 a report issued by the United Nations provided the first public documentation of Iraq's violation of international law on the use of such weapons.[15] The Reagan administration responded to these chemical weapon attacks by filing paper protests with the Iraqi government, sponsoring a resolution in the UN general assembly, and tightening some export controls on chemical supplies and technology.[16] At the same time, however, the United States continued to provide Iraq with intelligence data on Iranian troop movements and formations, ignoring the fact that such data was being used to optimize the deployment and use of chemical attacks against the Iranians.

It is obvious that from a moral, ethical, or legal perspective, the U.S. position in these policies is an impoverished one. However, in the amoral, *realpolitik* world of international diplomacy, where strategic concerns often take precedence over moral and ethical principles, one might choose to argue that the U.S. position was not necessarily an illogical one. But does such an amoral realist's analysis actually hold true under closer scrutiny in terms of its strategic logic? The key question is this: When George Bush took over from Ronald Reagan, what had happened to the original strategic rationale for engaging Iraq?

In 1988 immediately after the end of the Iran-Iraq War, Saddam, using U.S.-built helicopters, unleashed brutal gas attacks on the Kurds. Approximately 30 villages were gassed with chemical agents that included mustard gas and nerve toxins. Normally the United States would lead the outraged international response to any such act. (One can only imagine the response at the time if the Sandinista government in Nicaragua had gassed the U.S.-supported Contras.) In fact, the Reagan administration did sponsor a resolution in the United Nations condemning the use of chemical weapons, and it tightened some export controls; however, the great majority of all dual-use export licenses were approved by the Reagan administration.[17] While the record clearly shows that the United States refused to pursue a highly confrontational approach (in the form of economic sanctions), there is little evidence that Washington made any serious attempt to alter Saddam's behavior by using any form of leverage that the burgeoning asymmetrical economic ties had created during six years of engagement.

This inaction on the part of the United States is remarkable for a number of reasons. First, economic sanctions had been imposed on Libya simply based on intelligence data showing that the country was developing a chemical weapons program. In contrast, Iraq had not only developed the most extensive chemical weapons program in the Third World, but it had actually used the weapons repeatedly. Yet no sanctions were forthcoming. As noted at the time by Assistant Secretary of State Richard Schifter, Saddam's actions constituted a "consistent pattern of gross violations of internationally recognized human rights," which according to existing law required sanctions.[18] Second, and perhaps more to the point, the geopolitical strategic situation in the region, which drove the original overture to Iraq, had changed by the summer of 1988. The Cold War was at its lowest ebb in years as Gorbachev's *perestroika* and *glasnost* revolution accelerated. This revolution in Soviet behavior was validated that year by the announcement that Soviet troops would begin withdrawing from Afghanistan. In August 1988 Iraq's war with Iran came to an end, with stalemate along the original border being the end result. Thus, both core strategic U.S. goals had been fulfilled: fundamentalism had been geostrategically blocked from spreading from Iran into the oil-rich

Gulf states, and the Soviet military threat was in rapid retreat from the region. If the "ends" or goals of U.S. strategy had been accomplished—why, then, did the Bush administration continue the policy of engagement, vis-à-vis positive incentives, rather than turning to more coercive threats by threatening to cut off Iraq's sole remaining lifeline?

In terms of the logic of engagement, the potential for U.S. leverage over Iraq was quite salient at the time. In 1988 Iraq was mired in debt and in desperate need of foreign capital for reconstruction after 8 years of destructive war with Iran. If the rationale of asymmetrical interdependence that lay at the foundation of U.S. engagement policies was correct, Iraq should have been malleable under any new economic stresses imposed by the United States. Indeed, the war with Iran had cost the country nearly half a trillion dollars in direct and indirect costs.[19] Iraq was behind in its loan payments, with an overall foreign debt of more than $80 billion. Its major economic lifeblood, oil, was a commodity in high supply and lower demand on world markets. In 1980, before the war, Iraq had made $22 billion a year in oil revenues; in 1988, the figure was $11 billion before adjusting for inflation.[20]

The question is, when Saddam used poison gas to lay waste to Kurdish Iraqi citizens, why did the United States put so little pressure on Iraq to change its behavior? This lack of action seems inexplicable when the original policy of building economic ties to gain political leverage over Iraq seemed so ripe for success. If the tools of economic statecraft had been deployed with the goal of making Iraq open to U.S. influence, then those tools could be given meaning and substance only if the United States was willing to put coercive pressure on Iraq when behavioral reciprocity failed to emerge. In retrospect, the preponderance of evidence even at the time made it quite clear that Iraqi behavior had not fundamentally changed. Yet, despite Iraq's ongoing pariah-like behavior, the United States was unwilling to invoke the power of the trade linkages it had intentionally created. Why?

Bridging the Gap in Theory and Practice: Inverse Engagement

The policy of engagement refers to the use of non-coercive means, or positive incentives, by one state to alter the elements of another state's behavior. As such, some scholars have categorized engagement as a form of appeasement.[21] However, I concur with the view articulated by Randall Schweller that, while engagement can be classified in generic terms as a form of appeasement, an important qualitative difference exists between the two: "Engagement is more than appeasement," he says:

> It encompasses any attempt to socialize the dissatisfied power into acceptance of the established order. In practice engagement may be distinguished from other policies not so much by its goals but by its means: it relies on the promise of rewards rather than the threat of punishment to influence the target's behavior. . . . The policy succeeds if such concessions convert the revolutionary state into a status quo power with a stake in the stability of the system. . . . Engagement is most likely to succeed when the established powers are strong enough to mix concessions with credible threats, to use sticks as well as carrots. . . . Otherwise, concessions will signal weakness that emboldens the aggressor to demand more.[22]

Schweller's account provides the basic parameters of how engagement should work in theory, but what can theory tell us about how engagement works in practice? When the "carrots" fail to produce change, can theory help to explain why an established power fails to use the "sticks" mentioned by Schweller? In this case, how can theory help us explain the first Bush administration's ongoing practice of granting non-coercive, positive trade incentives to Iraq in the face of overwhelming evidence, before its invasion of Kuwait, showing that Iraq had not changed its pre-engagement behavioral profile and was continuing to act as a rogue state? In other words, why did the United States not use its significant power over Iraq?

To bridge this gap between theory and practice, I turn again to Keohane and Nye's classic work, *Power and Interdependence:*

> Power can be thought of as the ability of an actor to get others to do something they otherwise would not do (and at an acceptable cost to the actor). . . . When we say that asymmetrical interdependence can be a source of power, we are thinking of power as control over resources, or the potential to affect outcomes. A less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partners. This advantage does not guarantee, however, that the political resources provided by favorable asymmetries in interdependence will lead to similar patterns of control over outcomes.[23]

Clearly, our study of U.S.-Iraq relations is illustrative of a case when a less dependent actor (the United States) is not guaranteed control over outcomes. Why? In order to understand the dynamics of power in an interdependent relationship, Keohane and Nye distinguish two useful concepts: sensitivity and vulnerability. Sensitivity interdependence, "involves degrees of responsiveness within a policy framework—how quickly do changes in one country bring costly changes in another, and how great are the costly effects? It is measured not merely by the volume of flows across borders but also by the costly effects of changes in transactions on societies or governments." The authors characterize vulnerability interdependence as the cost to, and the capabilities of, a state to offset or change any unwanted impacts caused by the actions of its foreign partner.[24] For instance, two countries may be equally sensitive to change in an economic variable, but one might less vulnerable than the other because it has a wider variety of alternatives available to it. To illustrate both concepts, Keohane and Nye use the following pertinent example:

> In petroleum, for instance, what matters is not only the proportion of one's needs that is imported, but the alternatives to imported energy and the costs of pursuing those alternatives. Two countries, each importing 35 percent of their petroleum needs, may seem equally sensitive to price rises; but if one could shift to domestic sources at moderate cost [e.g., the United States], and the other had no alternative [e.g., Japan], the second state would be more vulnerable than the first. The vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that various actors face.[25]

How does this distinction between sensitivity and vulnerability help us understand the relationship between interdependence and power? According, again, to Keohane and Nye:

> Clearly, it indicates that sensitivity interdependence will be less important than vulnerability interdependence in providing power resources to actors. If one actor can reduce its costs by altering its policy, either domestically or internationally, the sensitivity patterns will not be a good guide to power resources.[26]

As shown during the oil shocks of the 1970s, and again most recently in 2000, the U.S. policymaking sphere is highly sensitive to changes in the world price of oil.[27] Because of its own domestic oil production, the United States is less vulnerable than a country like Japan in terms of absolute dependence on foreign sources, but price sensitivity for such products as gasoline and heating oil is similar in the United States and Japan, a sensitivity that invokes policy changes by decisionmakers in the White House. Thus, if Iraq somehow had the power to dictate world oil prices, then the United States would be both sensitive to price increases for petroleum products [28] and vulnerable because of a lack of alternative suppliers, although less vulnerable than countries that rely more heavily than the United States on imported oil. On the flip side, because of its heavy reliance on exported oil as its primary source of state revenue, Iraq's policymaking sphere was also highly attuned to changes in the world crude oil price. If too many producers were pumping too much oil, the global price would drop, and Iraq would suffer.

In terms of vulnerability, by 1990 Iraq's exposure to variations in the global oil market was clearly much higher than that of the United States. The oil shocks of the 1970s driven by the Organization of Petroleum Exporting Countries (OPEC) were followed by efforts by numerous suppliers to increase global production, which resulted in overproduction by the late 1980s. OPEC unity progressively deteriorated as its members blatantly violated production quotas, resulting in an oil glut and low prices that lasted until the beginning of the Gulf War (and resumed thereafter to continue through the 1990s). As a result, by 1990, U.S. vulnerability to any single oil supplier had greatly lessened. With the supply outpacing demand, the United States could acquire oil from a broader assortment of sources than had been contributing to the world market a decade earlier (for example, new sources included the United Kingdom's North Sea operations and new domestic production in Alaska and the Gulf of Mexico), and existing suppliers had all increased production. As an importer, the United States remained vulnerable to the overall supply of oil, but only if major exporters cooperated in cutting production and raising prices. Lacking such cooperation by OPEC and other major exporters, in 1990 the United States was not vulnerable to the actions of any single source-point supplier like Iraq.[29] However, Iraq, which added to the global oversupply problem by pumping as much oil as possible to finance its war debt, could not easily find an alternative customer to replace the level of consumption represented by the United States.[30] Within the U.S.-Iraq trading relationship, the United States might have had incurred some minimal short-term financial costs for replacing its Iraqi oil with oil from other suppliers. But, in comparative economic terms, the costs borne by Iraq would have been significantly higher if Washington had decided to play its economic cards—that is, its asymmetric power within the bilateral interdependency. All other things being equal, in terms of bilateral economic pain and influence, Iraq should have had a lower threshold than the United States, because in 1990 Iraq's weakened economy was much more vulnerable than the U.S. economy to existing conditions in the global oil market.

A similar situation existed in the two other pillars of the bilateral economic relationship, the intertwined areas of agriculture and finance. In an economy that relied on imports to supply 65 to 70 percent of its agricultural commodities, food and the financial ability to pay for it were two critical economic sectors with a high degree of vulnerability for Iraq. By the late 1980s, Iraq had become increasingly dependent on U.S. Government-backed loans that were used to buy agricultural goods produced in the United States. According to data from the U.S. Export-Import Bank, by 1988 Iraq had serious credit problems. Primarily because of Iraq's payment arrears, which totaled over $100 million to Italy, $90 million to France, $65 million to the United Kingdom, $36 million to West Germany, and additional large amounts to Japan, the governments of the industrialized countries were unwilling to extend further loans to Baghdad.[31] Likewise, Iraq had mostly exhausted the huge lines of credit and outright grants of cash that had been extended by its oil-rich but by then cash-strapped Arab neighbors. These Arab countries held approximately half of Iraq's $80 billion in foreign debt. Thus, as noted earlier, the $1 billion in agricultural credits approved in 1990 under the CCC program was exceedingly important to Iraq because it had few options.[32] Thus, having no alternative funding sources if U.S. credits dried up, Iraq was exceedingly vulnerable to any U.S. fiscal actions. In short, in terms of U.S.-Iraq interdependence, Iraq was asymmetrically dependent on the United States for its economic well-being and was of negligible importance to the overall economic well-being of the United States.

If Iraq was highly vulnerable to U.S. power over the core economic areas of oil, food, and finance yet Saddam remained a bad actor, why did the United States not act to assert its economic leverage despite the change in the strategic picture after 1988? Ignorance of Saddam's ongoing behavior by decisionmakers in Washington was certainly not the case. As hinted at previously, the Reagan/Bush policies of uninterrupted economic engagement with Saddam did not proceed without serious internal dissent within the U.S. Government. Inside the administration, the strongest opposition came from the Department of Defense, which (as noted in the earlier Richard Perle example) had argued for years against the shipment of dual-use technologies that could be used in the development of biological, chemical, and nuclear weapons. Dissenting voices were also heard from those within the State Department responsible for monitoring human rights violations. Additional internal resistance was put forward at the sub-Cabinet level and by analysts in the Federal Bureau of Investigation (FBI), the CIA, the Treasury, and the Federal Reserve. On the whole, however, within the upper echelons of the executive branch, any direct challenges to the overall engagement mandate were eventually overridden by Cabinet-level secretaries wielding their most effective lever: the national security directives signed by both President Reagan and President Bush.[33]

A more serious challenge to U.S. policies of engagement with Iraq came from Congress. Under the framework of the Constitution, the executive branch holds the greatest sway in overall matters of foreign policy. Because of its control over the nation's taxation and spending authority, however, Congress can influence any U.S. foreign policy that utilizes financial instruments. Although Congress did not act to condemn Iraq for the gassing of Iranian soldiers on four verified occasions in the mid-1980s,[34] Saddam's gassing of Kurdish civilians in 1988 from American-made helicopters did foment a significant congressional reaction, primarily from the Senate.

In early September the Senate unanimously passed the Prevention of Genocide Act of 1988. In its original form, the legislation called for the following changes in U.S. policy toward Iraq:

- An embargo on all dual-use technology exports.
- The elimination of all CCC and Export-Import Bank credits.
- An embargo on all U.S. imports of Iraqi oil.
- A requirement that all loans to Iraq under consideration in international financial institutions (the International Monetary Fund, the World Bank, etc.) be opposed by the United States.[35]

Liberal and conservative senators alike lent their outspoken support to this assertive legislation. Liberal Democrat Claiborne Pell declared, "Iraq's conduct is a crime against humanity. . . . It must be met with the strongest possible response." His conservative Republican counterpart, Senator Jesse Helms, concurred, stating that the Senate legislation "will help demonstrate to the Iraqi regime just how serious our country views its campaign against the Kurds. In addition, it will help assure that U.S. tax dollars do not subsidize the Iraqis."[36] As members of the Senate saw it, the time had come for exercising whatever leverage the United States held in its relationship with Iraq. However, despite the unanimous support of the Senate, over the course of the next few months, the sanctions bill was systematically watered down, and it eventually died under the heavy influence of both the administration and opponents within the House of Representatives.

The power to influence is a two-way relationship. The key question in this case is "Who is influencing whom?" On the surface, the answer appears simple. By the end of the Iran-Iraq War, the United States had become Iraq's most important international trading partner. Thus the American plan hatched by the Reagan White House for building economic ties had, in fact, worked. However, as noted by Keohane and Nye, "sensitivity interdependence can be social or political as well as economic."[37] While the United States consciously pursued its own diplomatic strategy to engage Baghdad with economic tools of statecraft, Iraq was simultaneously organizing its own political muscle in Washington on the basis of a strategy of *inverse engagement* that targeted the power of interest-group politics within the U.S. political system.

To achieve its own national interest goals, Iraq pressured American businesses and organizations with vested interests in trade to lobby key members of the House. For instance, at the urging of Iraq, the U.S. Chamber of Commerce strongly encouraged Representative Dante Fascell (Chairman of the House Foreign Affairs Committee) to step away from an emotional response to the Iraqi poison gas attacks and to think in terms of the economic cost to Americans if sanctions were imposed.[38] Other pro-Iraq business groups also put pressure on members of the House. One important lobbying group, created in 1985 at the urging of the Iraqi government, was the U.S.-Iraq Business Forum. This group was one of Iraq's major tools of influence inside the U.S. business community, and subsequently it held significant influence inside the American government. At the forum's founding, Iraq Ambassador to the United States Nizar Hamdoon publicly urged corporate executives to join the group, promising that its members would receive preferential treatment in any competitive ventures involving Iraqi government contracts. In addition to a wide assortment of medium-sized and small American businesses, the U.S.-Iraq Business Forum included Fortune 500 companies (AT&T, Bechtel, Caterpillar, and GM), major defense contractors (Bell Helicopter-Textron, Boeing, Lockheed, and United Technologies), and some of the world's largest U.S.-based oil companies (Amoco, Exxon, Mobil, Occidental, Texaco).[39] In aggregate, the membership of the U.S.-Iraq Business Forum represented a significant cross-section of the commanding heights of corporate America.

Implemented through the manipulation of powerful American domestic special interests, Iraq's strategy of inverse engagement is perhaps best illustrated in its oil pricing policies. In its effort to engage Iraq, the United States had gone from importing no Iraqi oil before lifting sanctions in 1982, to importing 126 million barrels in 1988. However, what is most interesting in this exchange is that, despite historically low global oil prices, American oil companies received a $1 per barrel discount on purchases of Iraqi oil, a benefit not shared by non-U.S. companies. Thus, by 1988 Iraq's inverse engagement policy resulted in discount pricing that increased normal American oil company profits on 126 million barrels of oil per year.[40] These companies could have purchased non-Iraqi oil from alternative suppliers; however, they would do so without the $126 million financial "carrot" offered by Saddam's inverse engagement strategy. Thus, despite its severe financial crisis, the Iraqi government was willing to purchase what it perceived as an extra $126 million worth of power and influence with American oil company executives, who in turn would be asked to use their substantial clout inside the Washington beltway.

Was inverse engagement a good policy choice by Iraq? When sanctions for gassing the Kurds were being debated within the U.S. Government, Iraq threatened to turn to other countries in the world market, warning that it would stop payment on over $1 billion in outstanding debt if the United States imposed sanctions. Leading members of the U.S.-Iraq Business Forum and other special interests in Washington then pressured members of the House to kill the sanctions bill. As *New York Times* reporter Elaine Sciolino reported,

> "The special interests got into the act," [Senator] Pell said in a speech on October 21, 1988. Agriculture interests objected to the suspension of taxpayer subsidies for agricultural exports to Iraq; the oil industry protested the oil boycott—although alternative supplies are readily available. Even a chemical company called to inquire how its products might be impacted.[41]

To borrow Harold Lasswell's statement, the Iraqis clearly understood the intricacies of "who gets what, when, and how"[42] in American politics. In order to achieve its foreign policy goals, Iraq demanded that its major trade partners in the private sector pressure key members of Congress as well as the White House to block any proposals for economic sanctions or to act in other ways that harmed Iraq. In terms of economic statecraft, Iraq's inverse engagement was a brilliant tactical approach that used Washington's own erroneously perceived strengths to Iraq's advantage. By specifically targeting congressional political sensitivity to any matters related to trade, domestic employment, and the profit margins of politically active groups, the Iraqis were able to effectively neutralize America's power to exploit the asymmetric economic interdependence that had been created through the policy of engagement. Indeed, as noted above, "Trade is the best key to political influence"; in this case, however, the sentence should read: "Trade is the best key to political influence in the United States, not necessarily in other countries."

Conclusion

It would be a bold and erroneous assertion to claim that a single variable—domestic special interests—fully explains the complexities of U.S. foreign policy in the case of Iraq in the 1980s. However, it does seem clear that the concepts of sensitivity and vulnerability lend credence to the relative weight of this analytical approach, although not precisely in the manner that Keohane and Nye prescribed. In retrospect, it is clear that America's engagement policies, both past and present, are built on the basic theoretical assumption that economic sensitivity and vulnerability in the target state will ensue from any asymmetrical trade linkages that favor the United States. This assumption may be theoretically true in purely economic terms, but it is less relevant (if not erroneous) in terms of practical statecraft, the arena where economics and politics are inextricably linked. In the real-world politics of U.S.-Iraq relations, the political spheres in the United States were highly sensitive to Iraq's counterstrategy of inverse engagement, despite the asymmetrical nature of interdependent U.S.-Iraq economic ties. Here, too, it is clear that international relations theory needs some rethinking. First, it is clear that the more dependent actor (Iraq) held more power to influence policy than the less dependent actor (the United States). Second, Keohane and Nye's assertion that "sensitivity interdependence will be less important than vulnerability interdependence in providing power resources to actors"[43] is challenged by the evidence on the ground in this particular case. American sensitivity to Iraqi-inspired economic threats was greater than Iraq's vulnerability to overall U.S. economic power. As the British military historian Charles Callwell wrote early in the twentieth century, "Theory cannot be accepted as conclusive when practice points the other way."[44]

Therein lies a key conceptual problem of engagement. In thinking about how engagement would work in Iraq, U.S. policymakers failed to fully comprehend the internal dynamics of both sides of the system, both in terms of the Iraqi regime and in terms of the U.S. regime. As a result, perhaps the most important lesson of this chapter is the failure of U.S. foreign policy practitioners to grasp the domestic consequences of their actions at home. In other words, when engaging a foreign power during the critical risk assessment phase, the question should be asked: What impact will policy changes have inside the United States? Iraq did, of course, respond to U.S. engagement initiatives, but not in the way policymakers in the United States hoped it would. Instead of responding as predicted in Washington, the Iraqis designed their own inverse engagement policies to obtain some measure of control over American policy. In the United States, politicians rule on the democratic principle of popular sovereignty; in day-to-day practice, however, American policymaking in both domestic and foreign affairs is heavily influenced by interest-group politics that have little to do with voting by the masses.[45] Domestic special interest groups in the form of oil companies, agribusinesses, labor unions, and industrial conglomerates existed long before the United States embarked on its new policies with Iraq in 1982. However, before the Reagan administration decided to engage Iraq, no significant pro-Iraq special interests existed in the United States, because there were no vested interests in Iraq. Professional umbrella political organizations such as the U.S.-Iraq Business Forum emerged only after engagement of Iraq began in the early 1980s. To use a battlefield metaphor, Iraq's inverse engagement policy was a well-executed flanking maneuver that took advantage of the shifting diplomatic terrain created by the United States.

In thinking broadly about trade politics in general, this domestic-level oversight may not be a critical consideration in relations between democracies, but when an autocracy is involved, all bets are off. Indeed, as this case study suggests, when an economically powerful yet politically sensitive democracy (the United States) is pitted against an economically vulnerable yet politically resilient autocracy (Iraq), the autocracy may achieve undue levels of influence if it is clever enough to follow the Iraqi model and employ an inverse engagement strategy. Thus, if one wished to identify an Achilles' heel of engagement, the answer is not found beyond America's borders but within the nation's constitutional structures and governing order. In rethinking engagement, a keener understanding of, and greater respect for, any given opponent's ends, ways, and means for influencing the U.S. process must be considered seriously by American decisionmakers.

Notes - Chapter 12

An earlier version of this paper appears under the title "Inverse Engagement: Lessons from US-Iraq Relations, 1982-1990," published in *Parameters: U.S. Army War College Quarterly* (Vol. 33, No. 2, Summer 2003), pp. 51-65.

1 William J. Clinton, *A National Security Strategy for a New Century* (Washington: The White House, October 1998). Document appears in appendix of Michael E. Brown, *et al*., eds., *America's Strategic Choices* (rev. ed.; Cambridge, MA: MIT Press, 2000).

2 For instance, see Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945). Thucydides asserts that war between Sparta and Athens was the result of an imbalance of power resulting from Athens' increasing success as an Aegean trading center. Fear of increased Athenian military power that derived from its impressive growth in trade drove Sparta to launch a preemptive strike against its rival.

3 Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (3d. ed.; New York: Addison-Wesley Publishing, 2000), pp. 10-11.

4 See letter from Reagan's chief of Congressional Relations, Kenneth Duberstein, to members of Congress in "Congress and Iraq: A Chronology," *Congressional Quarterly Weekly Report*, 27 April 1992, p. 1,070. Cited in Bruce Jentleson, *With Friends Like These: Reagan-Bush and Saddam, 1982-1990* (New York: Norton Press, 1994), p. 33.

5 Guy Gugliotta, *et al.*, interview with Former Assistant Secretary of Defense Noel Koch, "At War, Iraq Courted U.S. into Economic Embrace," *The Washington Post*, 16 September 1990, p. A34.

6 Jentleson, p. 42.

7 Ibid., p. 46.

8 Ibid., p. 101.

9 Memorandum to file, Assistant U.S. Attorney Gale McKenzie, "Briefing of USDA-OIG by NDGA re: Criminal Investigation of BNL-Atlanta," 16 June 1992, cited in Jentleson, p. 132.

10 Jentleson, p. 45.

11 U.S. Department of State, *Country Reports on Human Rights Practices of 1985* (Washington: U.S. Government Printing Office, 1986).

12 Perle and his deputy, Stephen Bryen, were overruled by Defense Secretary Caspar Weinberger after their views were rejected by Secretary of State George Schultz. See Jentleson, p. 51.

13 Kenneth Timmerman, *The Death Lobby: How the West Armed Iraq* (Boston: Houghton Mifflin, 1991), p. 202.

14 U.S. Department of State Memorandum, "Iraq's Retreat from International Terrorism," cited in Jentleson, pp. 53-55. Abbas was captured by U.S. forces on the outskirts of Baghdad, 15 April 2003.

15 Ibid.

16 U.S. Department of State Memorandum, "Curbing Proliferation of Chemical Weapons," 10 June 1985, cited in Jentleson, p. 76.

17 See Jentleson, pp. 68-93.

18 See Jentleson, p. 92.

19 Elaine Sciolino, *The Outlaw State: Saddam Hussein's Quest for Power and the Gulf Crisis* (New York: John Wiley and Sons, 1991), p. 105.

20 Jentleson, p. 81.

21 See Alexander L. George, *Bridging the Gap* (Washington: U.S. Institute of Peace Press, 1993), pp. 61-70. George is careful to clarify that he is using the term in its classic definition as a conflict resolution strategy, and not in the pejorative sense that is usually equated to appeasement of Hitler in the late 1930s.

22 Randall L. Schweller, "Managing the Rise of Great Powers: History and Theory," in *Engaging China: The Management of an Emerging Power*, Alastair I. Johnston and Robert S. Ross, eds. (London: Routledge, 1999), pp. 14-15.

23 Keohane and Nye, p. 11.

24 Ibid., pp. 12-15.

25 Ibid., p. 15.

26 Ibid.

27 This sensitivity in the policy realm was revealed most recently in September-October 2000 with the Clinton administration's decision to tap 30 million barrels of oil from the strategic petroleum reserve when crude oil prices topped $30 per barrel.

28 This sensitivity was illustrated shortly after Iraq's invasion of Kuwait, when oil prices spiked above $40 per barrel. Prices rose dramatically on fear of a possible Iraqi invasion of Saudi Arabia, the world's largest exporter. Sensitivity and vulnerability in the policy sphere in Washington were manifest in the decision to go to war with Iraq to prevent its control of the world's most concentrated oil resources.

29 Iraq's OPEC quota of 2.73 million barrels per day was not enough to even service the interest payments on its debt when the average price of oil hovered around $16 per barrel. See Christine Moss Helms, "Arab Perspectives on the Gulf Crisis," in *The Persian Gulf Crisis: Power in the Post-Cold War World*, Robert F. Helms and Robert H. Dorff, eds. (Westport, CT: Praeger, 1993), p. 75.

30 For instance, in 1988 the United States purchased $1.6 billion of Iraq's $11 billion in sales, or 15 percent of total Iraqi exports. See Jentleson, pp. 81-82.

31 Export-Import Bank, *Country Report: Iraq*, 24 April 1989, appendices 1-2, cited in Jentleson, p. 81.

32 In documents relating to the scandal involving the foreign bank, Banca Nazionale del Lavoro, the Iraq desk officer from the U.S. Treasury Department indicated that only U.S. and UK export financing sources were available to Iraq. See Jentleson, p. 129.

33 Most important in this regard were Secretary of State George P. Schultz under Reagan and Secretary of State James A. Baker III under Bush.

34 March 1984, April 1985, February-March 1986, April-May 1987. See Anthony Cordesman, "Creating Weapons of Mass Destruction," *Armed Forces Journal,* January/February 1989, p. 56.

35 Jentleson, p. 77.

36 *Congressional Record*, 9 September 1988, pp. S12136-37.

37 Keohane and Nye, p. 12.

38 Letter from William T. Archey, Vice President, International Affairs, U.S. Chamber of Commerce, to House Foreign Affairs Committee Chairman Dante B. Fascell, 15 September 1988, cited in Jentleson, p. 85.

39 Jentleson, p. 84.

40 U.S. Department of Energy, "Petroleum Supply Annual," Energy Information Administration, Office of Oil and Gas, 1981-1990; "Discount Prices on Imports of Iraqi Oil, 1988-1990," document provided by U.S. Congress, House of Representatives, Committee on Energy and Commerce, Sub-committee on Energy and Power; cited in Jentleson, p. 81.

41 Sciolino, p. 171. See also Douglas Waller, "Glass House," *The New Republic*, 5 November 1990, pp. 13-14.

42 Harold Lasswell, *Politics: Who Gets What, When, How* (New York: P. Smith, 1950).

43 Keohane and Nye, p. 15.

44 Charles E. Callwell, *Small Wars: A Tactical Textbook for Imperial Soldiers*, reprint of the 1906 edition (London: Greenhill, 1990), p. 270; cited in Colin S. Gray, *Modern Strategy* (London: Oxford University Press, 1999), p. 4.

45 For the classic critical expression of this analysis, see Theodore Lowi, *The End of Liberalism: The Second Republic of the United States* (2d ed.; New York: W. W. Norton, 1979).