AMERICAN FOREIGN POLICY COUNCIL

‘An Economic Coalition of the Willing’

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By now, it has become all too clear that when it comes to the Iranian nuclear crisis, the ball is squarely in Washington's court.

Aug. 31 has come and gone, and with it the international deadline for Tehran to halt its uranium enrichment. Iran's ayatollahs, however, have shown no signs of curbing their atomic ambitions. "The Iranian nation will not accept for one moment any bullying, invasion and violation of its rights," Iran's radical president, Mahmoud Ahmadinejad, has defiantly told his supporters. In response, the Bush administration has signaled its commitment to seeking punitive measures against the Islamic Republic, sanctions chief among them. In practice, however, Washington has not yet seriously tackled the economic dimension of the current crisis -- or explored the financial levers by which Iran can be confronted.

This amounts to a critical oversight, because Iran's economy is deeply susceptible to foreign pressure on at least three fronts. All that is necessary is the proper political will to exploit these weaknesses.

Iran's first vulnerability is its dependence on foreign investment. Today, though a bona fide energy superpower that produces some 3.9 million barrels of oil daily, the Islamic Republic still requires sustained international engagement. Studies say that the regime in Tehran currently needs $1 billion a year to maintain current oil output levels, and $1.5 billion to increase them -- and that without it, Iran could quickly become a net energy *importer*. To be sure, this sum is just a pittance compared to the dozens of billions of dollars that Iran has reaped over the past several years, thanks to the high price of world oil (as much as $50 billion as of March 2006). But, by complicating the flow of foreign investment into Iran, the U.S. and its allies can force the regime to draw down its hard-currency reserves, reducing the resources that it has available to forge ahead with its nuclear program -- or to fund radicalism in the region.

Iran's second weakness stems from its centralized economic hierarchy. For all of its lip service to fiscal reforms and grass-roots prosperity, the vast majority of the regime's wealth remains concentrated in the hands of a very small number of people. The extended family of former Iranian president Ali Akbar Hashemi Rafsanjani, which practically controls copper mining in Iran, the regime's lucrative pistachio trade, and a number of profitable industrial and export-import businesses, is just one example. Another group of key economic players is the Islamic Republic's sprawling charitable foundations, known as *bonyads*, which control over 30% of Iran's national GDP (and as much as two-thirds of the country's non-oil GDP). By impeding their access to global markets and curtailing their capacity to engage in commerce, the international community can immediately capture the attention of these key decision-makers.

Far and away the biggest chink in Iran's economic armor, however, is its reliance on foreign gasoline. Today, Iran's antiquated, socialist economy -- where a gallon of gas still sells for roughly 40 cents -- has become a major Achilles' heel. Iran now consumes over 64.5 million liters of gasoline a day, with close to 40% coming from foreign sources (among them India, France, Turkey and the Gulf states). This energy habit is expensive; Iran will spend over $3 billion -- and perhaps as much as $8 billion -- on gasoline imports this year alone. And, with just a 45-day domestic supply available, steady supplies from abroad are vital to the continued functioning of the regime. All of which suggests that a comprehensive gas embargo on the Islamic Republic could quickly wreak havoc on Iran's industrial sectors -- and, potentially, galvanize serious social unrest on the Iranian street as well.

But the West's window of opportunity to implement such measures is rapidly closing. Already, Iran has begun to make serious economic countermoves, transferring financial assets from Europe to China and Southeast Asia and initiating a large-scale privatization of governmental funds. Most significant of all, the Iranian regime recently approved a new fiscal budget that calls for a halt to gasoline imports and the institution of gasoline rationing beginning this fall. The aim of these efforts is crystal clear: to proactively limit potential economic leverage over its behavior.

Sadly, international diplomacy so far has played directly into Iran's hands. In the best case, serious U.N. Security Council action will still take weeks or months to materialize, buying Iran's ayatollahs valuable time to forge ahead with their nuclear program. What's more, if and when they do eventually emerge, U.N. sanctions are guaranteed to be limited in scope, so as not to offend two of Iran's chief strategic partners, Russia and China. As such, they are not likely to offend Iran's ayatollahs much either.

By hitching itself to this flawed policy, the Bush administration is courting disaster. Instead of relying on the United Nations, the White House should be thinking creatively about another sort of grouping -- an economic "coalition of the willing" capable of implementing the specific financial levers that are most likely to alter Iranian behavior, and of doing so without further delay.

The stakes could not be any higher. If the U.S. and its international allies fail to promptly use their existing economic leverage to curb Iran's nuclear ambitions, they will soon have just two choices: to acquiesce to the emergence of an atomic Iran, or to use military force to prevent it from happening.