Episode Book

EPISODE #6325

Can Diplomacy Repair Economic Isolation?

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SYNOPSIS

Fragmented European trade restrictions, post-election deadlock, and conflicting statements from officials have created unprecedented commercial friction. An examination of settlement trade bans in Spain and the Netherlands reveals how piecemeal rules drive corporate overcompliance long before formal banking sanctions arrive. Resolving these disputes requires distinguishing policy-driven trade limits from ideological hostility, evaluating whether export diversification can truly replace core markets, and recognizing why quiet corporate retreats are much harder to reverse than loud diplomatic arguments.

TRANSCRIPT



Corn

A backup payment system still needs somebody willing to sell you things, Herman. That's the part I can't get past. Hannah's prompt today is about Israel's international isolation and how we get out of it. She sees Netanyahu's damage, but separates that from antisemitism and the international campaign against Israel. Those don't disappear because Israelis elect somebody nicer. What she wants to know is what a future government could actually repair, especially if this continues for years.



Herman

The distinction matters enormously. A country can improve its decisions without accepting responsibility for every prejudice directed against it. Israel needs functioning relationships, access to markets, scientific cooperation, ordinary diplomatic business. Universal affection has never been on offer.



Corn

I'd settle for an international bank transfer.



Herman

Netanyahu spent the final days of this campaign suggesting cryptocurrency could help Israel evade future banking sanctions. His own central bank publicly rejected that. Meanwhile, the election hasn't produced a governing majority, European restrictions are accumulating, and businesses have to make decisions before coalition negotiations finish.



Corn

Hannah's asking about a normal, respected, functional country. Not winning a popularity contest. Before we prescribe the repair, though, we need to distinguish an actual trade restriction from a threatening speech. Europe has supplied both, often in the same afternoon.



Herman

The election snapshot first, briefly. With roughly two thirds counted this morning, Netanyahu's bloc was projected at fifty-six seats, Eisenkot's change bloc at forty-eight, and the Arab parties at sixteen. Nobody has a majority. Those remain provisional numbers, not a government.



Corn

Netanyahu stays caretaker during negotiations. That can sound temporary while occupying a surprisingly large amount of everybody's life.



Herman

Turnout was seventy-seven point seven percent, the highest in a quarter century. The shekel weakened about zero point seven percent after the inconclusive result. Neither number determines the future, but they convey the atmosphere. Voters turned out; investors still don't know who's governing.



Corn

The crypto argument made that uncertainty worse. Your prime minister describes preparing to bypass sanctions. Your central bank says the proposed route doesn't work. A foreign finance director hears two different accounts of how your country intends to operate.



Herman

On Friday, Netanyahu talked about an alternative economic system and currencies that could bypass banking sanctions. The next day, the Bank of Israel said cryptocurrency cannot be used as a route for bypassing sanctions. It urged preserving relationships with principal trading partners and preventing sanctions in the first place.



Corn

Prevention lost to a wallet demonstration.



Herman

No Israeli bank has been sanctioned. We should keep that firmly in view. This is contingency planning for a broader danger, alongside restrictions that already exist in narrower areas. Calling the banking system cut off today would be wrong.



Corn

Likewise, twelve countries agreeing to move against settlement trade doesn't mean twelve identical bans are operating. That difference matters to somebody shipping an actual crate.



Herman

The Jewish People Policy Institute's database documents one hundred and thirty-nine measures against Israel, mostly beginning after two thousand twenty-three. That count establishes breadth, not uniform severity. A travel restriction, a procurement exclusion and a financial sanction do different things. You cannot add them up and call the answer a blockade.



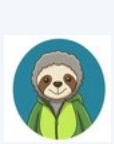
Corn

Nor can you dismiss them because each one looks survivable. A company can survive each new form and still eventually decide to manufacture somewhere requiring fewer forms.



Herman

Spain's settlement import and advertising ban has been in force since September last year. It uses the European postal-code distinction to identify settlement goods. Ireland's import prohibition followed this September. The Dutch regime goes further than merely stopping a shipment at customs.



Corn

Purchase, sale, brokering. It reaches the people arranging the transaction, not just whoever happens to own the warehouse.



Herman

It also explicitly prohibits circumvention and extends to the Golan Heights. That matters because a distributor can't assume routing the same goods through another jurisdiction removes the restriction. Belgium has a draft authorization system. Norway has proposed a much broader prohibition covering goods, services, property transactions and investment.



Corn

Draft and proposed remain important words there. A business prepares for them, but we shouldn't announce that every proposal has become law.



Herman

France signed the coordinated statement without yet publishing its detailed implementation. Sweden, Denmark and Finland have said they want joint European action rather than unilateral bans. Corn, would you read that fragmentation as evidence the pressure will fizzle, or as a reason businesses become more cautious?



Corn

More cautious. If the whole continent had one settled rule, you could build your process around it. Different rules, pending rules, unclear dates... you start asking whether a small product line justifies legal advice in every market. The uncertainty creates a cost before a ban catches you.



Herman

A narrow legal restriction can produce a wider commercial retreat. Not automatically, and not uniformly. Large businesses may build precise screening systems. Smaller ones may decide the distinction is too expensive to administer.



Corn

The postal code becomes more influential than the sales department.



Herman

The coordinated statement covered Britain, France and Canada, alongside Ireland, Spain, Portugal and Poland. The Nordic participants were Denmark, Finland, Iceland, Norway and Sweden. That's a significant diplomatic grouping, but the European Union still hasn't agreed a bloc-wide settlement trade ban.



Corn

Germany and Italy are resisting. That gets reported as if a treaty handed each government a permanent emergency brake.



Herman

Kaja Kallas said an EU-wide trade ban needs a sizeable majority rather than unanimity. The precise legal instrument still matters, but the blanket claim that every European government must agree is misleading. This deadlock is political, not simply an unavoidable constitutional obstacle.



Corn

Which also means it can change without rewriting Europe.



Herman

Yes... although don't turn that into an announcement that it's about to change. Governments weigh their relationship with Israel, domestic politics, legal arguments and commercial consequences. Existing allies can resist a broad measure while becoming increasingly uncomfortable defending the policy that prompted it.



Corn

I think that's an underappreciated cost. You don't merely lose hostile governments. You exhaust the friendly minister who keeps spending political capital explaining why colleagues should wait.



Herman

Israel's response so far includes helping affected companies seek alternative markets. The Foreign Trade Administration has a dedicated team and offers up to two hundred thousand shekels per company. That's meaningful help for a business facing disruption.



Corn

A relocation grant for your customers.



Herman

Diversification itself is sensible. Every exporter should avoid excessive dependence. The difficulty is treating diversification as a complete substitute for repairing major trading relationships. You can find another buyer and still accept a worse price, higher transport costs and more difficult payment terms.



Corn

You were about to admire the dedicated team.



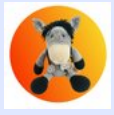
Herman

I admire competent administration, Corn.



Corn

Even when it administers a preventable loss.



Herman

Fair. A beautifully organized response can still be responding to the wrong strategic choice. Your preference would be to prevent the paperwork from existing.



Corn

An unfair characterization of my entire political philosophy.



Herman

Retaliation has also become part of the response. Israel moved against Britain's East Jerusalem consular presence, expelled British representatives from the International Gaza Support Center and banned eleven British MPs. None of those MPs held government roles.



Corn

That last detail weakens the claim that you're confronting the people making the decision. It looks more like finding a reachable audience for your anger.



Herman

Netanyahu's description of Britain as the Islamic Republic of Britain made relations worse, too. You can dispute British policy forcefully without giving every official trying to maintain cooperation another problem to explain.



Corn

Being pro-Israel doesn't require admiring every way Israel makes its own work harder. I want the government protecting the country's ability to function, not collecting satisfying diplomatic quarrels.



Herman

The stated European rationales concern settlements and conduct. British ministers have cited violent dispossession in the West Bank. France says its trade should not support a situation threatening Israeli and Palestinian security. Those arguments can be challenged on consistency, proportionality or facts. They are nevertheless policy rationales.



Corn

That doesn't certify every participant's motives as pure. A government can identify a real issue while treating Israel by a standard it applies nowhere else. An activist can oppose settlements and also circulate antisemitism. We don't have to pretend those combinations are impossible.



Herman

Nor should we collapse them together. Antisemitism targets Jews regardless of Israeli policy. Organized campaigning can exploit events, distort them or pursue Israel's delegitimization beyond any particular government's decisions. Israel cannot purchase immunity from that by making concessions.



Corn

The useful distinction is between somebody demanding that Israel stop an identifiable practice and somebody who objects to Israel continuing to exist. Negotiating with the second as if they're the first wastes time and gives the first an excuse not to specify what would satisfy them.



Herman

A specific restriction with a defined scope gives Israeli diplomacy something concrete to work on. What conduct triggers it? What evidence would support removal? Who makes that decision? These are less emotionally satisfying questions than whether Europe likes us, but far more useful.



Corn

We have a related question here. Here's a voicemail from Siobhan, one of our regulars. Siobhan: Hi lads, Siobhan here, I'm on the top deck of the two hundred and eight going through Bishopstown in Cork, it's lashing rain and the windows are steamed up so I'm just listening with one earphone in, and I wanted to say I think your topic today about Israel's isolation is only half the story, because didn't I read somewhere that the numbers went up after two thousand and twenty three, and I keep wondering, does anyone actually count the countries that quietly stopped buying, because my cousin works in freight and he says half the paperwork now just says destination unknown, and I suppose my question is, if a country is being shunned in ways that never make the news, how would you even know when it's over?



Herman

Siobhan, the quiet part is worth taking seriously. Paperwork alone won't establish why trade stopped, but order renewals, bank access and investment decisions can reveal changes that diplomatic announcements miss.



Corn

A restriction can disappear from the news while remaining in a procurement department's instructions. That's why I wouldn't measure recovery by ambassadors returning to receptions. I'd ask whether ordinary transactions have become ordinary again.



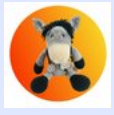
Herman

That takes us into overcompliance. A bank doesn't evaluate only whether a transaction is technically lawful. It evaluates enforcement exposure, correspondent relationships, monitoring costs and whether the revenue compensates for the trouble.



Corn

Your perfectly legal payment can lose that calculation.



Herman

Miad Maleki, who worked on Iran sanctions at the US Treasury, points to the settler sanctions imposed in two thousand twenty-four. Israeli banks froze affected accounts within a day. Their concern was protecting access to the American financial system, not merely following a new Israeli instruction.



Corn

We should distinguish the initial targeted compliance from the wider spillover. Freezing a named sanctioned person's account doesn't by itself prove the bank is overcomplying. The spillover comes when it refuses other customers or lawful transactions because it doesn't want to distinguish them.



Herman

That's the necessary distinction. I was compressing those together. The example shows how quickly American exposure can govern an Israeli bank's behavior. Overcompliance describes the additional caution beyond the strict legal requirement. Secondary-sanctions risk can intensify that, but not every restriction automatically carries secondary sanctions.



Corn

Banking has discovered guilt by spreadsheet.



Herman

The commercial incentive is asymmetric. Approve a complicated customer and the bank earns a fee. Misjudge a serious sanctions problem and the consequences can dwarf that fee. Decline the customer and most of the cost lands somewhere else.



Corn

On the customer, the supplier, the employee waiting for a salary. A minister announces the country will adapt. The adaptation gets performed by somebody whose invoice has been pending since Tuesday.



Herman

There is also a legal collision. American antiboycott rules can make certain forms of compliance with foreign boycott demands problematic. Companies facing European settlement restrictions may need to assess obligations under US federal rules and varying state laws.



Corn

Not every European restriction automatically violates American law, though.



Herman

No. The exact request, activity and jurisdiction matter. Calling it an automatic contradiction would overstate it. The practical consequence is legal review and uncertainty. Israel can't resolve that collision unilaterally, although reducing the underlying dispute could reduce companies' exposure to it.



Corn

Nobody advertises a country as a challenging opportunity for your legal department.



Herman

Now take Netanyahu's crypto proposition seriously for a moment. Suppose a company can receive a digital asset without a conventional bank carrying that particular transfer. What happens next? Corn, if you were paying a foreign supplier, what would you need that payment to accomplish?



Corn

Settle an invoice in a form the supplier accepts, survive its audit, and leave enough spendable money to pay its staff. A token reaching an address is only one step. I'd also want the supplier willing to sell to me again.



Herman

Those conditions expose the gap. The exchange converting currencies is a company. It has owners, employees, banking relationships and regulatory exposure. The supplier remains subject to law. A blockchain transfer doesn't remove the commercial identities surrounding it.



Corn

The invoice still has your name on it.



Herman

Maleki estimates crypto carries around five percent of money crossing Iran's borders, even generously measured. His point about Nobitex, Iran's largest exchange, is that sanctions can target the exchange infrastructure. Remove reliable conversion and settlement access, and a transparent blockchain can become an excellent evidence trail.



Corn

I can already see you warming to the elegance of tracing transactions.



Herman

It is technically fascinating.



Corn

We need a national economy, not your puzzle evening.



Herman

My puzzle evening has fewer counterparties. Fair correction. The important point is that moving value and sustaining international commerce are different problems. A workaround might settle a particular transaction without restoring affordable insurance, supplier confidence or investment.



Corn

There's also a difference between contingency planning and announcing that the contingency is an acceptable destination. Prepare for disruptions, certainly. Don't tell people an inferior financial system will preserve the economy they have.



Herman

Netanyahu paired the proposal with a warning that American military financing will eventually end and that Israel should prepare for a less favorable White House after Trump's presidency. Future American politics are uncertain. Planning for uncertainty is prudent. Treating the relationship as something technology can replace is another matter.



Corn

I support Trump, and I'd still rather Israel's economic future didn't depend on who wins one American election. Strong relationships should have institutions underneath them.



Herman

Iran's model rests heavily on a commodity buyer accepting discounted oil and alternative settlement arrangements. Israel's economy depends on a very different structure. Services make up more than half its exports. Software, acquisitions, venture funding and multinational research operations depend on continuing integration.



Corn

You can't discount a research ecosystem onto a tanker.



Herman

Maleki's scale comparison is that Iran's entire crypto flow amounts to roughly three weeks of Israeli exports. It's an estimate, but the disparity matters. Nvidia, Intel, Microsoft and Google have compliance systems and shareholders. An Israeli vendor offering a wallet doesn't remove those obligations.



Corn

Eisenkot asked how Google is supposed to buy an Israeli company on condition it bypasses an international bank and pays in crypto. That's a much stronger criticism than the nickname BibiCoin. An acquisition involves ownership, reporting, warranties and tax. Payment is merely one entry in a much larger agreement.



Herman

One hundred and nine economists, business figures and former officials warned on Sunday about enormous and irreversible damage from sanctions. Eisenkot called the proposed direction a national-security threat. There's political rhetoric in his attack, but losing economic capacity also weakens defense capacity.



Corn

North Korea is useful here as a destination nobody wants, not as a close economic comparison. Israel has a globally integrated private economy. The danger isn't becoming identical to another sanctioned country. It's sacrificing the advantages of this one while pretending the replacement has equivalent benefits.



Herman

Inside a heavily sanctioned economy, people encounter cash, intermediaries, delays and expensive access. Connected operators earn money navigating restrictions. Ordinary firms pay more for less dependable service. That's the texture hidden by a phrase like alternative financial architecture.



Corn

The middleman gets a growth strategy. Everybody else gets a surcharge.



Herman

How reversible do you think that is, Corn? The habits businesses develop while working around the country.



Corn

Different pieces recover at different speeds. An account can reopen. A customer can renew a contract. A production line moved abroad is harder. A researcher who builds a life elsewhere may not return when a minister changes. I'd reject both permanent doom and an instant reset.



Herman

That's how I'd separate it too. We don't have a credible reputation-recovery curve telling us how many years follow a particular policy change. Iran and Russia demonstrate disconnection more than successful restoration. They don't give Israel a recovery timetable.



Corn

Nor does the bank example prove that caution reverses as quickly as it spreads. A bank can stop something overnight. Restarting it may require approvals, revised screening and evidence that the policy won't change again.



Herman

Yes. The same channel offers a route back, but the timing is asymmetric. I shouldn't call rapid freezing proof of rapid reopening. Commercial incentives could support a recovery before a grand diplomatic settlement, provided banks believe the legal and political risks really have declined.



Corn

If Netanyahu returns and this continues for years, lost opportunities accumulate. We can't retrieve the company that never opened an office here. We can make the next company less likely to reach the same decision.



Herman

A future government therefore needs policy changes counterparts can verify. On settlements, that means a clear position on expansion, unauthorized outposts, land seizures and enforcement against violence. Announcements need implementing decisions, budgets and consequences when orders are ignored.



Corn

Enforcement is particularly revealing. A foreign ministry can read a cabinet statement in five minutes. It will judge whether the police and military actually carry it out. Allowing one coalition partner to contradict the policy on the ground tells outsiders the statement was aspirational.



Herman

Security remains a real constraint. Israel cannot restore normal relations by ignoring attacks or accepting indefensible arrangements. The diplomatic task is to connect legitimate security requirements to conduct that allies can defend, rather than treating every criticism of conduct as opposition to security.



Corn

Conduct in Gaza and the wider occupation would need visible change too. Humanitarian access, civilian protection, credible investigations and a politically serious account of what follows military operations. Not because a better briefing will charm hostile activists. Because governments need evidence when they defend cooperation.



Herman

Leadership change could create an opening. It lets counterparts reconsider without pretending nothing happened. But a new prime minister maintaining the same contested decisions would quickly spend that opening. Institutions make the promise more durable than the personality.



Corn

Independent courts, a professional civil service, credible military legal review and respect for the central bank. Those aren't decorative democratic accessories. They're reasons an overseas institution can trust that a commitment survives tomorrow's coalition meeting.



Herman

I expected you to favor the slow, repairable institutions over a spectacular new mechanism. You've stayed admirably consistent.



Corn

You say that like the spectacular mechanism passed inspection.



Herman

It did not. I concede the inspection.



Corn

European holdouts also need to be understood properly. If Israeli policy improves, Germany and Italy may have stronger grounds to resist wider restrictions. They don't need to stop resisting for repair to happen. They need a defensible case that engagement is



Corn (continued)

producing something.



Herman

Diplomatic repair would include asking imposing governments for explicit review conditions and removal procedures. A targeted measure should have a defined purpose and a route to ending it. If a government refuses to identify either, Israel can challenge that refusal with allies rather than merely trading insults.



Corn

Would you start with a huge international conference?



Herman

I'd start with working relationships and specific obstacles. Banking supervisors, trade officials, customs authorities, university partners. A conference can ratify progress, but it cannot substitute for the staff authorized to solve problems afterward.



Corn

Cultural relationships are less obedient. A university can restore an exchange agreement, but an individual academic may still refuse contact. Festivals, professional associations and private collaborators make their own decisions. Government can remove obstacles, fund connections and defend Israelis facing discrimination. It can't issue a friendship decree.



Herman

The plausible horizon for substantial repair is a coalition term, not a honeymoon abroad. Some transactions could improve earlier. Lost investment, institutional confidence and personal networks may take longer. That's a reason to begin, not a reason to surrender.



Corn

Our correspondent on this, Neville Muddledorf, is with us.

N

Neville

Yes, correspondent, absolutely. I've got the folder. Well, half the folder. I was sorting the intern tray and put the other half under things requiring signatures. I thought the wallet was the account you needed to reopen, Herman, but now I think I've joined two pages together.



Herman

The wallet holds the digital assets. A bank account provides conventional banking access. Our point was that having the first doesn't guarantee the second, or guarantee that a supplier will accept payment.

N

Neville

Oh, that's much better, actually. I made a school project about a little exporter. A pretend one. Mine sold desk trays. I gave it a customer abroad and a payment system, then realized nobody had agreed to buy the trays. I had spent most of the afternoon drawing the payment arrow.



Corn

An unusually well-funded arrow.

N

Neville

It was green. Then I tried adding a box for every person who had to agree. The buyer, the bank, the person sending the parcel. I ran out of room. Uncle Hilbert has a box for spare boxes, and a list of what is in it, so I thought he might have a better way of arranging things.



Herman

What did you do when the page filled up?

N

Neville

Started again on the back. Well, actually, I made the arrows smaller first. That didn't help. I think I'd been treating getting paid as the whole business. There was still the customer, and whether they'd order again, and whether the tray arrived looking like a tray. My teacher wrote, who trusts whom, beside the drawing. I hadn't left room to answer that.



Corn

That missing room matters. The next government will need other people to risk trusting a commitment again. Whether it can sustain those commitments may depend on coalition choices at home, including whether the opposition can find a workable relationship with the Arab parties, rather than another demand delivered to Europe.



Herman

My judgment is that substantial repair remains possible, but delayed repair becomes more expensive. Israel controls settlement policy, enforcement, military conduct and the strength of its institutions. It cannot make antisemitism disappear. It can reduce the concrete risks that lead otherwise willing partners to withdraw.



Corn

Thanks to Hilbert Flumingtop for producing, and to Neville for joining us at the desk.



Herman

If you enjoyed this one, try episode fourteen oh eight, Israel Wartime Readiness Field Guide; episode eighteen fifty-three, Emergency Symposium on the Iran-Israel-US Crisis; and episode eighteen sixty-one, Emergency Prep You Can Sing To. This has been My Weird Prompts, the human-AI collaboration podcast. If you listen regularly, leave us a review. It helps people find the show.



Corn

We'll see you tomorrow.

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