Back to the Future: The Return of U.S. Sanctions, their Economic Impact, and Iran’s Response
Contents

1. What are economic sanctions?
   Success / failure factors
2. History of economic sanctions against Iran / JCPOA
3. US reinstatement of sanctions in Nov 2018
4. Impact of Sanctions
5. Iran’s potential response
What are economic sanctions?

“Economic sanctions are the deliberate government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations.”*

U.S. Sanctions apply to all persons subject to the jurisdiction of the U.S.

**US Person**
- US citizen or permanent resident wherever located
- Anyone physically present in the US
- US corporations, partnerships, associations, including their non-US branches
- Also covers activities of non-US persons

*Hufbauer
Key message of economic sanctions

To target country:

*We do not approve of your actions*

To allies:

*We mean what we say*

To domestic audiences:

*We are protecting our nation’s interests and our values*
Economic Sanctions

Types of Sanctions:
- Export
- Import
- Financial
  - Loans, Banking
  - Asset Freeze
- Primary sanctions
- Secondary sanctions

Goals of Sanctions:
- Deterrence
- Asserting leadership
- Regime change
- Compensation for nationalized property
- Domestic political support
Primary Sanctions

Prohibits “US persons” from conducting any business transactions with Iran

Example: US oil and banking sanctions against Iran
Secondary Sanctions

Warns “third parties” to stop commercial dealings with Iran or lose the commercial relationship with US entities.

Example: Secondary Sanctions warned financial institutions in other countries: either stop transactions with Iran or lose access to the US financial system.
Economic sanctions: Success Factors

- Economic size and trade size
- Type and combination of sanctions used “Carrot and Stick”
- International support
- Duration of sanctions
- Target country’s:
  - Government--democracy or autocracy
  - Economic health and political stability
Economic Sanctions: Failure Factors

Sanctions:

- may unify the target country behind their leadership
- May prompt adversaries to assume the role of “savior” and support the target country
- May alienate allies and certain domestic businesses
- may not be adequate
US Sanctions:
- 1979 – Hostage crisis
- 1984 – Support for Hezbollah
- 1992 – Weapons development
- 1995 – Trade
- 2001 – Asset freezes/travel bans
- 2007 – IRGC for destabilizing Iraq
- 2009 – IRGC for human rights violations
- 2010 – CISADA
- 2011 – IRGC for interfering in Syria
- **2012 – Obama’s Executive Orders**
  - Leveraged CISADA* and expanded sanctions
  - Oil and petrochemicals
  - Technology
  - Blocked Iran’s access to international financial system

UN Sanctions:
- 2006-2008 -- Noncompliant with IAEA nuclear safeguards; embargo on nuclear-related materials; blocked financial assistance
  - **2010 – UN Security Council Resolution 1929 supported by all allies, Russia and China**
    -- Oil restrictions; banking (CBI) and financial sector

EU Sanctions:
- 2007 – Asset Freeze for Nuclear and missiles production
- 2010 – financial/banking; trade
  - **2012 – Oil/petrochemical imports; shipping insurance; CBI asset freeze**

CBI: Central Bank of Iran

---

* CISADA: Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010
Economic sanctions will be more effective if the target country is dependent on industrial imports and has no strategic exports.
Effectiveness of economic sanctions: a few examples

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberia</td>
<td>1979-2010</td>
<td>Somewhat effective</td>
</tr>
<tr>
<td>IRAN</td>
<td>2012-2015</td>
<td>Highly effective</td>
</tr>
<tr>
<td>North Korea</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>China</td>
<td>Low</td>
<td>Highly effective</td>
</tr>
</tbody>
</table>
Advancement of science and technology, self sufficiency, and production of strategic goods create more immunity to economic sanctions.
Iran Nuclear Deal

- Also known as *Joint comprehensive Plan of Action (JCPOA)*
- A product of sanctions and intense diplomacy
- Made Iran compliant in nuclear area
- Group of 5 + 1 allowed Iran to once again trade oil internationally
- Made sanctions subject to snapback for 10 years

Sanctions remaining:
- Ballistic missiles
- Support for US-designated terrorist groups
- Human rights
- Financial transactions restrictions
Factors that made 2012-2015 Iran Sanctions very effective

One other key factor that, in conjunction with sanctions, led to JCPOA Agreement was intensive diplomacy between Iran and the other parties, especially the United States.
President Trump’s *unilateral* withdrawal from JCPOA has somewhat reduced effectiveness of US sanctions against Iran.

Unlike JCPOA, what seems to be absent from the 2018 reinstatement of sanctions is lack of ongoing dialogue between the United States and Iran.
## 2012 vs. 2018: Is Iran in a better position to weather sanctions?

<table>
<thead>
<tr>
<th>2012</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Popular policies/Subsidy</td>
<td>Reformist policies</td>
</tr>
<tr>
<td>Unemployment 14%</td>
<td>Subsidized food prices</td>
</tr>
<tr>
<td>Inflation 30%</td>
<td>Unemployment 11%</td>
</tr>
<tr>
<td>Foreign exchange Reserves $110B</td>
<td>Inflation 10% - 30%</td>
</tr>
<tr>
<td></td>
<td>Foreign exchange Reserves $130B</td>
</tr>
<tr>
<td></td>
<td>More Support for domestic products</td>
</tr>
<tr>
<td></td>
<td>Increased non-oil exports</td>
</tr>
<tr>
<td></td>
<td>Willingness to implement banking reforms</td>
</tr>
<tr>
<td></td>
<td>Refine oil products domestically</td>
</tr>
<tr>
<td></td>
<td>Greater unity</td>
</tr>
</tbody>
</table>
Despite a weaker impact, reinstatement of US sanctions will still take a heavy toll on Iran’s economy.

**OPPORTUNITIES**
- Increased Innovation
- Import Substitution

**CHALLENGES**

**Direct Impacts:**
- Intern’l Payments
- Depreciated Currency
- High Interest Rates
- Uncertainty/Lower Investment

**Indirect Impacts:**
- Lower Gov Spending
- Black Market/High Costs
- Exporters Loss of Market Share
- Technology knowledge Exchange

**Other Impacts:**
- Inflation
- Negative Growth
- Unemployment
- Poverty
- Inequality

Legend:
- **Positive Impact**
- **Negative Impact**
2012-2015 economic experience may provide insights into what Iran should expect under Trump’s sanctions.

2012-2015 economic sanctions contributed to increased poverty rate and more inequality.

Source: World Bank, Fall 2018
**2012-2015 Economic Sanctions**

Poverty rates varied across provinces, with Sistan-Baluchestan, Kerman and Golestan experiencing the highest poverty rates (32%).

<table>
<thead>
<tr>
<th>Region</th>
<th>Poverty</th>
<th>Lower bound</th>
<th>Upper bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Gilan, Mazandaran, Golestan, Semnan)</td>
<td>9%</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>2 (E. Azarbayjan, W. Azarbayjan, Ardebil, Kordestan)</td>
<td>8%</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>3 (Hamedan, Kermanshah, Lorestan, Ilam)</td>
<td>6%</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>4 (Esfahan, Chaharmahal &amp; Bakhtiyari, Khuzestan)</td>
<td>8%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>5 (Fars, Bushehr, Kohgiluyeh &amp; Boyerahmad)</td>
<td>7%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>6 (Tehran, Qom, Alborz)</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>7 (Zanjan, Qazvin, Markazi)</td>
<td>6%</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>8 (Yazd, Kerman, Sistan &amp; Baluchestan, Hormozgan)</td>
<td>34%</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>9 (S. Khorasan, Khorasan-e-Razavi, N. Khorasan)</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
</tr>
</tbody>
</table>

_Tehran, Qom and Alborz experienced the lowest poverty rates (2%)_

Source: World Bank, Fall 2018
Groups most affected by poverty

**Households:**
- with more children
- headed by younger adults
- With head of household unemployed

**Provinces with less urban population**
- Impact more severe for rural households
- 18% of rural population with an employed head of household below poverty line
Rouhani’s strategy to counter US economic sanctions

- Resistance Economy
- Oil export to eight exempted countries
- Accelerate bank reforms and FATF compliance
- Austerity measures
- Leverage EU’s Special Purpose Vehicle
- Subsidize basic food prices
- Use foreign exchange reserves wisely
- Support science and technology R&D

- Increase non-oil exports by:
  - providing support for technology-oriented exports
  - leveraging Iran Expo to promote Iranian products
  - Use small- and medium-sized firms for trade
Trump violates the Iran nuclear treaty, thereby creating winners & losers:

American hardliners | Iranian hardliners | European allies

Winners | Losers

Peace
Are the benefits of economic sanctions worth the cost?
References (1)


**Multilateral Versus Unilateral Sanctions Reconsidered: A Test Using New Data**, Bapat, Navin A. (University of North Carolina – Chapel Hill); Morgan, T. Clifton (Rice University), Harvard Dataverse; 2018


IMF Country Report No. 18/94, Islamic Republic of Iran, Selected Issues, March 2018

Iran Economic Monitor, Weathering Economic Challenges, world Bank Group, Fall 2018,

References


Fact Sheet: Sanctions Related to Iran, The White House, Office of the Press Secretary, For Immediate Release, July 31, 2012

Post-withdrawal Iran, Clément Therme, (2018) Post-withdrawal Iran, Survival, 60:6, 231-240,

CISADA, COMPREHENSIVE IRAN SANCTIONS, ACCOUNTABILITY, AND DIVESTMENT ACT OF 2010

Iran Joint Comprehensive Plan of Action (JCPOA), US department of State, 07/14/15

Various periodical Articles