

## Sanctioning Iran: If Only It Were So Simple

For U.S. policymakers, the Islamic Republic of Iran continues to pose a dilemma because of the unpredictability of the problem on one hand, and the invariability of available U.S. policy instruments on the other. While the Iranian threat has been perennial, Tehran's internal political dynamics and its external conduct have evolved considerably, and unexpectedly. Although Iran's challenge has grown more complicated over the years, the landscape of U.S. policy options has remained consistent—and frustratingly limited—for most of the past three decades.

The Obama administration came into office determined to chart a new course on Iran, only to find itself quickly confronted with this same old quandary when the ground shifted suddenly and dramatically. The epic upheaval that followed Iran's June 2009 presidential election did not formally derail the new administration's diplomacy toward Tehran, but it surely shattered any expectations for quickly and durably ending the estrangement or resolving the increasingly urgent international concerns about Iran's nuclear ambitions.

In the wake of Iran's internal unrest, the U.S. policy debate has reverted to the familiar formula of carrot-and-stick, with a distinct emphasis on the latter. Although diplomacy remains the U.S. default position, at least through December 2009, the U.S. discourse has largely presumed its failure and leapfrogged to focus on prospects for new punitive measures to pressure Iran into abandoning the more worrisome elements of its nuclear infrastructure. Even as the first round of nuclear negotiations produced a tentative—and later rescinded—Iranian confidence-building measure on addressing Western concerns about Iran's nuclear capability, congressional committees busied themselves developing a new round of unilateral measures

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against Iran, including measures to restrict sales of refined petroleum products. The new U.S. consensus on Iran favors economic sanctions, preferably “crippling” measures that target Iran’s purported Achilles’ heel, primarily as a means of derailing an Iranian nuclear weapons capability, but also with the hope of facilitating a democratic breakthrough.

Unfortunately, the prospect of crippling the Iranian economy is a fallacy, and a dangerous one at that. A survey of the manifold measures already in place and their track record in moderating Iranian behavior speaks to the limitations of economic pressures as a means of altering Iran’s security priorities and policies. Moreover, as even the most ardent advocates will privately acknowledge, the key prerequisites for a successful sanctions-centric approach—protracted duration and broad adherence—are almost certainly unattainable in this case. As a result, despite Iran’s economic liabilities and its deeply divided polity, the recent embrace of sanctions by many in Washington represents a dangerous illusion. Economic pressure may have a role to play in persuading Tehran of the utility of dialogue, but as the primary tool of U.S. policy, punitive measures will not succeed in solving U.S. concerns about the Iranian regime and its behavior. If the Obama administration is going to blunt Iran’s nuclear ambitions without the use of force, negotiations remain the tool of choice.

### **The Obama Administration’s Iranian Evolution**

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President Barack Obama’s perspective was crystallized by his early presidential campaign declaration that he would be willing to meet with the leaders of Iran and other U.S. adversaries. Despite an initial backlash even within his own party, this statement became the centerpiece of an approach he described as “toughminded diplomacy,” a posture he compares to that of previous U.S. presidents including Harry Truman and Ronald Reagan. While senior administration officials have consistently refrained from ruling out considering military action as a future policy instrument, the initial Obama strategy focused on generating an opening to Iran as a means of enhancing U.S. leverage and generating new traction for curtailing Tehran’s nuclear program.

Of course, Obama’s intended innovation was really not so new. Since the rift created by Tehran’s seizure of the U.S. embassy in 1979, every U.S. president has sought to deal directly with the Iranian leadership. These efforts, including the 1981 Algiers Accords, the Reagan-era Iran-contra arms sales, the first Bush administration’s inaugural appeal that “goodwill begets goodwill,” the Clinton administration overtures, and post-September 11, 2001 dialogue on Afghanistan, included episodic interaction between the two adversaries. Still, past U.S. engagement of Iran has proven ultimately ineffective either in addressing underlying antagonism or in mitigating primary U.S. concerns about Iranian

foreign policy, largely because of Tehran's ideological resistance to a sustained official relationship with "the Great Satan."

In recent years, that aversion had appeared to wane, at least on a practical level. Iranian officials engaged in productive, substantive discussions with their U.S. counterparts on Afghanistan over the course of more than 18 months in the aftermath of the 9/11 attacks. Even as Iran's internal politics took a recalcitrant turn and its regional stance became more openly aggressive, Iran's supreme leader publicly endorsed direct talks with Washington on Iraq and its hard-line president dispatched discursive letters to reach out to the U.S. president and people. Little progress, however, was achieved during the final years of the Bush administration, which was hobbled by its own internal constraints and the legacy of its problematic intervention in Iraq.

Nonetheless, these modest stirrings of support for engagement within the Iranian elite helped to heighten expectations within the incoming Obama administration that the time might finally be ripe for a change in the prevailing paradigm of U.S.-Iran relations. As a result, once in office, Obama moved assiduously to create a facilitating context for constructive diplomacy toward Tehran. Over the first half of 2009, Washington deployed a combination of public and private gestures in hopes of persuading Iran's leadership to set aside its own shibboleths and commit to a meaningful diplomatic dialogue on its nuclear program and the broader array of differences between the two states.

The most prominent overture was Obama's video broadcast marking Iran's traditional New Year celebration in March 2009. The staging and language appeared to be carefully crafted to appeal to the particular sensitivities of the Iranian leadership, including the first positive reference to the Islamic Republic by a U.S. president, as well as the population at large. Media reports suggest that it was widely circulated and positively viewed within Iran. Beyond atmospherics, the administration joined the five permanent members of the UN Security Council, plus Germany, in restating the P5 + 1 offer to negotiate on the nuclear issue. Reportedly, the administration appealed directly to Iran's supreme leader in at least one direct private communication. If true, that would represent an unprecedented personal overture to the real authority in Iran's bifurcated political system. Although U.S. policy officially remained under review by the new administration, it had assembled the framework for the most forward-leaning effort to engage Iran since the 1979 revolution. All that awaited was an Iranian response, or public evidence of it.

**U.S. policy options have remained consistent—and limited—for the past three decades.**

## **New Political Realities**

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Then came Iran's June 12, 2009 presidential elections, and all that followed in the wake of the regime's decision to rig the outcome in favor of incumbent President Mahmoud Ahmadinejad—massive street demonstrations, profound and possibly irreparable new antagonisms among the elite, and the forging of the first broad-based opposition organization and leadership in post-revolutionary history. The resulting turmoil has confronted Iran with an almost unprecedented array of complex and interconnected internal challenges. On the street, the passionate, disciplined outpouring of outrage continues to percolate and, with further provocations and/or coherent direction, could evolve into a powerful and even a revolutionary force. This is a truly significant development. While Tehran's democratic pretenses have always been offset by its underlying authoritarian impulses, the modest role accorded to representative rule bolstered the regime's stability and legitimacy for most of the past three decades. Their elimination and the emergence in their place of a mass-based opposition make the regime's increasing absolutism unsustainable in the long run.

The other profound consequence for the Iranian regime is the eruption of intense and possibly irreparable divisions among its leadership. At every point in the regime's nearly 30-year history, its leadership has engaged in fratricidal partisanship, but this elite wrangling has rarely if ever threatened the regime's survival until now. Iranian power brokers have been bound by decades of interaction, layers of personal and pecuniary ties, and a shared commitment to preserving the Islamic system. But the surprisingly bold defiance by regime stalwarts—such as former prime minister Mir Hossein Mousavi, former president Mohammad Khatami, and even Iran's perennial pragmatist, former president Akbar Hashemi Rafsanjani—represented the most provocative challenge to the authority of Iran's supreme leader, Ayatollah Ali Khamenei, and the sanctity of his office. In doing so, a crucial component of Iran's elite has begun to separate itself from the regime to promote the opposing agenda of a nascent mass-based movement. These elite defections signal the end of Iran's factional bickering as a mundane intramural argument and the opening salvo of a new phase of existential competition within Iran's corridors of power. Even more powerful is the gradual shift of the movement's focus away from rectifying the electoral interference to something resembling a push for truly systemic change in the nature of the Iranian regime.

The dramatic events in Iran immediately reverberated in Washington, and the Obama administration struggled to respond effectively to an unexpected and totally fluid situation. Initial U.S. government statements on the election dispute focused on continuing diplomatic outreach in a tone that seemed to misread the extent of the political crisis and the intensity of the national mood

within Iran. Over the subsequent days of mass demonstrations and violent regime reprisals, Obama came under greater scrutiny from Republican critics as well as from within his own party to condemn the rigging and advocate more forcefully on behalf of the reformist candidate Mousavi and the millions of Iranians who poured into the streets in protest.

Although Obama eventually toughened his rhetoric, the administration resisted efforts to defer or abandon altogether its diplomatic outreach to Tehran. “The administration will deal with the situation we have, not what we wish it to be,” commented an unnamed senior official.<sup>1</sup> Still, although the United States insisted that the imperatives of engagement remained unchanged, the Iranian regime’s increasingly repressive tactics and more narrowly hard-line political base eroded the energy behind the policy, raising new questions about the capacity of an even more thuggish theocracy to make meaningful concessions and durable commitments to its long-time adversary. “There are the same leaders, in Iran, who tell us that the nuclear program is peaceful and that the elections were honest,” President Nicolas Sarkozy of France remarked in September. “Frankly, who believes them?”<sup>2</sup>

Compounding the doubts about the efficacy of engaging a recalcitrant Iran were the quixotic public statements of the Iranian leadership about the prospect of negotiation. Iran’s long-awaited September 2009 response to the P5+1 proposal for nuclear negotiations incorporated a sundry list of non sequiturs—such as global poverty, the Arab-Israeli peace process, and rights to space explorations—with studious avoidance of any reference to Iran’s own nuclear activities. In the weeks leading up to the first meeting of the two sides, the Iranian officials insisted that “we will never bargain about our sovereign rights,” including the demand by the UN Security Council and the International Atomic Energy Agency (IAEA) that Tehran suspend uranium enrichment.<sup>3</sup> This sort of Iranian rhetoric hardly suggested a serious platform for a sustained dialogue with the states seeking to defend the nonproliferation regime.

Although Obama maintained U.S. willingness to test the prospects for diplomacy through the end of 2009, the inauspicious climate began amplifying discussion of alternative options, with the focus of the discourse settling on sanctions. In the run-up to the October talks, a series of subsequent diplomatic maneuvers by Washington ramped up the pressure on Tehran and further heightened expectations that sanctions would supplant diplomacy as the preferred U.S. option for dealing with Tehran. These included an agreement with Russia to shelve the previously contentious Eastern European sites for a

**The prospect of crippling the Iranian economy is a fallacy.**

U.S. missile defense system, and the blockbuster revelation at the Pittsburgh G-20 summit of a clandestine Iranian enrichment facility at Qom.

In response, members of both the House and the Senate announced that they would accelerate the timeline for sanctions legislation, and several European leaders signaled new support for more vigorous punitive measures against Iran. In the days before the first diplomatic encounter between Iran and the Obama administration, dialogue appeared to be receding as an option for dealing with Tehran. After months of U.S. efforts to create a conducive climate for engagement with the Iran, U.S. diplomacy appeared to have shifted gears in favor of a primarily pressure-oriented approach.

### **The Temptation: Iran's Economic Vulnerability**

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The renewed U.S. attention to sanctions as a means of influencing Iran also reflects the recognition that the current economic climate has created new vulnerabilities for the Iranian economy. Iran's perennial mismanagement of its vast natural and human resources has been exacerbated by the ideological and interventionist approach of Ahmadinejad and by the crash in oil prices. After six years of epic revenues that accompanied the global economic crisis, the slide from a mid-2008 high of \$147 per barrel to prices that dipped below \$50 (or one-third of the previous high) created profound new constraints for a leadership that had grown increasingly reliant on vast streams of external revenues.

Even before this crash, every meaningful economic indicator has suggested serious trouble for Iran for several years. Iranians contend with double-digit inflation, power shortages, a tumbling stock market, stubbornly high unemployment rates particularly among young people, increasing dependence on volatile resource revenues, and perhaps most ominously for Iran's leaders, a rising tide of popular indignation spawned by individual hardship and the broader national predicament.

Ahmadinejad himself bears much direct responsibility for the current state of Iran's economic affairs. His heavy-handed interference with monetary policy and freewheeling spending contributed to the spiraling inflation rates, and his provocative foreign policy and reprehensible rhetoric has done more to dissuade prospective investors than any U.S. or UN actions. His personal disdain for the technocracy and quixotic economic notions have undermined much of the progress that had been made in recent years to liberalize the Iranian economy and address its underlying distortions. The president has boasted of his instinctive grasp of economic policy, reveled in the reverberations of the global economic meltdown, and scoffed that his government could withstand even a drop in oil prices to a mere \$5 per barrel. So he spent, taking full advantage of an epic oil boom that reaped more than \$250 billion in his first

three and a half years as president. Ahmadinejad traversed the country with his full cabinet in tow, taking evident enjoyment from a paternalistic process of doling out funds large and small for picayune provincial projects and even individual appeals.

Thanks to his assiduous deployment of economic grievances during his original campaign and his copious and public spending throughout his first term, Ahmadinejad made himself particularly vulnerable to the regime's stumbling in this arena. The skyrocketing inflation rate and other hardships have provoked criticism from across the political spectrum. In three successive letters, a panoply of the country's most respected economists detailed the dangers of the president's policies. Ahmadinejad's opponents in the June presidential ballot pitched the economy as the primary issue in their attempt to connect with voters, equating economic grievances with threats to the country's security. Ahmadinejad responded by lobbing allegations of corruption and patronage as well as misleading statistics in the riveting televised campaign debates with his rivals.

Notably, the critiques have not been limited to the president's factional adversaries. Much of the disquiet voiced in recent years over the state of the economy emerged from sources ideologically inclined to support Ahmadinejad and his patron, the supreme leader, including traditional conservatives with longstanding links to the powerful *bazaar* and the centers of clerical learning. What particularly galled so many Iranian political figures was the opportunity sacrificed by the malfeasance of the past few years. Iran's oil revenues under Ahmadinejad's first term were 44 percent higher than the entire earnings of Khatami's eight years in office, and nearly double that of Rafsanjani's two terms. Of the more than \$700 billion that Iran has earned through oil exports in the past thirty years, nearly 40 percent came in during the past four years.

Adding fuel to the fire was the lack of transparency over its allocation. Having decimated the economic planning bureaucracy and attempted to classify the details of the nation's oil reserve fund, Ahmadinejad left vast ambiguity around the destination of tens of billions of dollars of his government's spending. The presumption is much of it has financed record consumption, with a disturbingly high import quotient, rather than creating jobs, attracting investors, or taking advantage of Iran's large, well-educated baby boom as it comes of age. In particular, the oil revenues have continued to facilitate disastrous policies such as Iran's vast subsidies on consumer goods, including bread and gasoline. The country's bargain basement official price for gasoline has only encouraged recklessly high usage and implicitly facilitated uneconomic investment in

**T**he regime's increasing absolutism is now unsustainable in the long run.

energy-intensive industries that leave energy-rich Iran dependent on imports for approximately 40 percent of its gasoline consumption.

The post-election unrest will only aggravate Iran's economic dilemmas and complicate durable solutions to the perpetual problems of uncontrollable subsidies and unaccountable spending. The crisis will likely persuade more Iranians who have the means and/or ability to leave the country to do so, exacerbating the persistent problem of brain drain and related capital flight. In lieu of any multilateral action on sanctions, the political risks and generally unpalatable nature of the new power structure will dissuade some investors and reduce the competitiveness of Iran's external links. Should the political situation degenerate further, economic actions by the opposition, such as strikes and mass boycotts, could further paralyze the Iranian economy in order to apply pressure on current decisionmakers.

The economic constraints facing Tehran, as well as the popular and elite backlash against Ahmadinejad for his role in exacerbating them, have persuaded some observers that Iran's economic situation is particularly ripe for external pressure. Iran's current vulnerability enhances the value of sanctions now, they argue, because external "pressure may well be able to contribute to what is becoming an intense debate inside Iran about the wisdom of a confrontational and isolationist policy towards the international community."<sup>4</sup> Others have suggested that sanctions would advance the nascent opposition movement within Iran, arguing that any deterioration in the population's standard of living will generate a renewed backlash against Iran's leadership at a time when it is already suffering a profound legitimacy crisis.

### **The Track Record: the Limitations of Sanctions**

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Fortunately, there is considerable evidence to assess the potential efficacy of enhanced economic pressure to deal with Iran. The uneasy antagonism between the United States and Iran over the past three decades has largely avoided direct bilateral military action. Instead, despite the duration and depth of U.S. concerns about Iran, U.S. policymakers from both parties have typically relied on instruments other than military force, with several notable exceptions. Sanctions have long constituted a central tool in the U.S. arsenal toward Tehran.

The first U.S. sanctions on Iran were implemented in response to the 1979 seizure of the U.S. embassy in Tehran by Iranian students who proceeded to hold 52 U.S. officials as hostages for more than a year. This shocking aggression precipitated "a virtual economic mini-war" over the course of the crisis, most notably involving a freeze of the Iranian regime's assets held by U.S. individuals or entities and an eventual embargo on almost all U.S. trade with Iran.<sup>5</sup>

Although a comprehensive financial settlement—including an arbitration mechanism for adjudicating the assets of, and claims against, the Iranian government—proved a central dimension of the resolution of the hostage crisis through the 1981 Algiers Accord, this episode represented only the first salvo in what has been a reliably deployed policy tool for Washington. Each U.S. administration has engaged in a new round of economic constraints directed at penalizing specific Iranian malfeasances, ranging from its sponsorship of terrorism, efforts to acquire weapons of mass destruction, and religious persecution, to narcotics trafficking, although the latter has since been removed.

The most notable intensification of the U.S. sanctions regime occurred during the Clinton administration, when executive action in 1995 and congressional action in 1996 banned virtually all economic interaction with Tehran and instituted penalties against third-country investors in Iran's energy sector through the Iran-Libya Sanctions Act (ILSA). Interestingly, Clinton also implemented the first significant relaxation of U.S. economic sanctions, including a global exemption on agricultural and medical goods as well as the March 2000 lifting of penalties against Iranian carpets, caviar, and pistachios, a step intended as an overture toward Iranian reformists.

More recently, the Bush administration breathed new life into the salience of U.S. sanctions with a campaign waged by the Department of Treasury to reduce Iran's capacity to interact with the international financial system. The strategy has entailed new legal strictures on even fleeting procedural access by Iranian banks to the U.S. economy, as well as a public relations campaign aimed at third-country banks, which emphasizes the reputational risks of involvement with Iran. The strategy has proven unexpectedly effective in isolating Iran and increasing the costs of doing business for Iranian entities. The country's former nuclear negotiator, Hassan Rowhani, has estimated that these new financial restrictions have added costs ranging from 10 to 30 percent to the cost of imports.<sup>6</sup>

Given the U.S. proclivity for using sanctions to attempt to influence Iran, it is hardly surprising that the intensifying urgency of the Iranian nuclear program has catalyzed a renewed quest to identify "crippling" sanctions that can force Tehran to capitulate on uranium enrichment. Unfortunately, this policy pronouncement overlooks the reality that Iran's multifaceted economy, and in particular its petroleum exports, are substantially insulated from sanctions.

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History has demonstrated that there simply are no silver bullets with respect to Iran.

Many of the numerous scholarly studies of the efficacy of sanctions have attempted to quantify the costs of these measures to the target government, with varying result. However one chooses to assess the price, there can no serious doubt that U.S. sanctions have exacted a considerable toll on the Iranian economy, both cumulatively and in their episodic intensification at critical junctures in the post-revolutionary history of the regime. As just a single example, the 1995 executive orders prohibiting U.S. investment in Iran, which was precipitated by the offer of Iran's first post-revolutionary upstream oil contract to a U.S. company, exacerbated the very economic distortions that had helped generate Tehran's extraordinary overture.<sup>7</sup> Within weeks, the black market value of Iran's currency had plummeted from 2,500 to the dollar to 6,500, a massive slide that the *rial* has never regained.<sup>8</sup> More broadly, Iran's inability to access U.S.-patented liquefaction technology has effectively stalled the regime's long-term plans to develop an export market for its mammoth gas reserves.

While it is clear that sanctions impose a significant cost on Tehran, it is equally evident that, despite the duration and scope of U.S. economic pressures on Iran, sanctions have not succeeded in advancing their ultimate objective, namely transforming Iran's foreign and security policy for three principal reasons: first, the largely unilateral nature of the punitive measures; second, Tehran's countermeasures, or its capacity for mitigation, retaliation, and avoidance; and third, the apparent resistance of Iranian security policy to economic pressures. As the U.S. policy discourse shifts once again from diplomacy to sanctions, it is worth detailing these factors and emphasizing their continuing applicability.

### **Unilateral Nature**

Despite its recurrent reliance on economic sanctions over the past 30 years, Washington has received relatively minimal cooperation from even its closest allies. Even at the height of the hostage crisis, the United States' closest European allies rebuffed U.S. entreaties to join in multilateral sanctions against Iran's revolutionary regime, and eventually enacted only limited restrictions on trade. In fact, as Tehran's enmity toward Washington became entrenched, European trade with the revolutionary regime actually expanded during the hostage crisis, and the modest penalties imposed by Europe were lifted as soon as the hostages were released.<sup>9</sup> Since those early years, European concerns about Iranian foreign policy have yet to be matched by any parallel willingness to formally abrogate its historic economic ties. In particular, Germany has proven loathe to relinquish its longstanding trade ties, although the government of Chancellor Angela Merkel has sought to align her Iran policy more closely with London, Paris, and Washington.

Over the years, as Iran's economic ties have expanded and grown more complex, the task of generating reliable allies in adopting economic strictures against Tehran has grown correspondingly more difficult. Defection from the sanctions regime, or even the presumption of noncompliance by other actors, produces a vicious cycle and consistently undercuts any effort to broaden the sanctions regime. Not surprisingly, the track record shows that European willingness to temper its trade and investment with Iran far outpaces any corresponding responsiveness by Russia and China.

**Sanctions have not succeeded for three principal reasons.**

This trend will only be exacerbated by any renewed effort to expand the scope of sanctions. Despite the initial tough talk from Europe, it remains unclear whether the political will exists in particular states, or within the broader EU, to formalize restrictions on their trade and investment in Iran. It is hardly assured that the recent assertive shift in German policy will hold up to the test, particularly if any sanctions proposals garner piecemeal support from the rest of the world.

For this reason, the postures of China, India, and Russia will be disproportionately influential. Moscow and Beijing have historically resented external interference in their own internal affairs, and they apply this preference in their own foreign policy. Neither the specter of a rigged election nor the crackdown on peaceful protestors has proven far less troubling to China or Russia as to the United States and Europe. In addition, both countries have dramatically expanded trade and investment with Iran as Europe has receded from the scene, and their leaderships value their strategic ties to the largest and arguably most powerful Middle Eastern country. Experience suggests that both will continue to veto more stringent sanctions as long as their leaderships are convinced that the threat is not urgent or that additional diplomatic initiatives from the West can contain its impact. The Russian leadership publicly rebuffed the press for more strenuous sanctions during U.S. Secretary of State Hillary Rodham Clinton's October 2009 visit to Moscow, with Prime Minister Vladimir Putin calling any consideration of economic penalties against Tehran "premature" and Foreign Minister Sergey Lavrov describing sanctions as "counterproductive" as long as nuclear negotiations remain viable.<sup>10</sup>

The other crucial international constituency that has been slow to embrace tougher Iran sanctions is the region. Iran's southern neighbors in the Persian Gulf can be counted as the United States' most reliable regional allies, and their enduring fears of Iran have been exacerbated by the Islamic Republic's political retrenchment as well as by its increasing sway within the region. And yet, there is little appetite in the Gulf—which is still regaining its footing in the wake of the recent oil price crash—for preemptively adopting measures that may

antagonize its powerful northern neighbor. With 400,000 Iranian expatriates and a critical role as Iran's offshore banker and exporter, Dubai is particularly vulnerable to any shocks emanating from Iran. The Gulf Cooperation Council will cooperate fully with UN Security Council measures but is unlikely to lead the charge for any effort to build a "coalition of the willing" in sanctioning Iran. This reluctance is even more powerful for the Iraqi and Afghan leaderships, who may owe their liberation and their offices to U.S. intervention but have powerful trade and strategic ties with Tehran. Any new sanctions measures that force Baghdad or Kabul to choose between their adversarial allies could be profoundly destabilizing.

### **Iranian Countermeasures**

Iran's traditional reaction to external attempts to exert economic pressure has been defiance and, at minimum, rhetorically rejecting the idea that sanctions have had any sort of negative impact on its economy. Indeed, withstanding the sustained U.S. embargo is something of a point of pride for Iran, particularly during its earliest years when the revolutionary leadership's quest for independence and its ambivalence about capitalism and international entanglements corresponded neatly to the attenuation of its economic relationship with the United States.

Iranian political figures have consistently sounded the refrain that sanctions have actually benefited Iran by strengthening its indigenous capabilities and sovereignty. Most recently, Tehran has suggested that U.S. plans to restrict sales of imported gasoline would enhance the government's economic reform program. "We have lived with sanctions for 30 years; they cannot bring a large nation like Iran to its knees," Saeed Jalili, Iran's nuclear negotiator, boasted to a German interviewer on the eve of his October 2009 talks with representatives of the P5+1. "They do not frighten us. On the contrary, we welcome new sanctions" and "We want to use our resources carefully."<sup>11</sup> He elaborated by saying that Iran welcomes everything that limits consumption and contributes to increasing self-sufficiency.

Beyond this symbolic dismissal of the influence of economic pressures, Tehran has sought to reduce its exposure and avert the prospect of external economic leverage through a variety of tactics over the years. Most recently, Iranian officials have launched a variety of official schemes to minimize gasoline consumption, through a partially successful program to ration gasoline and shift to compressed natural gas fuel for the transportation sector as well as to expand domestic production through investments in refinery upgrades and expansion. Over the past two years, these efforts have achieved very modest reductions in Iran's out-of-control demand for gasoline imports. There are also reports that Tehran has used supertankers to store a strategic stockpile of gasoline intended to

temporarily abate domestic shortages, and that the well-established market for smuggling gasoline could be easily manipulated to the regime's benefit in the event of a cut-off in refined product imports.

In addition, Iran has also used diplomacy to blunt the prospect and impact of sanctions, deliberately expanding its network of trade partners and gradually reorienting its trade and investment patterns to privilege Asia, both in recognition of the market potential and the region's tendency to eschew politicizing economic ties. Since Washington has begun focusing on Iran's dependence on gasoline imports, Tehran has sought to shift its imports away from countries that are themselves exposed to U.S. pressure, trumpeting new arrangements with both Venezuela and China as a hedge against prospective new sanctions.

Beyond these policy steps to limit the potentially negative impact of sanctions, the Iranian leadership has begun testing out a public diplomacy response that takes a cue from an old adversary, Saddam Hussein. In contrast to the longstanding refrain that sanctions have strengthened Iran's economy by requiring self-sufficiency, Iranian leaders have become more vocal around the threat posed by the nation's aging and notoriously shabby aircraft fleet, apparently coordinating with human rights activists to launch an internet petition condemning U.S. restrictions on airline parts.<sup>12</sup> Influential hard-liner Ghorbanali Dorri Najafabadi charged that "sanctions on plane parts are still killing passengers."<sup>13</sup> Such a campaign would no doubt be expanded to include the impact of any shortages prompted by sanctions targeting Iran's gasoline imports, and the specter of a humanitarian crisis has already prompted the foreign minister of France, Bernard Kouchner, to publicly distance his country from any broader effort to target that vulnerability.<sup>14</sup>

**T**oday's Iranian leaders tend to react to sanctions by economizing, not shifting policies.

### **Price Elasticity: Iranian Security Imperatives**

Finally, while Tehran is certainly capable of change, economic pressures alone have only rarely generated substantive modifications to Iranian foreign policy, particularly on issues that the leadership perceives as central to the security of the state and the perpetuation of the regime.<sup>15</sup> In general, external pressure tends to encourage regime coalescence and even consolidation of its public support. Past episodes of economic constraint have enhanced cooperation among Iran's bickering factions and increased preparedness to absorb the costs of perpetuating problematic policies.

**The argument that sanctions could help force a change in Iranian leadership has little basis.**

Specifically, the debate within the Iranian leadership at the height of the war with Iraq during the mid-1980s offers an illuminating case in point. Tehran was confronted with mounting frustration with the increasing human, political, and financial toll of the war, as well as a collapse in the oil markets which cut prices by half. Mousavi, Iran's prime minister at the time, had the thorny task of persuading its feuding parliament to pass an austerity budget, which entailed convincing

traditionalists with ties to Iran's bazaar merchant community to accept new taxes, and left-wing radicals to endorse cuts in state spending, particularly on social welfare. Mousavi succeeded by presenting both factions with a choice: either accept the harsh budget measures or end the war. The regime's ideological commitment to the "sacred defense" and the conviction, even among growing misgivings about war strategy, that this was an existential struggle meant that this was no choice at all. Iranian leaders eventually undertook the painful political and economic steps that Mousavi proposed.

Today, as an ever more hard-line Iranian leadership confronts greater challenges at home and abroad, there is evidence that this preference for addressing economic pressures by adopting previously unthinkable economic reforms appears to be playing out again. In October 2009, Ahmadinejad won preliminary support for reforming Iran's lavish and inefficient price subsidies from a parliament that has been largely unfriendly to the president's economic agenda. The international debate on sanctions helped fuel progress on the measure by adding new urgency to the need to deal with this longstanding drain on Iranian resources. As in the 1980s and 1990s, today's Iranian leaders tend to react to sanctions, both real and threatened, by economizing even where such steps risk alienating crucial political constituencies, rather than shift their posture on matters judged vital to the regime's security.

In retrospect, the rare cases where economic pressures have produced changes to Iranian security policies relate less to the actual financial cost to the Iranian leadership, which have ultimately proven manageable even during periods of low oil prices, than to the perceptions, timing, and utility in swaying critical constituencies within the Iranian political elite potentially predisposed to such policy changes anyway. In the late 1990s, the decline in oil revenues helped to inform the then-burgeoning reform movement's interest in ameliorating the country's image and relationships abroad. But even then, as the regime faced serious economic constraints and increased tensions with its historically most important European trade partners, Iran's ultimate decisionmaker remained unwilling to countenance any fundamental transformation in the threatening

behaviors that precluded improved economic interactions with the United States.

The final relevant dimension to the prospective impact of sanctions on Iranian conduct and preferences relates to the domestic political unrest that has followed in the wake of the contested outcome to the June election. The argument that sanctions could offer particular utility in forcing a change in the Iranian leadership has little basis in the past history, or the present rhetoric, of the opposition leaders and movement. Iranians have long balanced their dissatisfaction in their government and ruling system with resentment of sanctions for reducing investment, employment, and opportunities for international interaction. Although the regime has far greater internal liabilities today than perhaps at any point since the mid-1980s, the likelihood that sanctions would strengthen the struggling opposition seems quite limited at best, primarily because sanctions would not ameliorate the movement's greatest obstacles, which is the lack of a coherent strategy or objective and the regime's continuing capacity for repression. Mousavi himself has publicly appealed to the international community against tightening the sanctions regime, arguing that further economic pressures would disproportionately impact the poor and those who have suffered as a result of the mismanaged and adventurous foreign policy of the Ahmadinejad administration.<sup>16</sup>

### **Will Sanctions Stop Iran's Nuclear Quest?**

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Iran's abrupt disavowal of its October 1 preliminary agreement to export the bulk of its low-enriched uranium underscores why the prospect of sanctions looms large at least in the rhetoric of U.S. policymakers. The justifiable skepticism about what Obama described as a "constructive" beginning to the administration's formal dialogue with Tehran will continue to mandate a serious effort to identify punitive measures that could be incorporated within a broader strategy of persuading Tehran to cooperate with the international community. This is wholly appropriate. Official expectations, however, of the capacity of sanctions to reverse the Iranian regime's determined effort to develop a sophisticated nuclear infrastructure appear to be considerably overblown.

Much has changed in Iran over the past three decades. Profound public alienation has already begun to complicate the regime's efforts to persuade its population that economic deprivation is an acceptable price to pay for defending its much-vaunted "nuclear rights." The global context differs as well: Iran today is not nearly as isolated as it was in the 1980s. The considerable economic opportunities offered by Europe and conceivably by the United States are no longer irreplaceable.

As a result, sanctions, while nominally successful in raising the costs to Tehran of its provocative policies, could fail in their ultimate goal of gaining

Tehran's adherence to international nonproliferation norms and agreements. Equally importantly, the time horizon for sanctions to revise the calculus of the Iranian elite may be more protracted than the world is prepared to wait. For this reason, it is incumbent upon the Obama administration to wrest as much progress from the often intractable diplomatic process with Iran in order to retard it from even marginally crossing the nuclear threshold.

## Notes

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