

Since 1980, Iran has been at the receiving end of imposing sanctions from the west. President Carter's ban on importing Iranian oil led to the banning of all U.S. trade and travel with the Islamic Republic. In Ronald Reagan's administration, Iran was declared a "state sponsor of terrorism", and along with that declaration came an embargo against Iranian imports. Bill Clinton added to the list of sanctions imposed upon Iran with the 1997 banning of all American investment in Iran and the prohibition of any involvement the United States had with the Iranian petroleum industry. None of these sanctions, however, have had an effect on Iran's economy as considerably as the most recent rounds of sanctions.

The Islamic Republic's enrichment of uranium has caused many concerns throughout the world. While Iran insists that the uranium is being enriched for peaceful purposes, the western societies seem to have a hard time believing it. Iran's uncooperative behavior and lack of transparency in its enrichment activities lead to a destructive round of sanctions being placed on the country, which has had horrendous results on the already struggling economy of the Islamic Republic. Very recently, however, the United States and the Islamic Republic of Iran, along with five other world powers, have agreed to partake in negotiations in hopes of reaching an agreement that is suitable for both sides. On Iran's side, this would mean the lifting of sanctions, and on the opposing side, the desired outcome is the cessation, or decrease, of uranium enriched by Iran, as well as full transparency and the closing of a percentage of operating centrifuges.

Because the Islamic Republic agreed to approach the negotiating table to discuss their once completely opaque enrichment program, some people believe that the imposed sanctions have done their job, that the effects against Iran's economy have hit hard enough that Iran now has no choice but to surrender to the wishes of the western powers. From a quick glance, such an idea may seem to be true. However, if we look deeper into different factors, specifically from Iran's side, we see that this is simply not the case. I am here to argue that the sanctions imposed against Iran were not effective or successful in the reasons they were intended to be. To support my argument, I will be giving examples in the area of Iran's recent finances, statements from high power officials, as well as some psychological and cultural factors that will explain my

reasoning for saying that the sanctions placed against the Islamic Republic of Iran were not successful.

Iran's economy has undoubtedly taken a hit from the ever changing and ever growing revisions to the list of imposed sanctions from the European Union and the United States, as well as the United Nations. An article posted by BBC.com states,

“As a result of the EU embargo and the US sanctions targeting other major importers, Iran's oil exports had fallen to 700,000 barrels per day (bpd) by May 2013, compared with an average 2.2 million bpd in 2011. In January 2013, Iran's oil minister acknowledged for the first time that the fall in exports was costing the country between \$4bn and \$8bn (£2.5bn-£5bn) each month. Iran is believed to have suffered a loss of about \$26bn (£16bn) in oil revenue in 2012 from a total of \$95bn (£59m) in 2011.”

Though there have been detrimental blows to Iran's economy, there are ways around the imposed sanctions. One of which is the Islamic Republic's tactical use of export deflection as a coping mechanism of sorts to help lessen the effects of hurt from being unable to conduct trade with many of the countries formerly in trade agreements with Iran. The increase in globalization has made it easier than ever to find a way around any export sanctions, as new trade partners can always be found, especially when one is in as desperate of a state as Iran currently is.

The fact of the matter is that Iran's exports, with the exception of oil, have actually increased (by rate of production) in the years since the imposed sanctions, as reported in research done by PhD candidate Jamal Ibrahim Haidar of the Ecole d'Economie de Paris in Paris, France. Haidar's research was based on discovering the prevalence of what he calls “exports deflection”, which he describes as a pattern signifying “surges in Iranian exporter-level exports to destinations not imposing sanctions”. His investigative research discovered that nearly two thirds of Iran's non- oil exports which were initially thought to be destroyed, a term he uses to represent the cessation of exporting activities, were actually deflected to countries that were not a part of the imposed sanctioning of Iran. Exporters also applied something comparable to loss leader pricing by reducing the prices of exported products when they deflected them to new markets.

Haidar determined the deflected exports went to countries that fit the best of a variety of factors, including destinations that had “fewer import restrictions, lower tariff rates, more Iranian immigrants, higher number of Iranian existing exporters,” and of course, the most important factor, countries that were the most “politically-friendly” with Iran, using controls based on their past “voting similarities at the UN”.

Though his investigations were primarily for economic reasons rather than political, he does make a point to state that economic trends of exporters should be studied by policy makers. In relation to this paper, Haidar’s investigation and discovery of the event of “export deflection” due to imposed sanctions shows that though economic sanctions, at least export restrictions, were placed on the Islamic Republic, Iran was able to assess the situation and create an alternative action plan for dealing with the “export destruction” it faced at the hands of the sanctions. Haidar’s findings show that in our globalized world, sanctions are proving less and less effective, at least in the area of exporting, where countries can just deflect their exported products to another destination. He also mentions that trade sanctions would be more effective if the country they are imposed upon was not able to find alternate trading partners, which in Iran has not been the case. Therefore, the sanctions meant to stifle Iran’s exporting did not do so effectively, and according to Haidar’s research, Iran was actually increasing the amount of products it exported by lowering product price and deflecting exports to countries that were still interested doing business with Iran. Figures from Haidar’s research are included at the end of this paper.

As for oil exports, Iran has undoubtedly been stifled due to the imposing sanctions. However, similar to its ability to deflect the non-oil exports, Iran has been able to sell to countries that are not a part of those imposing sanctions. Countries buying oil from Iran include India, South Korea, and most importantly, China. Hosnain Malik, an equity strategist at Exotix Partners in Dubai, was quoted in an April 2015 CNBC article saying,

“Over half of Iran's current crude oil and condensate exports are to China and most of Iran's commodity chemicals and materials companies already have marketing offices in China. So there is already a substantial trading relationship, within the restrictions of the current sanctions regime,”

The fact that Iran has struck a deal to export its oil to China is a testament to my earlier statement that sanctions will not work if there are places that exports can be deflected to. Another major factor of Iran's exporting to Iran is that it may begin a sort of "partnership", what some consider to be the main motivation behind the United States' agreeing to come to the negotiating table to speak of possible resolutions to what has obviously turned into a stalemate between the two countries, where the United States poses more and more sanctions unto Iran, and where Iran has continued to find ways around them. A possible theory circulating in regards to what was the final push for the United States to approach the negotiating table is the possibility of a new, somewhat anti-Western axis comprised of Iran, China, and Russia.

A major problem with imposition of sanctions are the fact that sanctions end up impacting civilians rather than the government officials they were intended to effect. For example, though trade sanctions may hurt a country on a macroeconomic scale of numbers, the people who take the biggest hit in the wallet are the smaller players in the game of trade. An embargo will have the most impact on a farmer who most likely has no other source of income besides the crops that he is able to produce for export, or a shift worker supporting a wife and children who relies on his job at a factory that produces materials that are meant to be exported.

Of course, one could argue that with the intense change in quality of life of citizens residing in sanctioned countries, this could or even should bring about protests and revolutions that will in turn get the attention of government officials to perhaps cease or change the activities they are involved in that brought about the sanctions in the first place, or at the very least incite a sense of concern about the well being of their citizens. However, we must also remember that it is generally countries whose officials have decided to proceed with activities that are frowned upon by the majority of the world who are hit with sanctions. If the disapproving looks of major global powers were not enough to persuade the ceasing of said activities, it is highly doubtful that the average citizens, even when united, will have any success in changing the mind of self-serving government officials.

The current sanctions imposed on the Islamic Republic of Iran are, in short, hurting the wrong people. PBS NewsHour Weekend filmed a special a little over one year ago, in February

2014, regarding to the effects of sanctions on the citizens of Iran, specifically the “average Iranian” (2). Accounts by middle class store owners tell of Dove soap bars increasing nearly three and a half times in price, from about 60 cents to \$2 in two years. Other everyday items have quadrupled in price. According to Saeed Laylaz, a prominent economist also featured in the NewsHour special, as of the date of recording, “the labor force of Iran at the moment is 35 to 40 percent poorer than two years ago,”.

It is not only private businesses and individuals who are suffering. Though in many cases sanctions do not directly impose upon items of a socially concerned nature, such is not the case in Iran. Inflation and the hurting economy have reached all the way to public services, including hospitals, and in turn, their patients. Due to sanctions, many pharmaceutical companies have shied away from doing business with Iran at the risk of possible “punishments” for breaking sanction guidelines. Though “a senior Treasury Department official told [PBS] that the U.S. doesn’t target any companies doing legal business with Iran,”, as reported by NewsHour, patients needing medicinal drugs for cancers, multiple sclerosis, and other serious illnesses have found it harder to acquire the necessary medications.

I was able to conduct an interview with a relative, Pasha Rajabi, who is currently living in Iran. I was hoping to be able to take advantage of the his knowledge in the general economics of Iran as well as his unique perspective of living in Iran as the effects of imposed sanctions are taking place. He described himself as being comfortably in the upper-middle class of Iran’s population in terms of wealth. Nowhere near the elite, he says, but nowhere near the struggling, either. He works as a consultant to engineering firms, and his opinion is highly respected, as he insisted that I include in my paper. According to Rajabi, in the past few years, he has seen a significant drop in the disposable budgets of civil engineering firms in the funds allocated for anything other than mandatory improvements of already standing structures. Factories are having problems exporting their products and have lost their markets overseas. The opposite is also true, as many raw materials once imported into Iran are put to a halt thanks to the imposed sanctions. Larger businesses, then, seem to be scraping by as smaller businesses and families have been doing, with expenditures only in absolutely necessary cases.

Aside from financial concerns, the lives of Iranian citizens are being changed in other ways as well. Many young people, distraught from the suffocating sanctions that have intensified Iran's already struggling economy due to what many people blame to be former President Ahmadinejad's misuse of funds during his presidency, have left Iran. In my family alone, every aunt and uncle of mine has seen a child who has been fed up with the minimal job prospects and the stifling political atmosphere of the Islamic Republic immigrate to the West at the hope of a better life. Our economic situation here in the United States is not at its best itself, but according to my newly immigrated cousins who have since settled in Florida, "anything here is better than the uncertainty we were living with in Iran. At least over here they have to pay you a minimum wage,".

Moving away from statistical examples supporting my argument that imposed sanctions are not effective, I will now explore more qualitative examples. As I mentioned before, sanctions are intended to have the effect of changing a particular behavior of whom they are imposed upon. Success in this case can be defined in many ways, depending on the viewpoint you are taking as well as whose "side" you are on. For example, if you ask American citizens or government officials whether or not the sanctions against Iran were successful, they will most likely answer yes, with their reasoning being that the Islamic Republic has now agreed to negotiate the terms of their uranium enrichment. That is what the sanctions were supposed to do, after all; to cause enough unrest in the country to the point where Iran must negotiate its terms to perhaps get some relief from their economic woes.

When you look at it from a different point of view, the answer to whether or not sanctions were successful would be a hard *no*. This is mostly due to the question of success being up for interpretation. My argument is that the sanctions imposed by the United States were not effective. To elaborate, I am referencing interviews conducted by journalist Charlie Rose with former President Mahmoud Ahmadinejad in 2010, as well as the very recent interview with Minister of Foreign Affairs, Mohammad Javad Zarif this month.

In Ahmadinejad's interview, when the topic of sanctions were brought up, he mentions that since the impositions of the sanctions, Iran's stock market has shown a growth of 20-22%, which points to an active, productive economy. He goes on to say that the sanctions have been a "blessing in disguise," forcing Iran to double in productivity. He also says that the sanctions have united the people of Iran to work even harder.

In Mohammad Javad Zarif's interview, he very clearly states that sanctions have not changed the mind of the Iranian government. He also states that sanctions have gone on to "create an atmosphere among the Iranian population that the US doesn't want to treat them well." Zarif goes on to say that, "if the intentions of these sanctions were to bring Iran to the negotiating table, that's not what they achieved... we were always at the negotiating table." The most important statement made by Zarif, however, is that Iran continued to make centrifuges even after the sanctions were imposed.

These are of course, only the opinions of Mohammad Javad Zarif and former President Ahmadinejad. The point to be made here, however, is that though these ideas may be opinions, they are the opinions of government officials of the Islamic Republic who are in a position of great power. Whether or not there is any truth to their statements is somewhat irrelevant. The fact of the matter is that the government officials of Iran believe that the sanctions have not fulfilled their purpose, distinctly made evident by Zarif's statement that Iran has always been at the negotiating table, and that recent impositions of sanctions were not the catalyst or the reasoning of their decision to attempt to clear the "atmosphere of mistrust" between the Islamic Republic and the United States.

Despite all of the financial woes that imposed sanctions have brought to the Islamic Republic, I am still very firm in my stance that sanctions against Iran have not been successful. Success in the endeavors of imposing sanctions upon a country deemed as a threat could be seen as the squeezing of said country's economy until it is forced to address the issues that brought about the imposition of sanctions in the first place. In the eyes of most of the world, this is exactly what has happened with Iran. Sanctions imposed due to the concerns of individual

countries towards Iran's uranium enrichment program detrimentally affected the Islamic Republic's economy, so much so that Iran finally "cracked" and agreed to negotiate what it once was so against compromising on. According to the international spokesperson of Iran's foreign affairs, Mohammad Javad Zarif, this is simply not the case.

We will now be delving into the psychological aspect of my argument. Iran and America have much more in common than not. What some may be quick to judge as a culture of Islamic extremism from the Iranian people is actually a great sense of nationalism, one that is quite comparable to American nationalism. Both countries have a rich history of defending their land and their morals against any and all who dare to try and change their way of being. Both countries have contributed greatly to the world, and are extremely proud of the fact. America's independence from Great Britain and Iran's ability to maintain its national language despite the invasions of the Arabs, among other instances of resilience, give examples of similarities between the two countries that are often either forgotten by "those in charge" or never learned by the general public. When dealing with two countries whose sense of national pride seems to overpower all else, very little grey area is available to the eye blinded by its nationalism.

Something quite often overlooked in my opinion in all aspects of life is the importance of an emotional quotient rather than simply an intelligence quotient. A great part of possessing a higher EQ is overall awareness and the ability to empathize. When applied to the situation of Iran versus the United States, empathy lies in the ability of the United States to fully understand its "enemy," including the figures who are at the top of command and their ideologies. Taking these things into account, we can, in an extreme attempt to oversimplify the relationship between the two countries, compare it to something along the lines of an immature school-age feud, if I may. Both parties are quite blinded by their tumultuous past, which has understandably lead to a great mistrust between them. Neither is innocent and both are at fault, at least in the eyes of the other. In this we have something of a stalemate that will never be resolved without a mutually respective approach.

Political associations aside, this is what the Republican party has failed to understand about the “terrorist country” of Iran. With force, nothing will ever be resolved with a country as strong willed as Iran. President Obama’s charisma and emotional intelligence has served him well during his presidency, as far as Iran is concerned. Yes, both countries have been scorned with events in history, but at the end of the day, someone has to be the bigger person in order for the greater good to occur. The yearly Norooz video messages to the people and government of Iran are amazing steps in the eyes of Iranians everywhere. There is no doubt in my mind that this show of respect for the Iranian people and culture greatly resonated with the Islamic Republic’s government officials.

The ending argument of whether sanctions work or not lies in whether they are made evident to be proven effective to those they are imposed upon. In the case of the Islamic Republic of Iran, regardless of opinion, it is quite clear that the political leaders of Iran do not feel that sanctions were effective. That, though a subjective way of thinking, is what truly matters in answering the question of whether or not sanctions are effective. Iran has proven over many decades that it can and will stand strong in the face of imposing sanctions. The Islamic Republic has managed to find a way around the financial destruction with deflecting its exports, signing petroleum deals with countries who are jumping at the opportunity of extremely cheap oil, and, quite frankly, remaining ignorant to the fact that its citizens are hurting. Yes, Iran’s GDP has been falling dramatically and the value of the rial has been decreasing at a drastic rate, but like Mohammad Javad Zarif mentioned, Iran still managed to build more centrifuges in the midst of being sanctioned. This proves that the government officials of Iran will find a way allocate what little resources they may have to the things that they deem most important; even if those things are the root of the country’s troubles with the rest of the world in the first place. Sanctions were not effective in Iran. The Islamic Republic has increased its non-oil exports, seems to have managed to retain a percentage of its centrifuges, and most importantly, the Iran is left standing once again, no matter how hard the opposition hits.

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Figure 2a: Evolution of Iranian Non-oil Exports

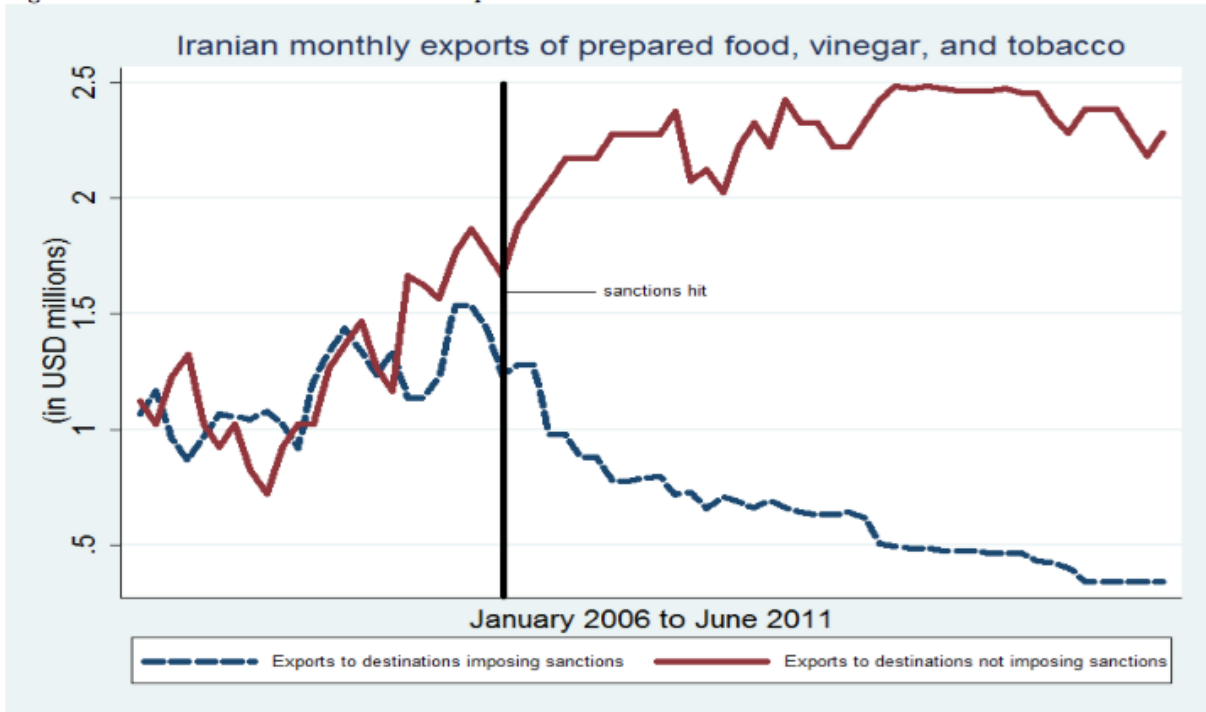


Figure 2b: Evolution of Iranian Non-oil Exports

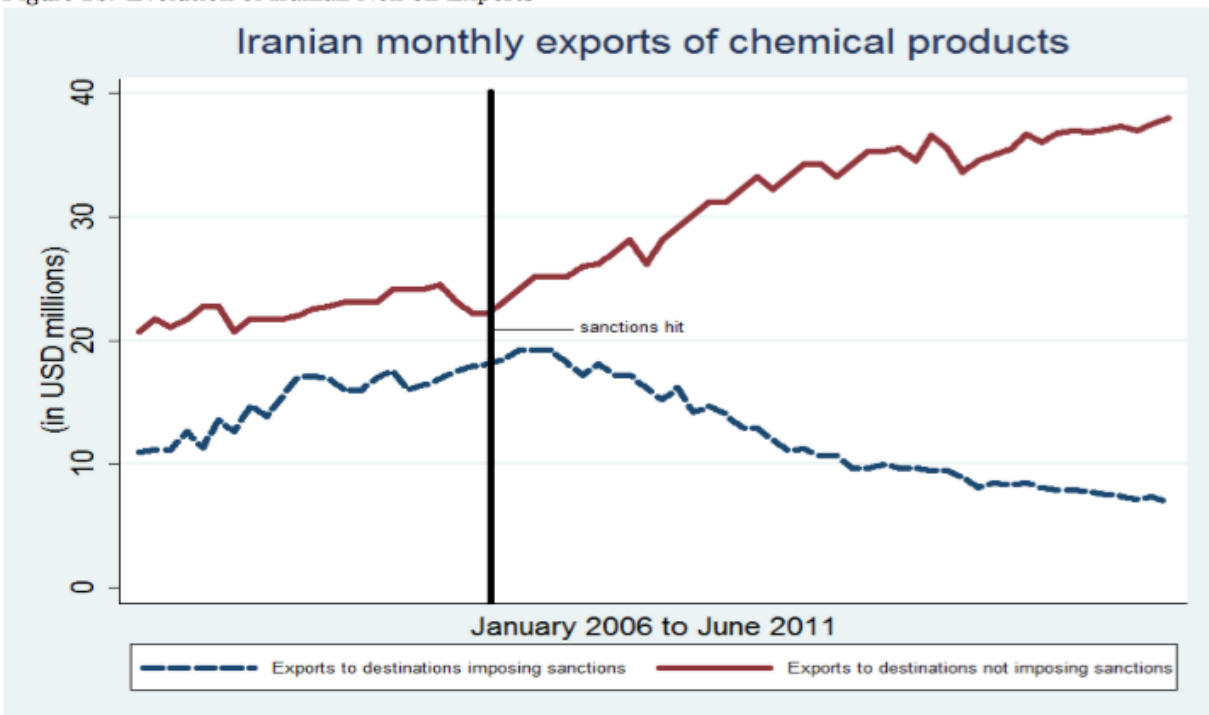


Figure 1: Evolution of Iranian Non-oil Exports

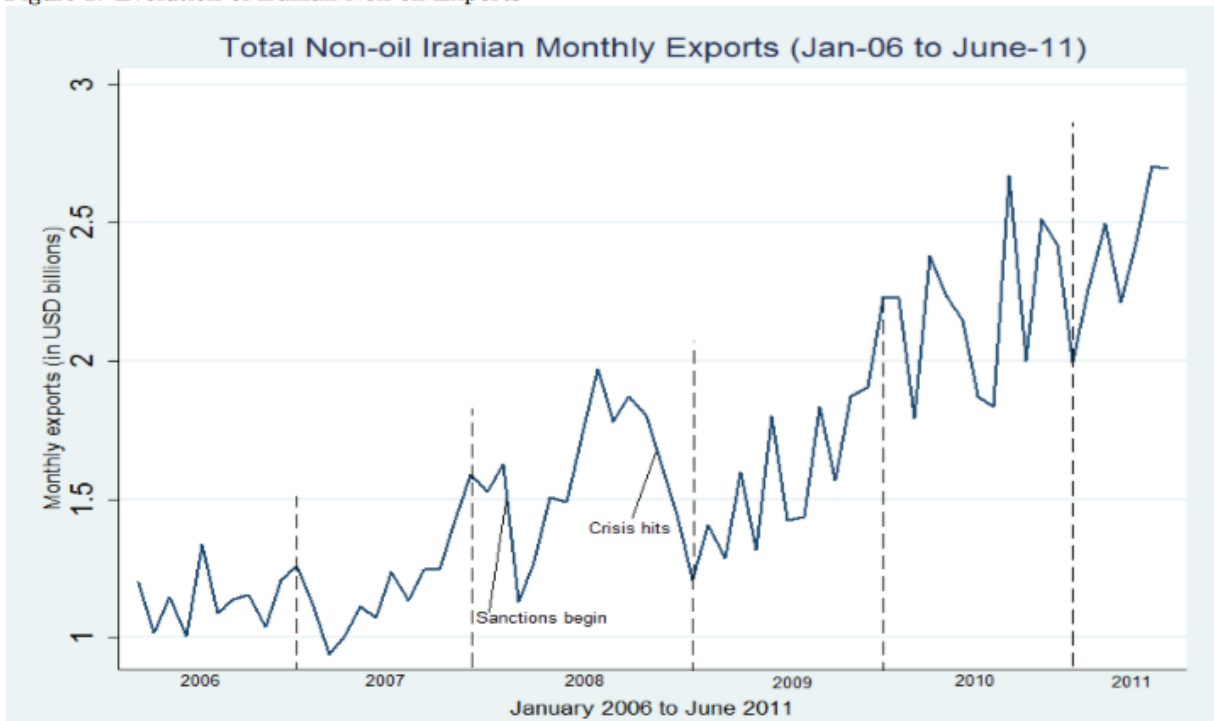


Figure 3b: Exports deflection

