

ECONOMIC SANCTIONS — OUR MODERN-DAY GORDIAN KNOT

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The modern history of economic sanctions begins with the wake of WWI. Economic sanctions, notably in the form of naval embargoes, were seen as an effective instrument to limit the war-making powers of adversaries. Yet, several countries including the United States saw them as illegal. After the war, economic sanctions were sanctified in the covenant of the League of Nations permissible under highly limited conditions. After WWII, with the birth of the United Nations, economic sanctions were still not generally seen as an acceptable foreign policy instrument. For instance, the United States branded the Arab boycott of Israel as illegal. The most celebrated sanctions were on South Africa under the auspices of the United Nations. These proposed sanctions gained momentum in the latter part of the 1980s. However, they were still ineffective because Ronald Reagan and Margaret Thatcher would not join the UN initiative believing that Nelson Mandela was a terrorist with Communists sympathies! Reagan even vetoed the Comprehensive Anti-Apartheid Act of 1986, which had to be overruled by the U.S. Congress. Only then did Britain follow suit, and sanctions took a toll on the apartheid regime.

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The modern history of economic sanctions begins with the wake of WWI. Economic sanctions, notably in the form of naval embargoes, were seen as an effective instrument to limit the war-making powers of adversaries. Yet, several countries including the United States saw them as illegal. After the war, economic sanctions were sanctified in the covenant of the League of Nations permissible under highly limited conditions. After WWII, with the birth of the United Nations, economic sanctions were still not generally seen as an acceptable foreign policy instrument. For instance, the United States branded the Arab boycott of Israel as illegal. The most celebrated sanctions were on South Africa under the auspices of the United Nations. These proposed sanctions gained momentum in the latter part of the 1980s. However, they were still ineffective because Ronald Reagan and Margaret Thatcher would not join the UN initiative believing that Nelson Mandela was a terrorist with Communists sympathies! Reagan even vetoed the Comprehensive Anti-Apartheid Act of 1986, which had to be overruled by the U.S. Congress. Only then did Britain follow suit, and sanctions took a toll on the apartheid regime.

Ironically, while the U.S. was slow to accept sanctions as a legitimate instrument of foreign policy, it has been a fast learner! Almost immediately in the aftermath of WWII sanctioning North Korea and becoming the supreme sender of sanctions. President Kennedy's 1962 embargo on Cuba with the hope of overthrowing Castro's regime was a watershed. Some sanctions against Cuba are still in force 60 years later in 2022. While the U.S. has wielded sanctions on dozens of other countries, including Russia, Iraq, China, Venezuela and Syria, sanctions on Iran have been longstanding and provide a good case for elaboration to highlight the limitation and the danger of sanctions.

The United States sanctions exports and imports of a country. It impedes access to international finance transactions (SWIFT). It sanctions capital inflows and outflows of a country. It restricts the flow of technology and people into and from a country. It sanctions commercial dealings with a country. It sanctions leaders, individuals, companies, and organization of a country. To make the sanctions more effective, it bolsters these with secondary sanctions—extending the same sanctions to any entity that breaks any of these with the target. It does all this and more to change the objectionable policies of a country. Iran has been subjected to all the above.

Why does the U.S. impose more sanctions than the rest of the world combined? Because it can. It has the largest economy in the world. It possesses premier technology in most fields. The dollar is the main reserve currency, store of value and medium of international exchange with trade and financial flows denominated

in dollars—allowing the U.S. to sever access to the dollar market. U.S. credit rating agencies, though independent, may be swayed in downgrading an adversary's credit. In short, the U.S. has economic and financial power and is willing to use it to bend an adversary and the U.S. has the military power to put behind its sanctions.

Besides the policy goals and even a regime's overthrow, a president and his party can pound their chest that they have acted boldly against an adversary. It provides great political theater, no matter if the sanction has no chance of being effective. Sanctions are easy to impose with no U.S. soldiers going to war. The President can direct sanctions through executive action. Still, what is the point of sanctioning Iran's morality police? Yes, their activities are objectionable, but how will sanctioning them change their or the regime's behavior? Or sanctioning the travel of a person who never goes outside of their country? Publicity stunts at best.

So, sanctions have been touted to be the instrument of choice when diplomacy fails. It avoids war and its attendant casualties, delivers the goods, or at least pushes back or brakes on an adversary's maligned policies. Do sanctions achieve their goal? Rarely and in a reasonable amount of time. Witness sanctions on Cuba, though modified over time, are still in force 60 years later; those on Iran dramatically tightened since 1979, still going strong after more than 40 years. The success case that all proponents of sanctions claim are those on South Africa, but this beside taking much time were helped by being multilateral, through the United Nations, as opposed to unilateral albeit strengthened by secondary sanctions.

What have sanctions on Iran achieved? Clearly, there was no immediate success—Iranian authorities did not, and have not, changed their policies to satisfy the United States because sanctions would have been lifted if they had. Be this as it may, maybe if Iran had not been sanctioned, it would have become so much stronger economically that it could have become a more dangerous adversary? That we will never know, but here is what we do know. Sanctions have eroded all trust between Iran and the U.S. Diplomacy is in a sheet of thin ice. Millions of Iranians have been deprived of economic security and essential medicines. While sanctions have killed no American soldier, thousands of Iranians have died from these deprivations. The decline in opportunities has been a major factor in driving young talented Iranians to emigrate far afield. Yes, sanctions have devastated Iran—its economy and more important the welfare and health of its citizenry. The seeds of hatred have been sown at least in the hearts of thousands of Iranians.

While Iran has been handcuffed, what about the fallout further afield? Yes, Iran's exports have been limited, but the global pain in Iran's two major exports have only now become apparent. Iran has the second largest reserves of natural gas and the fourth largest reserves of crude oil. So, Iran should be a prime exporter of natural gas (piped gas to Europe and/or liquified natural gas commonly referred to as LNG) and petrochemicals that use these as feedstock. Not so because of sanctions. In 1995, Iran invited Bechtel Corporation (the company that developed and built Qatar's LNG plants) to visit Iran. Iran's geography and vast gas reserves offered the most economic option for piped gas for Europe. In 1996, President Clinton killed all foreign investment and participation in Iran by enacting the Iran-Libya Sanctions Act. Bechtel could not develop these projects in Iran and CONOCO could not develop Iran's oil fields. The result 25 years later? Europe is hostage to Putin, Iranians have suffered and sanctions have not changed what the U.S. considers Iran's objectionable policies. Admittedly no one could have predicted the Ukraine war, but that is precisely the point. Sanctions are imposed with little appreciation of how they might affect the larger world then and into the future. ILSA has reduced the availability of oil and gas and adversely affected competition for these products, driving up prices and fueling global inflation. More broadly speaking, sanctions destroy natural comparative advantage of countries (the basis for trade) and put in its place an artificial comparative advantage, thus increasing prices and in the process resulting in supply chain problems, in turn leading to costly readjustments in production and distribution patterns across the world.

While sanctions have removed much of Iran's oil and gas off the market and its traditional exports of nuts, dried fruits, rugs, and handicrafts, they have helped the fortunes of producers elsewhere. In turn, they have become a powerful lobby for maintaining sanctions on Iran. Lobbyists for Qatar, UAE and Saudi Arabia work behind the scenes to maintain the sanctions to dampen any competition from Iran in natural gas and oil and in turn weaken Iran politically. California pistachio growers lobby to keep Iranian nuts out of the U.S. Of course, there is an army of anti-Iranian regime lobbyists—Israeli, Jewish, Arab- who want tighter sanctions to topple the Tehran regime.

What does all this tell us about sanctions being an instrument of “peace” when diplomacy fails? Yes, battlefield casualties are avoided for the sender of sanctions, but they are real for the target in the form of hunger, malnutrition, and medical deficiencies. Sanctions can go on for more years than most, if not all, wars, with devastating economic dislocations for the target and for the some of the world. The economic fallout can be even more ever than most wars. There remains the question as to the legality of unilateral sanctions under international law and whether they

contradict the articles of agreement of the IMF, IBRD and the WTO. For the future, the world should come together and limit the deployment of sanctions to military and related exports and imports and ratified by a majority vote of the UN Security Council with no vetoes permitted.