



WAR & SECURITY

The Sanctions Game

Donald Trump's “maximum pressure” strategy is doomed to fail, especially as tensions rise between Iran and the United States.

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Iran's economy has been through a lot in the past four years. After the Joint Comprehensive Plan of Action (JCPOA), which was designed to prevent Iran from acquiring a nuclear weapon, was sealed in 2015, Iran immediately received sanctions relief: its GDP promptly grew by a staggering rate of 12 percent, and European companies started investing in the country's key sectors such as **oil, gas, and automobiles**. But then last May, Donald Trump withdrew from JCPOA and violated the U.N. Security Council Resolution 2231, single-handedly undoing twelve years of intensive negotiations between Iran and several world powers.

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By withdrawing, the Trump administration imposed unilateral sanctions, targeting the purse strings of the Iranian economy: banking, finance, and the energy, aviation and shipping sectors. These are the toughest sanctions ever imposed on a country, and the European Union's attempts at creating independent financial channels for trade and business have so far failed to compensate for U.S. actions. The International Monetary Fund predicted that Iran's economy is expected to contract by 6 percent in 2019 and unemployment is expected to climb to 15.4 percent in **2019**.

"Today, it cannot be said whether conditions are better or worse than the war period," President Hassan Rouhani said, comparing Iran's current situation to the tough years of Saddam Hussein's war against Iran in the 1980s, "but during the war we did not have a problem with our banks, oil sales, or imports and exports, and there were only sanctions on **arms purchases**."

Indeed, since the 1979 Revolution, Iran has never faced such grinding economic pressures. The Trump administration hopes that by draining Iran's economy, it can bring the country back to the nuclear negotiating table on its knees—thus securing a "better" deal than the Obama administration oversaw. But missing from the Trump administration's calculus are a few simple facts, including the primary one that since the 1979 Revolution, Iran has never yielded to international pressure and coercion. Capitulating to the political and economic pressures of the "imperial" powers is seen by the country to be contrary to the core tenets of the 1979 Revolution—a revolution sociologists have described as the **last of "Great Revolutions"** for its fundamental transformations of the country's state and class structures and for its dominant ideology of safeguarding Iran's independence.

Moreover, while U.S. policymakers tend to focus on Iran's military **capabilities** (such as its ballistic missiles program) and its "hard" industries (such as steel, rubber, cement, and iron), they often overlook the real sources of Iran's strength: its human capital. Despite forty years of off-and-on economic sanctions, Iran boasts significant competence in not

just heavy industries but also cutting-edge sectors such as aerospace, nanotechnology, biotechnology, genetic engineering, and stem cells. It is home to a young, skilled labor force, 20 percent of which is college-educated. This stands in glaring contrast with the faster-growing economies of Brazil and India, in which laborers with a tertiary education account for less than 10 percent of the workforce.

Iran has proven it does not succumb to pressure. Equally important, it has also proven it can tolerate hardship. With recent reports of attacks on oil tankers near the Strait of Hormuz in the Gulf of Oman, tensions between Iran and the United States have risen dramatically, but the prospects of direct military engagement are unpalatable for all concerned. Neither country wants this stand-off to end in war; indeed, Trump himself has made it clear that he is not seeking to escalate military confrontations. So, what, then, can Trump's "maximum pressure" strategy hope to succeed?



Let's be blunt: the Trump administration's "maximum pressure" strategy will not make Iran yield. It will only cause economic hardship for ordinary Iranian people by way of increasing transaction costs. Because the Iranian Central Bank's SWIFT code is sanctioned by the U.S. Department of the Treasury, international banks will not be able to issue a letter of credit for Iranian clients to engage in trade and business. This massively raises the costs for the flow of capital in and out of the country and thus prevents economic growth and dynamism.

While economic sanctions always hurt large swaths of the civilian population, there is little evidence that they change government policies.

The possibilities of renegotiating a new deal with the Trump administration are there, but they are very slim. Last month, President Rouhani said that Iran is open to dialogue "whenever they lift the unjust sanctions and fulfill their commitments and return to the

negotiations table, which they left themselves.” More recently, Japan’s Prime Minister Shinzo Abe visited Iran last Tuesday to convey Trump’s offer of renegotiations to the Supreme Leader. “The Islamic Republic has no trust in America,” the Supreme Leader told Abe, and “no free and reasonable country would accept negotiations under **pressure**.”

For Iran, there is good reason to demand that any renegotiation only begin once economic sanctions are abolished. Iran, after all, has a certain high ground to stand on here. JCPOA involved the most intrusive regime of inspection that the non-proliferation world has **ever seen**. Over the past four years, the nuclear watchdog at the UN, the International Atomic Energy Agency (IAEA), confirmed time and again that Iran has been fully complying with the terms and conditions of **JCPOA**. Its resistance to U.S. pressure is thus seen as legitimate, by state managers, world power players, and the public.

Conversely, the Trump administration has proven itself to be inconsistent and untrustworthy. While Iran has fully complied with the terms and conditions of the JCPOA, the United States’ unilateral withdrawal in 2018 means that the economic dividends promised to Iran were abruptly cut short. Iran’s oil exports dropped from 3.8 million barrels per day in 2017 to fewer than 1 million barrels per day in May **2019**. Even if the two parties do eventually reach the negotiating table, U.S. actions have made the possibility of reaching a deal increasingly far-fetched. Iranian officials are now convinced that there are no guarantees; even if they were to negotiate a new deal, the United States may not keep its end of the **bargain**.

So long as U.S. economic sanctions are in place, there is plenty of reason to doubt we’ll ever even reach the negotiating table. For starters, there is a false belief among U.S. policymakers that countries surrender under massive economic and political pressures. While economic sanctions always hurt large swaths of the civilian population, they do little to change government policies. One comprehensive historical study of economic sanctions suggests that out of 170 cases in which sanctions were imposed in the twentieth century, only one-third produced their **stated and desired objectives**. Sanctions stymie economic growth, undermine production, and cause businesses to fail resulting in higher rates of unemployment, but the evidence shows that states are less likely to

capitulate under these pressures than they are to endure them.

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One reason for this is that sanctions actually work to undermine the more moderate and reformist forces in the country. In this respect, Iran is a prime example. Rouhani's administration is seen as moderate—he ran on the platform of “**constructive engagement**” with the world—and for the past forty years, various U.S. administrations have worked diligently to propagate rhetoric that they have no hostility toward the Iranian people. But because of Trump's belligerent policies and actions, Iran's conservative forces—who are constantly trying to convince the public that the United States is untrustworthy—have been bolstered. The Trump administration's determination to ratchet up sanctions after the nuclear agreement—coupled with the **travel ban**—have given rise to the perception among Iranians that U.S. policy is indiscriminate and intransigent.

The enormous influence of U.S. war hawks such as national security advisor John Bolton—who championed the invasion of Iraq in 2003 and has consistently urged for a military action against **Iran**—doesn't help this perception. While the biggest blunder for the Trump administration would be to mistake Iran with Iraq and opt for a military strike, Iranian leadership is convinced that the ultimate policy of the United States is one of “regime change.” Hence, Tehran views the sanctions as just one strategy aimed at internal destabilization, and its counterstrategy is to resist and to find ways of circumventing sanctions as much as possible.

Resisting and circumventing sanctions tactics are nothing new to the Iranian government and people. Iranians resisted Hussein's protracted war against their country throughout the 1980s without compromising an inch of their territory. They also resisted economic embargos of all sorts over the past forty years. Iran's rulers and its people are used to pressures, and the state has always found ways of keeping the society afloat in challenging

times.

In this respect, Iran's stock of human capital can be thought of as the most tangible representation of its wealth. The nation's youth literacy rate is at 98 percent—one of the highest in the world. Even during the current sanctions regime, Iran has remained one of the **Middle East's largest investors in scientific research**; in 2017, Iran was ranked the first country in the world in terms of scientific output and **growth**. Some of its elite technical universities are ranked among the world's top academic institutions, and Sharif University of Technology is often referred to as Iran's MIT. Many of Iran's graduates are employed in high-tech industries at home.

Endowed with 10 and 16 percent of world's total proven petroleum and natural gas reserves respectively, Iran is the only oil-based economy that has been able to develop a large industrial sector. In 2009, Iran became the world's eleventh largest automotive manufacturer, successfully producing more than 1.6 million **vehicles**. This ranking has placed Iran's automobile industry above some countries in the advanced world, such as the United Kingdom (thirteenth) and Italy (twenty-fourth). With thousands of engineers designing national vehicles, the auto industry is the second-largest sector in the economy after oil and offers a major employment opportunity to Iran's young **population**.

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Iran continues to perform well on human development indices such as education, health care, and social services. According to the United Nations Human Development Index, **Iran has improved by 67 percent** over the past decade, and **life expectancy has dramatically increased**, from 54 years of age in 1980 to 74 years in 2012. Again, despite economic sanctions over the past forty years, Iran is ranked among the world's top twenty economies in GDP as well as purchasing power **parity**.



While President Trump campaigned against the wars in Afghanistan and Iraq and repeatedly said that he does not want a new one with Iran, he has navigated himself into a dangerous corner in the Persian Gulf. The instability there serves no one's interests, but the regional allies of the United States—namely, Saudi Arabia, the United Arab Emirates, and Israel—have long pushed the Trump administration to take military action against **Iran**.

So far, Trump seems to have recognized that a military confrontation with Iran would be disastrous, in every possible way. But if he genuinely wishes to eschew further escalation, he should make credible diplomatic efforts toward resolving a crisis his administration unnecessarily caused by withdrawing from an international agreement, which by all official accounts was working so well. This would require the United States to abolish the sanctions it re-imposed on Iran after the nuclear agreement in 2015 and to start renegotiating a new deal from scratch. Knowing that the ill-advised “maximum pressure” policy will not make Iran capitulate, this is the only face-saving option for both countries.

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