

A Policy Analysis Considering Economic Sanctions on the Islamic Republic of Iran

By: Nathan Odendahl

This is a policy analysis concerning the various options in dealing with ceasing the illicit nuclear activities taking place in the Islamic Republic of Iran. The current problem facing the international political economic environment is choosing an appropriate way of encouraging the sovereign state of Iran to cooperate with the international community in order to end its pursuit of nuclear military capabilities that threatens regional stability and global security. This analysis will examine the Joint Plan of Action agreement between Iran and the P5+1 countries, which encourages diplomacy through economic incentives, and the hard-line approach that emphasizes economic coercion. It will also consider the middle ground by examining the strengths and weaknesses of the Nuclear Weapon Free Iran Act of 2013, legislation supported by the United States Congress. Based on evidence provided, this analysis will conclude with selecting policy that is most effective at keeping Iran in diplomatic negotiations with the international community.

In 2005 the IAEA, a UN watchdog, declared that Iran was not cooperative in their disclosure of its uranium enrichment activities and implementation of agreed upon safeguards that ensures the country does not obtain nuclear military capabilities.¹ Iran failed to disclose the production of two potential highly productive nuclear facilities at Arak and Natanz and enriched uranium levels to almost 20%, which is a high enough enrichment to be used in a nuclear bomb.² Currently Iran is in possession of 95.4 kilograms of highly enriched uranium with the potential capability of producing much more.³ Iran's actions put the relative security of the world at risk.

In reaction to Iran's behavior The U.N. has imposed sanctions on Iran effectively limiting the state's acquisition of nuclear materials and technologies. More importantly, the major world economic powers have enacted sanctions significantly reducing the productivity of the Iranian

¹ www.iaea.org

² www.NTI.org

³ www.NTI.org

economy, effectively bringing the country to the diplomatic negotiating table. The Iranian economy is in freefall. The United States and the European Union have placed sanctions on foreign firms dealing with Iran's energy sector.⁴ Iran has ten percent of the world's known oil reserves but the country has limited markets to export it to. Recent sanctions placed on the energy sector have caused a 60% decrease in sales causing government oil revenue to fall from 100 billion dollars in 2011 to 35 billion in 2013.⁵ In the financial sector the economic powers froze assets on the Iranian Central Bank and has banned all transactions with Iranian banks; making 60-80 billion dollars of Iran's 100 billion dollar foreign reserve inaccessible. Iran is unable to buy back its own currency to combat the country's growing inflation. Production and export are also suffering because foreign countries refused to export any materials and technologies to Iran that will allow it to facilitate production of goods. Embargos on exports and foreign investment in Iran slowed production and caused the country to run a significant deficit in current account. This is causing severe devaluation of currency causing the Rial to inflate to nearly 35%. In 2013 the country's GDP fell by 5% and unemployment rose to 20%.⁶ Iran has significant global economic potential but the Iranian government needs to find a way to get out of this economic stagnation or face economic collapse.⁷ Iran's economic environment has caused the country to come to the negotiating table to reconsider its nuclear capabilities. It is necessary for the security of the world to choose a policy that would ensure continued diplomatic negotiations would put an end to Iran's pursuit of a nuclear weapon.

The first policy option uses the attractiveness of economic prosperity to convince Iran of the benefits of international cooperation. On January 20th the P5+1 countries and Iran enacted The Joint Plan of Action, which is an initial agreement to limit Iranian nuclear pursuits. The agreement states that over a period of 6 months the P5+1 countries would: give Iran 4.2 billion

⁴ www.Fas.org

⁵ www.Fas.org

⁶ www.financialtimes.com

⁷ www.defenddemocracy.org

dollars of its inaccessible funds, stop sanctions on countries that buy Iranian oil, and allow imports of precious metals, aviation technology, and humanitarian aid.⁸ In return for this economic reward Iran agreed to limit their enrichment of uranium, cease their production of highly enriched uranium and dilute half of their current highly enriched stockpile to less dangerous levels. If Iran does not oblige by this agreement, the P5+1 countries will revoke their agreement and reinstall previous sanctions. The policy will provide Iran with about 6-7 billion dollars of relief to facilitate limited economic production that will contribute 15 billion dollars to the weak Iranian economy.⁹

This policy emphasizes that positive economic incentives fosters positive diplomatic negotiations. By offering the diplomatic carrot as a reward for cooperation the international community has improved the status quo rather than maintained it. This policy prioritizes cooperation and creates an opportunity for Iran to establish credibility for future diplomatic negotiations. If Iran agrees to follow the rules in the hopes of gaining economic prosperity then it will set a precedent that actors can work to build positive relationships where cooperation is an agreement to achieve a mutual benefit not forced in response to a threat. This policy also takes into account the current political climate of Iran. In June 2013, the Iranian public elected Hassan Rouhani President. His campaign said he was going to help the country's economy by "reopening trade, industrial and economic relations with all [Iran's] neighbors" through "cooperation and engagement".¹⁰ This represents a shift of the public desire that is willing cooperate with the international community to give up its potential nuclear capabilities for economic prosperity. International trade will also foster positive economic relations with countries where Iran would want to foster positive economic relationships and not do anything diplomatically irresponsible.

⁸ www.state.gov

⁹ www.ft.com

¹⁰ www.ft.com

Critics believe that the policies that incentivize cooperation do not have enough power to convince Iran to give up its nuclear pursuits. Iran has come to the negotiating table because the sanctions were working. Iran's economy was failing. By offering a reward for good behavior it increases the productivity of Iran's economy and effectively decreases American bargaining power. Other policies support a more coercive form of economic encouragement. Israeli government officials including Prime Minister Benjamin Netanyahu and the Minister of Defense want to swing the diplomatic stick and force Iranian concession.¹¹ They say that Iran cannot be trusted and are pushing for more severe international sanctions to increase the economic and diplomatic isolation of the regime. They wish to put Iran under such strong sanctions that Iran would agree to "a much better deal that destroys Iran's nuclear capabilities". This policy would be more effective than the later at ceasing nuclear weapon development because Iran's economy would be in such a poor state. This mercantilist policy would effectively force Iran to cooperate and appease the demands of the sanctioning economic powers.

This coercive diplomacy could easily backfire. If these sanctions are not universally accepted, the country pushing the sanctions could lose credibility within the international community and sanctions would not be enforced. More importantly, this policy does not take into account the Iranian political environment. Recently, The Supreme Ruler Ayatollah Khameni reacted negatively to the mention of sanctions and raised the possibility of "economic jihad" a form of sanction resistance where Iran would evacuate all diplomatic negotiations and focus on its domestic economy, especially nuclear development, if more sanctions are enacted.¹² While to some it may be certain that Iran will have to concede, there is still a significant possibility that Iran would stray away from diplomacy and mobilize its nationalist base to become an isolationist nuclear state.

¹¹ www.Haaretz.com

¹² www.ft.com

The final policy is a combination of both carrot and stick diplomacy. United States Congressman did not think that the JPA was strong enough in its request for nuclear responsibility. In order to make sure Iran sticks by its JPA agreement, Members of Congress have created Nuclear Weapon Free Iran Act 2013 that not only will revoke sanction relief that will enact much harsher sanctions on Iran if the country happens to not follow the rules of the Joint Plan of Action. This is a strong policy because it lays out the specific and strategic economic consequences if Iran does not follow the JPA agreement. Many Americans do not trust the Iranian government especially in regards to their nuclear program. The legislation makes Iran more accountable and responsible to limit its nuclear capabilities. The bill will also give the United States more potential bargaining power over economic power in future rounds of negotiations.

Obama has promised that he will veto this legislation based on the fact that is diplomatically irresponsible. While the bill looks to protect American and international interests, it disregards the delicate balance established through diplomatic negotiations. The legislation adds a further economic consequence that was not agreed upon. This takes away Iran's opportunity to establish credibility in the international community. Diplomatic agreements like the JPA are only successful when all actors maintain a certain level of trust. As seen in the Prisoners Dilemma, if that trust between two actors is broken, cooperation is highly unlikely.

Upon careful examination it is my opinion that the policy that promotes international cooperation through economic incentives is the most effective policy to continue diplomatic negotiations with the Islamic Republic of Iran. All other policies carried too much risk for diplomatic fallout while The Joint Plan of Action promoted an exchange of dialogue and an increase of transparency between sovereign actors. This initial agreement shows that diplomacy could work and that Iran is becoming more open to the idea of international cooperation and being a more legitimate player in the global political economy.

