

IT'S NOT THAT SIMPLE:  
EXAMINING THE NUANCE OF ECONOMIC SANCTIONS

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## **Abstract**

Economic sanctions are a nuanced form of statecraft that have grown increasingly popular over the last several decades. However, much of the academic community's research on the subject focuses entirely on determining whether sanctions are "effective" or not. Such analysis is shortsighted and largely unhelpful for any policymaker seeking input from the academic community as to how to best craft a sanctions regime. Rather than take a sanctions-optimist or sanctions-pessimist perspective, this thesis encourages a more nuanced analysis of the factors that can contribute to any given sanctions regime's success or failure. It uniquely applies theories found in other fields of behavioral and scientific study to economic sanctions, thereby adding more complexity to the conversation surrounding sanctions – particularly concerning Russia, Cuba, and Iran.

The research conducted in this thesis demonstrates the need for a more nuanced approach in discussing and debating economic sanctions. It serves to assist the academic and public policy communities in (1) developing a better understanding of how the presence, or lack thereof, of certain conditions can contribute to a sanctions regime being more or less likely to succeed in accomplishing the goals set by policymakers; (2) learning how target states can develop resistance economies that will likely prove effective in assuaging the impact of future sanctions regimes imposed upon them; and (3) identifying how domestic stakeholders – including Congress, the Executive Branch, and industry – make their policy preferences known during the period in which sanctions legislation is being drafted and imposed, as well as the potential unintended consequences of drafting sanctions legislation without giving proper consideration to all stakeholder preferences.

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## **Introduction**

For the last several decades, policymakers have increasingly come to rely on the imposition of economic sanctions as a credible form of statecraft against state and non-state actors alike. The academic literature has clearly demonstrated that much, however it has failed to properly account for the various means by which states impose sanctions, how sanctions-receiving states respond to sanctions imposition, as well how the domestic constituencies within sanctions-sending states express their preferences to shape sanctions policy. Without such an understanding, the academic community's understanding of sanctions imposition can only be considered incomplete and worthy of additional consideration.

For too long, the academic community has largely thought of sanctions-receiving states in black or white terms, reducing the range of factors that are considered when evaluating the effectiveness of sanctions to a limited set of quantitative metrics. However, this process foregoes the responsibility of any academic – or policymaker – to account for the many differences that exist within target states, their respective societies, and their objectives as they concern the policy preferences of the sanctions-sending state.

Therefore, Chapter One of this thesis focuses on identifying the best set of factors to evaluate when determining how to form a well-crafted sanctions regime targeting authoritarian governments. Whereas much of the literature on economic sanctions tends to place all authoritarian governments in the same category – thereby constricting the range of possible successes to be reached through sanctions imposition – this study shows how authoritarian regimes, just like any government, hold differing policy objectives and respond to constituencies of varying degrees of influence. They can, in fact, be compelled to behave differently from other

authoritarian regimes and therefore require a more nuanced assessment of how to best impose economic sanctions upon them.

To some, such an assertion may sound trivial – and for good reason. It should come as no surprise that Iran is very much different from Cuba. However, the academic community has yet to truly make that much clear within the published literature. In fact, because of the field’s emphasis on quantitative assessments of the “effectiveness” of sanctions as a tool of statecraft, the literature has failed to properly delineate the differences between authoritarian regimes and how those differences prove to have a significant impact on how the sanctions-receiving country reacts to imposition of said sanctions.

Chapter One of this thesis is significant if for no other reason than it directs the academic community’s attention away from providing narrow definitions of what constitutes a successful sanctions regime, opting for greater attention to be placed on identifying the conditions under which certain types of economic sanctions regimes may be most likely to achieve their stated goals when implemented against target countries.

Chapter Two of this thesis provides a unique analysis of target state responses to sanctions imposition. Until now, the academic community’s focus on unintended consequences of sanctions has tended to emphasize the impact of sanctions on innocent bystanders or, in some cases, how sanctions imposition can make the prospect of a target state receiving international humanitarian assistance more difficult. These studies are important and worthy of greater study, but they do not provide a complete overview of what could be considered an unintended consequence of sanctions imposition.

By uniquely incorporating adaptive resilience theory, Chapter Two argues that states will seek to subvert the aims of sender states by developing resistance economies with the explicit



goal of limiting the negative impact brought about by the imposition of any given sanctions regime. Unlike much of the existing literature on economic sanctions, this thesis subscribes to neither a sanctions-optimist nor a sanctions-pessimist perspective. Rather, it emphasizes that irrespective of whether the intended policy objective of a sanctions regime is achieved, it is possible for conditions to be created through sanctions imposition by which target states are incentivized to develop economies that could, hypothetically, prove to be more resilient to the imposition of future sanctions regimes.

As is explained in greater length in the second chapter of this thesis, if sending states impose sanctions without properly assessing how target states can emerge resistant to or resilient in the wake of future sanctions regimes, they may unintentionally limit the options afforded to the very policymakers who seek to prevent escalation of existing and emerging tensions.

Like Chapters One and Two, the third chapter of this thesis attempts to shine light on an area of economic sanctions research that has largely been glossed over. In particular, Chapter Three seeks to establish a basis for understanding how domestic stakeholders within sanctions-sending states are able to debate the merits of their policy preferences to ultimately form sanctions policy that is both concessionary – in the sense that all sides give in, at least to some degree, to the preferences of other stakeholders – and biting – in that it adds new pressures to the state for which the sanctions regime in question is designed to negatively impact.

By evaluating stakeholder preferences for the Congress, Executive Branch, and industry, Chapter Three calls attention to the potential for additional unintended consequences from sanctions that have largely gone unaddressed; in particular, sanctions' negative impact on domestic industry, as well as the tool's potentially limiting effect on the diplomatic options afforded to the Executive Branch. Specifically, this chapter evaluates stakeholder preferences

within the context of one piece of legislation that is widely considered to be the most comprehensive and substantive piece of sanctions legislation ever passed by Congress and imposed on a country.

Whereas much of the academic literature's focus has been to merely gauge the effectiveness of sanctions as a tool of statecraft, this thesis aims to direct more attention on the intricate nuances necessary to consider in order to develop effective sanctions. Perhaps unintentionally, the literature's seeming obsession with determining the effectiveness of sanctions largely misses the point of discussing sanctions altogether. Sanctions are a form of statecraft that can be tailored to address certain situations if doing so is in the interest of the country. That logic necessitates the realization that sanctions are not always the best form of statecraft to employ in a given situation. But rather than look at sanctions as though they are a weapons system or caliber of bullet – in which case one would assess the dynamics at play and determine which weapons system is best for the job at hand or how large of a caliber bullet one would need to pierce and render a target non-operational – the academic community has debated sanctions as though they are all the same.

Only until somewhat recently has the conversation begun incorporating terms such as “smart sanctions” – which focus on targeting specific individuals or networks of operation – but even those frameworks have proved to be too limiting and too prescriptive in assessing the effectiveness of sanctions.

If the academic and public policy communities are to gain a better understanding of the nuance involved in crafting economic sanctions policy, the first step will require abandoning the notion that sanctions either work or they don't. Then, and only then, will we be able to proceed in evaluating where and when to impose sanctions.

Again, this thesis neither advocates for nor argues against the imposition of sanctions as a legitimate form of statecraft. Rather, it encourages greater dialogue and understanding in the hopes of fostering more effective policy.

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“THE SUPREME ART OF WAR IS TO SUBDUE THE ENEMY WITHOUT FIGHTING.”

— SUN TZU

## **Introduction**

Testing Blanchard and Ripsman’s theory of economic statecraft,<sup>1</sup> this paper will assist lawmakers, policy professionals, and members of the academic community in developing a better understanding of how the presence, or lack thereof, of certain conditions can contribute to a sanctions regime being more or less likely to succeed in accomplishing the goals set by policymakers.<sup>2</sup>

More specifically, this analysis will attempt to explain how Iran’s high level of “stateness” has historically allowed it to largely ignore decades of sender state demands.<sup>3</sup> The subsequent definition and analysis of stateness will likewise demonstrate the ways in which the hardline regime has insulated itself from constituencies within the state that have traditionally preferred earlier economic and political reforms.

So too, this paper will expand upon Blanchard and Ripsman's theory by examining how international pressures – coupled with domestic political factors – have compelled Iran to comply, albeit in a limited fashion, with the demands of the most recent multilateral sanctions regime imposed upon it by the United States and members of the international community for the sake of strengthening diminished levels of domestic legitimacy and economic capacity.

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<sup>1</sup> Blanchard, Jean-Marc F., and Norrin M. Ripsman. 2013. *Economic statecraft and foreign policy*. Routledge Global Security Studies. Hoboken: Taylor and Francis.

<sup>2</sup> Economic statecraft is defined by Blanchard and Ripsman as “an attempt by a sender state to influence a target state either to do something it would not ordinarily do or to forgo an action that it would otherwise engage in, by the manipulation of market in a manner that provides economic benefits to states that comply and/or imposes economic penalties on those who fail to comply.” See page 5 of the above-cited book for an expanded definition.

<sup>3</sup> Stateness can be understood as the institutional centrality of a state’s capacity to insulate itself from outside interference (i.e. resisting the demand’s made by states imposing, or sending, sanctions). A high degree of stateness can result from a multitude of factors, including high levels of state autonomy, coercive and economic capacity, and/or legitimacy. These terms are explained in greater detail below.

Evaluating these factors will ultimately improve the academic community's ability to discern how the behavior of authoritarian regimes may vary in response to the imposition of sanctions, both unilateral and multilateral in scope, depending on the regime's ability to not only insulate itself from the impact sanctions can have on targeted sectors, but also prevent the deterioration of its standing as a legitimate actor within the realm of geopolitics and international trade. It will likewise direct the community's attention away from providing narrow definitions of what constitutes a successful sanctions regime, opting for greater attention to be focused on identifying the conditions under which certain types of economic sanctions regimes may be most likely to achieve their stated goals when implemented against particular target countries.

Whereas much of the existing literature fails to recognize not only the multitude of goals any given sanctions regime may seek to accomplish, but also the inherent differences between particular authoritarian regimes, this paper's contribution in strengthening and calling attention to Blanchard and Ripsman's significant, yet under-evaluated theory of economic statecraft will allow for a clearer understanding of how both domestic and international political constraints can compel foreign policy executives to either comply with or ignore the demands of sender states depending on the nature of the sanctions regime in question as it relates to the receiving state's degree of stateness and maintained international standing.

In order to evaluate the usefulness of Blanchard and Ripsman's theory of economic statecraft, this paper will analyze their approach against three alternative schools of economic thought: realism, liberalism, and conditionalism. Iran's history as a multi-decade recipient of varying degrees of sanctions regimes (unilateral and multilateral) will prove helpful in furthering the application of their theory as it concerns the impact that both domestic and international

political pressures can ultimately have in compelling a receiving state to comply with or ignore the demands of sender states.

Testing the degree of Iran's stateness will necessitate an analysis of the regime's capacity to control domestic civilian and political institutions, as well as its ability to achieve core national objectives on the international stage despite suffering from the impact of both unilateral and multilateral economic sanctions. Such analysis will examine how the combination of Iran's shifting domestic parliamentary political makeup, in addition to its diminishing international standing, has incentivized the regime to comply with a limited set of sender state demands while simultaneously building up its capacity to exert greater influence at home and abroad.

Moreover, it is important to note that the intent of this paper is not to discuss the merits of the negotiation agreed upon between Iran and members of the international community in what is commonly referred to as the Joint Comprehensive Plan of Action (JCPOA). Rather, it is exclusively meant to encourage a more rigorous understanding of how utilizing sanctions as a tool of statecraft requires a thorough analysis of not only the strategic threats faced by target states, but also the ways in which domestic constituencies may or may not be able to compel behavior change on the part of their respective foreign policy executive(s). For, if there are more efficient and effective ways of avoiding or at least delaying the outbreak of armed conflict, the academic community must do all it can to ensure that lawmakers are equipped with the requisite knowledge to best utilize all of the tools at their disposal.

## **Literature Review**

It is apparent that in the wake of growing state sponsorship of terrorism over the last few decades, policymakers are increasingly imposing both unilateral and multilateral sanctions as a

crucial tactic in the overall statecraft tool belt. However, the existing literature on the subject seems to imply that sanctions are overwhelmingly ineffective in changing target state behavior unless the sanctions regime is set in place to achieve relatively low-priority goals as they concern behavior change in countries with democratic governance. An observer of this situation can therefore conclude one of two things: 1) either policymakers have failed to internalize the existing sanctions literature and are naive to its findings or 2) the existing literature has simply not been useful in addressing the needs and concerns of those very policymakers. More research is therefore necessary to create reliable metrics for evaluating a particular sanctions regime's effectiveness.

The first step in this process lies in understanding that sanctions have the greatest chance of producing positive outcomes “when the sanctions regime is structured in accordance with the goals set out for it.”<sup>4</sup> On a very basic level, this premise appears obvious. However, the existing literature concerning the effectiveness of economic sanctions largely ignores the strategic considerations involved in implementing any given sanctions regime. Rather, it frequently offers narrowly constructed definitions of what should constitute sanctions successes and failures. Addressing this important limitation, Meghan O’Sullivan observes that:

“...very few sanctions strategies are crafted with both a clear sense of purpose and an appreciation that the structure of a sanctions regime can and should be customized depending on that desired outcome. A sanctions regime intended to bring about change in the behavior of a government needs to create a flexible framework for working through a set of issues and to acknowledge incremental progress by partially lifting sanctions. In contrast, a sanctions regime geared toward containing a country needs to prioritize multilateral support for sanctions to maximize their economic impact. Alternatively, a sanctions regime most interested in promoting a wholesale change in the government in the country in question will require quite a distinct set of sanctions one that both pressures the regime and nurtures the opposition.”<sup>5</sup>

Understanding the multitude of possible goals associated with implementation of sanctions

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<sup>4</sup> O’Sullivan, Meghan L. 2010. Iran and the great sanctions debate. *Washington Quarterly* 33 (4) (10/01): 8.

<sup>5</sup> Ibid.



regimes, it is easy to see how any given researcher's metrics for defining success as it concerns sanctions will likely be inherently subjective and fail to ultimately account for the goals that policymakers actually sought to achieve when crafting the sanctions regime. To this effect, David Rowe argues that:

“The fact that policymakers often pursue multiple goals against multiple targets when using economic sanctions means that the success of sanctions will vary depending on which goals one is considering with respect to which targets. Yet the methodological-driven focus on comparing cases of success and failure too often leads analysts of sanctions to collapse the multiple goals and targets that are present in almost every use of sanctions onto a single dimension of success or failure....[Therefore,] there is simply no reason for the literature to continue to build its research around or test its intuitions using this highly problematic method of empirical inquiry.”<sup>6</sup>

Furthermore, the academic community's focus on using quantitative metrics to evaluate the effectiveness of sanctions as a form of statecraft has limited the scope of legitimate analysis and debate. Of course, developing quantitative metrics can be useful for the sake of informing policymakers whether their preferred form of statecraft is, in fact, the most effective option available to them. However, this strictly quantitative approach has largely missed the mark by failing to recognize the multitude of domestic and international political factors that contribute to a state's decision to comply with or ignore the demands of sender states. Ultimately, the results stemming from these quantitative assessments of the impact brought about by imposition of sanctions regimes have painted a largely incomplete and misleading picture for policymakers and academics alike.

In order to gain a better understanding of how pervasive these limitations truly are, this paper will evaluate some of the literature's most central theories – namely those that fall within the two most relevant and commonly referenced schools of thought: political realism and commercial liberalism. These schools have produced a number of camps within the debate over

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<sup>6</sup> Rowe, David M. 2010. Economic sanctions and international security. *The International Studies Encyclopedia*.

the effectiveness and utility of sanctions as a tool of statecraft. Most academics fall within one of two camps: sanctions optimists or sanctions pessimists. A third group has subsequently emerged in recent years to represent the economic conditionalism approach. Forming the basis of what can be described as sanctions disaggregators, this body of work largely contributes to the foundation of Blanchard and Ripsman's theory of economic statecraft.

### ***Political Realism/Sanctions Pessimists***

At its core, political realism argues that a state's financial institutions and policies are strictly extensions of state power – that states act as unitary, rational actors within the international community. Political realists do not lend legitimacy to the interests of individuals, non-governmental organizations, or international governmental organizations, as commercial liberals would. Although they do recognize that firms are able to impact market forces, they believe that any given firm's influence is second only to the interests of the state. Consequently, firms must respond in accordance with state policies and priorities – regardless of how the economic loss impacts the general population and/or key constituencies. This school has produced the sanctions pessimist camp. Of the sanctions pessimist literature, Baldwin<sup>7</sup> and Pape<sup>8</sup> argue that economic sanctions fail to prevent the use of military force in conflict and only succeed in accomplishing their goals when aimed at addressing relatively low-priority issues. These authors are strikingly dismissive of giving economic sanctions nearly any notion of legitimacy as a tool of statecraft. They mostly look at sanctions within a vacuum, as a tactic that

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<sup>7</sup> Baldwin writes that “[t]he overall impression one derives from the literature is that economic statecraft is so obviously useless as to raise question about the good judgment of any policy maker who gives serious consideration to such techniques.” See Baldwin, David A. 1985. *Economic statecraft*. Princeton, N.J.: Princeton University Press.

<sup>8</sup> Of the political realism/sanctions pessimist authors, Pape particularly fails to recognize the multitude of goals a given sanctions regime can seek to accomplish. Whereas Kirshner, Blanchard and Ripsman, etc. all refuse to look at sanctions in a vacuum, Pape actually requires that one must look at sanctions in a vacuum in order to understand the tool's effectiveness. Pape is also renowned for his attempts to discredit the HSE dataset discussed below. See Pape, Robert A. 1987. Why economic sanctions do not work. *International Security* 22 (2): 90-136; and Pape, Robert A. 1998. Why economic sanctions still do not work. *International Security* 23 (1): 66-77.

should be evaluated without giving consideration to other forms of hard and/or soft power being employed simultaneously. Researchers interested in exploring the works of early sanctions pessimists ought consider reviewing Hoffman (1967),<sup>9</sup> Galtung (1967),<sup>10</sup> Doxey (1971),<sup>11</sup> Barber (1979),<sup>12</sup> Losman (1979),<sup>13</sup> and Renwick (1981).<sup>14</sup>

Collectively, the body of economic realist/sanctions pessimist literature is rigid and seemingly discounts any instance in which economic sanctions have produced meaningful change on the part of target states. Nevertheless, as Blanchard and Ripsman note, the economic realist/sanctions pessimist view of economic statecraft focuses the academic community's "attention on [both] the political dimension of decision making by economic statecraft targets...[and] the myriad of political variables which enter into the calculus of policy makers responding to the application of economic statecraft."<sup>15</sup>

### ***Commercial liberalism/Sanctions Optimists***

In contrast to political realism, commercial liberalism generally promotes an international order that lends a high degree of legitimacy to firms, non-governmental organizations, international governmental organizations, individuals, and states. In particular, this school believes that the key driver of economic activity is the individual. By pursuing actions in their self-interest, individuals are thought to maximize the benefits of economic exchange for society. Theoretically, free market forces under a liberalized economy reflect the general attitudes and

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<sup>9</sup> Hoffman, Frederick. 1967. The functions of economic sanctions. *Journal of Peace Research* 2 : 140-60.

<sup>10</sup> Galtung, Johan. 2004. On the effects of international economic sanctions: With examples from the case of Rhodesia. In , 526Elgar.

<sup>11</sup> Doxey, Margaret P. 1971. Economic sanctions and international enforcement. Oxford paperbacks, 268. London, New York: published for the Royal Institute of International Affairs, by Oxford University Press.

<sup>12</sup> Barber, James. 1979. Economic sanctions as a policy instrument. *International Affairs* 55 (3) (07/01): 367.

<sup>13</sup> Losman, Donald L. 1979. International economic sanctions : The cases of Cuba, Israel, and Rhodesia. In University of New Mexico Press; Univ of New Mexico Press.

<sup>14</sup> Renwick, Robin. 1981. Economic sanctions. *Harvard studies in international affairs*. Vol. 45. Cambridge, Mass.: Center for International affairs, Harvard University.

<sup>15</sup> Blanchard and Ripsman (2013), p. 375.

behaviors of both individuals and the various actors that have vested interests in markets performing at optimal efficiency. Therefore, under the commercial liberalism school of thought, state foreign policy executives will respond to economic losses in whatever way market forces deem necessary.

It follows that sanctions optimists tends to support the notion that economic constraints can play a key role in bringing about a shift in state behavior. They believe that international institutions can likewise influence state policies, outside of the state's domestic political institutions. Of the sanctions optimists, Hufbauer, Schott, and Elliott (HSE),<sup>16</sup> Daoudi and Dajani,<sup>17</sup> Shambaugh,<sup>18</sup> Cortright and Lopez,<sup>20</sup> and Major and McGann<sup>21</sup> argue that sanctions can be effective at bringing about behavior change in target states. They believe that sanctions will become increasingly effective when they are multilateral, long lasting, and comprehensive. However, some of these authors disagree as to whether the imposition of sanctions against innocent bystanders does more harm than good in bringing about behavior change on the part of target states.

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<sup>16</sup> The dataset offered by HSE is one of the most comprehensive in the entire field of study. HSE argue that sanctions have the greatest likelihood of success when they represent more than 1% of the target state's Gross Domestic Product (GDP). It is important to note that although this is recognized as the most comprehensive, there have been many attempts to discredit the findings HSE make regarding the data presented in their dataset. See Hufbauer, Gary Clyde, Jeffrey J. Schott, and Kimberly Ann Elliott. 1985. *Economic sanctions reconsidered: History and current policy*. Washington, D.C.: Institute for International Economics; Cambridge, Mass.

<sup>17</sup> Daoudi and Dajani argue that sanctions are most effective when they are in place for a prolonged period of time, allowing for the impact to manifest in ways that may be unpredictable given the volatility of markets and political decision-making processes. See Daoudi, M. S., and M. S. Dajani. 1983. *Economic sanctions, ideals and experience*. Ile. London ;Boston: Routledge & Kegan Paul.

<sup>18</sup> Shambaugh IV, George E. 1996. Dominance, dependence, and political power: Tethering technology in the 1980s and today. *International Studies Quarterly* 40 (4) (12/01): 559.

<sup>19</sup> Shambaugh, George E. 1999. *States, firms, and power: Successful sanctions in United States foreign policy*. SUNY Series in Global Politics. Albany: State University of New York Press.

<sup>20</sup> Cortright and Lopez argue that sanctions are most effective when they target state leaders. They advocate for the use of "smart sanctions." See David, and George A. Lopez. 2002. *Smart sanctions: Targeting economic statecraft*. Lanham, Md.: Rowman & Littlefield.

<sup>21</sup> In contrast to Cortright and Lopez, Major and McGann argue that indiscriminately harming the financial wellbeing of the innocent population within a target country will produce results more effectively and efficiently than any other form of sanctions. See Major, Solomon, and Anthony J. McGann. 2005. Caught in the crossfire: 'innocent bystanders' as optimal targets of economic sanctions. *Journal of Conflict Resolution* 49 (3) (06/01): 337.

Lastly, whereas political realists fail to recognize instances in which economic sanctions effectively resulted in behavior change on the part of target states, Blanchard and Ripsman argue that the “commercial liberal expectation that powerful economic stimuli should regularly overwhelm the political preferences is too strong and contradicted by key events.”<sup>22</sup>

### ***Economic Conditionalism/Sanctions Disaggregators***

Separate from the sanctions optimists and pessimists are a community of authors who aim to operate under an economic conditionalism framework. They uniquely blend many of the arguments presented by sanctions optimists and pessimists, asserting that the likelihood of behavior change through imposition of economic sanctions can increase or decrease depending on the presence of certain political conditions. These authors lend a high level of legitimacy to the notion that legislators and foreign policy executives must balance the considerations of economic and geopolitical interests within the framework of the institutions that influence state policymaking.

To this effect, many of those who fall within the economic conditionalism/disaggregator camp validate the importance of understanding how core constituencies interact within governments and ultimately contribute to a foreign policy executive’s decision to comply with or ignore the demands of sender states. In particular, Kaempfer and Lowenberg,<sup>23</sup> Morgan and Schwebach,<sup>24</sup> and Mansfield, Pevehouse, and Bearce<sup>25</sup> all emphasize that the impact of sanctions

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<sup>22</sup> Blanchard, Jean-Marc F., and Norrin M. Ripsman. 2008. A political theory of economic statecraft. *Foreign Policy Analysis* 4 (4) (10/01): 371.

<sup>23</sup> Kaempfer and Lowenberg strongly advocate for targeting key constituencies within receiving states. They do, however, argue that results are largely dependent upon government type (i.e. democratic, authoritarian, etc.). See Kaempfer, William H., and Anton David Lowenberg. 1992. *International economic sanctions: A public choice perspective. The political economy of global interdependence*. Boulder: Westview.

<sup>24</sup> Morgan and Schwebach give great consideration to how states must account for the domestic considerations made by target governments in responding to sanctions. They discuss the multitude of geopolitical factors at play. See Morgan, T. C., and Valerie L. Schwebach. 1997. *Fools suffer gladly: The use of economic sanctions in international*

on a target state's political constituencies is not, as many have argued, always monolithic. Most notably, Kirshner's theory of economic statecraft sought to explain how sanctions function, rather than determine their quantitative effectiveness.<sup>26</sup> His theory therefore focused less on identifying how sanctions can have the greatest macro burden on the receiving country's overall economy and more on harnessing the power of sanctions to negatively impact core constituencies within a target state that are most capable of influencing state behavior. Kirshner begins this process by "disaggregating the target."<sup>27</sup> Whereas much of the sanctions literature had previously only made reference to the sender, the target, and the sanction, Kirshner's work pushes the academic community's theoretical bounds of understanding by "disaggregating" these terms and defining the multitude of contextual and identity variables that must be observed when considering how to best impose sanctions against a country. These variables include:

"...the comparative costs of other options, the full set of purposes for which sanctions are introduced (including signaling), and...an understanding of the magnitude of the value the target places on resistance. Identity variables include the relative size of the target, its exposure to different possible forms of influence, and the prospects for international cooperation."<sup>28</sup>

In identifying these variables, Kirshner effectively directs the academic community to challenge the prevailing notion that sanctions exist in a vacuum as a tool of statecraft either does or does not work. Furthermore, by using case studies to test his theory, Kirshner observes how shifts in these variables can result in different conditions on the ground and contribute to a sanctions regime being more or less likely to succeed in accomplishing its goals. To this effect, Kirshner does not believe that the mere presence of certain factors will definitively result in a

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crises. *International Studies Quarterly* 41 (1) (03/01): 27.

<sup>25</sup> Mansfield, Edward D., and Jon C. W. Pevehouse. 2013. The expansion of preferential trading arrangements. *International Studies Quarterly* 57 (3) (09/01): 592.

<sup>26</sup> KIRSHNER, Jonathan. 1997. The microfoundations of economic sanctions. *Security Studies* 6 (3) (03/01): 32.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid., p. 64.

successful sanctions regime. Rather, his aim is to identify why the presence of certain conditions can increase the likelihood of sanctions success.

Like Kirshner, Blanchard and Ripsman argue that although much of the existing literature caters to policymakers and foreign policy executives, many gaps exist that fail to identify the conditions under which incentives and sanctions are most likely to succeed in accomplishing their stated and unstated goals.<sup>29</sup> They explain that the literature's singular focus on determining the quantitative effectiveness of sanctions has been detrimental to the study of economic statecraft. It has created an environment in which researchers concentrate their work almost entirely on the foundation of setting narrow parameters as to what constitutes an effective sanctions regime. Such frameworks completely disregard not only the multitude of stated and unstated goals a sender state may seek to accomplish through imposition of a sanctions regime, but also the various ways in which domestic political institutions within a target state can pressure leadership to comply with or ignore sender state demands.

Blanchard and Ripsman address these limitations by building upon Peter Evans' notion of "stateness," or the "institutional centrality of a target state."<sup>30</sup> They believe that stateness can be broken "into three key component parts: autonomy, capacity, and legitimacy, each of which can help protect the target government from outside interference or, alternatively, can amplify the effect of economic statecraft."<sup>31</sup> It is worth noting that Blanchard and Ripsman's theory of economic statecraft is significantly stronger than many of those offered by the economic conditionalism/disaggregator authors they build from. They assert that:

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<sup>29</sup> Blanchard and Ripsman (2008)

<sup>30</sup> Evans, Peter B. 1997. The eclipse of the state? Reflections on stateness in an era of globalization. *World Politics*: 62-87.

<sup>31</sup> Blanchard and Ripsman (2008)

“...the many conditionalist theories that hinge upon the target state’s regime type (democratic vs. authoritarian) do not take us, [the academic community,] far enough. As comparativists (e.g., Nordlinger 1981; Kohli 1986; Evans 1997) and foreign-policy specialists (e.g., Risse-Kappen 1991; Ripsman 2002) have shown, similar regimes can vary along critical dimensions, including the autonomy of the state from society and the policy instruments at its disposal.”<sup>32</sup>

### **Theory and Hypothesis**

At the core of evaluating a country’s degree of stateness are three components: decision-making autonomy, capacity, and legitimacy. These terms are defined as follows:

- “Decision-making autonomy refers to the structural ability of the foreign-policy executive to select and implement policies when faced with domestic political opposition;”
- “Capacity encompasses the policy resources available to the state, which affect its ability to co-opt or coerce key societal groups in the face of economic statecraft; [and],”
- “Legitimacy refers to the degree to which domestic groups acknowledge the leader’s right to rule, respect the authority of the state, and defer to it.”<sup>33</sup>

Blanchard and Ripsman’s theory posits that any state demonstrating a high or medium degree of any one of these components will *likely* be able to ignore sender state demands. A high or medium degree of stateness will also increase the likelihood of compliance if doing so is the prerogative of the state’s foreign policy executive. In Iran’s case, the Islamic Republic’s degree of decision-making autonomy, capacity, and legitimacy has evolved over time, yet remained constant in the medium to high range. The regime has therefore been able to willingly resist complying with demands issued by the United States and other international actors over time, only choosing to comply when it determined that doing so would prove beneficial for long term strategic interests.

In this sense, the analysis of Iran’s stateness as outlined in this paper will demonstrate that the regime’s diminishing degree of domestic legitimacy led its foreign policy executive,

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<sup>32</sup> Ibid.

<sup>33</sup> Blanchard and Ripsman (2013)



Ayatollah Ali Khamenei, to comply with sender state demands in a limited fashion so as to improve his ability to act without regard for American and Western political pressures in the long-term.

This paper will likewise test the second portion of Blanchard and Ripsman's theory, which examines how threats to strategic interests can manifest as a result of both complying and not complying with the demands of sender states. Moving forward, these competing notions will be referred to as TSI-N (Threats to Strategic Interest – Non-Compliance) and TSI-C (Threats to Strategic Interest – Compliance). Blanchard and Ripsman explain that:

“On the international level, the higher the positive differential between TSI-N and TSI-C, the more likely the target is to comply with the sender's demands. Conversely, if the difference is neutral or negative, the less likely is target state compliance.”<sup>34</sup>

The key theoretical difference between stateness and TSI is that “TSI should have a *direct effect* on compliance.”<sup>35</sup>

Notably, this paper does differ in its final conclusions from those made by Blanchard and Ripsman. Demonstrating the usefulness of their theory in evaluating high profile cases where sanctions were used as a primary tool of coercive statecraft, Blanchard and Ripsman argued in 2013 – at the time of their theory's publication – that “TSI is negative for Iran, as TSI-C overwhelms TSI-N.”<sup>36</sup> However, the recent negotiations over Iran's nuclear program demonstrate Iran's ultimate compliance with the demands of sender states, albeit in a limited and less than transparent fashion. This paper will therefore demonstrate that Iran's TSI-N has evolved to overwhelm its TSI-C, not the other way around. This important distinction is made not to discredit Blanchard and Ripsman's overall contributions; perhaps ironically, it strengthens

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<sup>34</sup> Blanchard and Ripsman (2013), p. 8.

<sup>35</sup> Ibid., p. 24.

<sup>36</sup> Ibid. p.114.

their theory. In their book, Blanchard and Ripsman “contend that it is critical to evaluate stateness at different points of an economic influence attempt...As the components of stateness vary over time...[their] theory offers a dynamic set of predictions, which can explain why economic statecraft may fail for years or decades, but then succeed.”<sup>37</sup> To this effect, Iran’s degree of stateness and TSI-N/TSI-C have evolved since Blanchard and Ripsman first published their theory, compelling the regime to comply with certain demands of sender states.

This paper utilizes the appendix of guiding questions used by Blanchard and Ripsman in order to assess and ultimately weigh Iran’s degree of stateness, TSI-C, and TSI-N.<sup>38</sup>

## **Methods**

In an effort to test Blanchard and Ripsman’s theory of economic statecraft, this paper offers a qualitative assessment of Iran’s history as a multi-decade target of both unilateral and multilateral sanctions. The research benefits from the use of a case study approach for a number of reasons. First, in this instance, the case study methodology allows for an in-depth analysis of not only Iran’s domestic political institutions which – to some degree – can influence the calculations of the regime’s foreign policy executive, Ayatollah Ali Khameni, but also the extent to which the regime’s weakened international standing has compelled it to comply in a limited fashion with the demands of sanctions states.

To this effect, David McNabb observes, “case studies [not only] push the researcher to work in depth, to go beyond the surface indications to get at reasons why things happen as they do...[but also] look for meanings, not simply descriptions. The goal with a case study is to

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<sup>37</sup> Ibid. p. 36

<sup>38</sup> See Blanchard and Ripsman (2013), Appendices I & II.

establish understanding.”<sup>39</sup> Therefore, testing Blanchard and Ripsman’s theory of economic statecraft within the framework of a case study methodology inherently allows for a substantive examination of how Iran, like any country, must advance its self-interest given the multitude of political constituencies which can impact its ultimate decision-making process.

When possible, testing Blanchard and Ripsman’s theory with a case study methodology will further allow for analysis of primary sources such as government documents and interviews. This is not to say that access to these materials will be without bounds, particularly considering the authoritarian and closed nature of the Iranian regime. Therefore, a case study examination necessitates analysis of supplemental primary documents from the sender states (i.e. the United States, European Union, etc.) as well as secondary sources. As Blanchard notes, the analysis of both primary and secondary sources within the framework of a case study methodology provides researchers with a unique opportunity “to trace the effect of [their] independent variables on decision making to determine if [their] variables had the hypothesized causal effect, or whether other explanations provide more accurate explanations of the dynamics of individual cases.”<sup>40</sup>

The data collected for this paper ultimately points to Iran’s high, yet at some points diminishing degree of stateness – legitimacy, autonomy, and decision-making capacity – as well the threats the regime has faced from not complying with the demands of sender states throughout its history. To this effect, primary and secondary sources are used to determine how non-compliance with the sender’s demands have:

- “[Led] to compound political or military sanctions from the sender and its allies that would threaten Iran’s sovereignty, independence, territorial integrity, or national security;”

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<sup>39</sup> McNabb, David E. 2010. Research methods for political science : Quantitative and Qualitative Approaches. Armonk, N.Y.: M.E. Sharpe. 105.

<sup>40</sup> Blanchard and Ripsman (2013), p. 8.

- “Serve[d] to alienate other states or international institutions and, therefore, [led] to diplomatic isolation; damage[d] Iran’s prestige or reputation;” and,
- “Interfere[d] with Iran’s ability to achieve important military or political goals.”<sup>41</sup>

These sources will also be used to evaluate Iran’s degree of stateness. Within this framework, Blanchard and Ripsman assert that these “judgments are qualitative and highly contextual, as the uniqueness of each domestic decision-making environment makes it virtually impossible to provide a precise formula for ranking states on the basis of the guiding questions.”<sup>42</sup>

The main criticism of using the case study approach is that the findings gleaned from country-specific analyses are difficult to generalize. This criticism is fair in the sense that research is most useful when it can be applied at a mass scale. However, given the research’s explicitly stated aim of identifying the conditions which contributed to bringing about behavior change in Iran as a result of the various sanctions regimes imposed upon it, one ought not form generalized assumptions about the relationship between the way in which any given sanctions regime is structured and a target state’s subsequent behavior. Rather, this approach encourages researches to address how the presence of certain factors might contribute to an increased, not guaranteed, likelihood of success in individual cases.

## **Data**

### ***Degree of Threats to Strategic Interests***

Had Iran not reached an agreement with key members of the international community in regard to its nuclear program, the regime would have risked several noteworthy strategic costs. Namely, it would continue to be the target of what has arguably been the most comprehensive

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<sup>41</sup> Ibid., Appendix II.

<sup>42</sup>Ibid., p. 154.

sanctions regime to ever be crafted and ultimately imposed upon a target by the international community. These sanctions contributed in large part to a number of significant developments. First, they brought about a measurable reduction in Iran's crude oil exports, from approximately 2.5 million barrels per day (mbd) in 2011 to approximately 1.4 mbd in 2015.<sup>43</sup> The U.S. Energy Information Agency notes that in that time:

“Countries that reduced or halted imports from Iran replaced those barrels with similar quality crude grades from Saudi Arabia, Kuwait, Nigeria, Angola, and Iraq. Asian countries, which were mostly purchasing Iranian heavy crude oil, increased their purchases of similar crude grades from Saudi Arabia and Kuwait after 2011. In particular, China increased purchases of oil from Angola and Iraq, while other Asian countries imported more from Nigeria. The EU, which mostly purchased Iranian light crude oil until the embargo in 2012, substantially increased imports from Nigeria and Saudi Arabia. South Africa, which also halted Iranian imports in 2012, has replaced those volumes mostly with supplies from Saudi Arabia, Nigeria, and Angola.”<sup>44</sup>

These losses cost Iran an estimated \$160 billion in oil revenues since 2012. Speaking before the Washington Institute of Near East Policy last year, Treasury Secretary Jack Lew asserted that:

“Iran's GDP shrank by 9 percent in the two years ending in March 2014, and it is today 15 to 20 percent smaller than it would have been had it remained on its pre-2012 growth trajectory. It will take years for Iran to build back up the level of economic activity it would be at now had sanctions never been put in place.”<sup>45</sup>

As one Congressional Research Service analyst observes, Iran “earned \$100 billion from oil sales in 2011; about \$35 billion in 2013; and, because of the fall in prices, even less in 2014 and 2015.”<sup>46</sup> Steadily declining currency values further exacerbated the reduction in Iranian oil exports. Reports note that:

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<sup>43</sup> See Appendix – Chart 1 for a breakdown of how countries significantly reduced imports of Iranian oil.

<sup>44</sup> Under sanctions, Iran's crude oil exports have nearly halved in three years. In United States Energy Information Agency [database online]. 2016]. Available from <http://www.eia.gov/todayinenergy/detail.cfm?id=21792>.

<sup>45</sup> Lew, Jacob J. Remarks of treasury secretary Jacob J. Lew to the Washington Institute. In Washington Institute for Near East Policy [database online]. 2016]. Available from <http://www.washingtoninstitute.org/policy-analysis/view/remarks-of-treasury-secretary-jacob-j.-lew>.

<sup>46</sup> Katzman, Kenneth. Iran sanctions. In Congressional Research Service [database online]. Available from <https://www.fas.org/sgp/crs/mideast/RS20871.pdf>.

“Sanctions caused the value of the [Iranian] [R]ial on unofficial markets to decline about 56% from January 2012 until January 2014. [Subsequently,] [t]he drop in value of the currency caused inflation to accelerate during 2011-2013. The estimated actual inflation rate was between 50% and 70% (a higher figure than that acknowledged by Iran’s Central Bank).”<sup>47</sup>

Likewise, according to a report issued by the World Bank, “growth [in the Iranian economy] dropped to negative 6.8 and 1.9 percent in 2012 and 2013, respectively.”<sup>48</sup>

Altogether, the aforementioned strains on the Iranian economy would have surely become increasingly worse if Iran failed to engage in diplomatic discourse with the United States and members of the international community. In fact, before the Joint Plan of Action (JPA) took effect, the United States Congress was already in the process of crafting legislation which would call for even more hard-hitting sanctions on areas of the Iranian economy. To this effect, 83 United States Senators sent President Obama a letter on March 18, 2014 in which they asserted:

“Should negotiations fail or Iran violate the Joint Plan of Action, Congress will need to ensure that the legislative authority exists to rapidly and dramatically expand sanctions... We must signal unequivocally to Iran that rejecting negotiations and continuing its nuclear weapon program will lead to much more dramatic sanctions, including further limitations on Iran's exports of crude oil and petroleum products.”<sup>49</sup>

In the years following, the United States Congress continued to put pressure on the Administration, advocating for implementation of additional sanctions. Proposals have included, but are not limited to, the following: the FY2016 Consolidated Appropriation (P.L. 114-113), the Iran Policy Oversight Act (S. 2119), the IRGC Terrorist Designation Act (H.R. 3646 and S. 2094), the Prohibiting Assistance to Nuclear Iran Act (H.R. 3273), the Justice for Victims of Iranian Terrorism Act (H.R. 3457, S. 2086), the Iran Terror Finance Transparency Act (H.R.

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<sup>47</sup> Ibid.

<sup>48</sup> Economic implications of lifting sanctions on Iran. In World Bank - Middle East and North Africa Region [database online]. Washington, D.C., Available from [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2015/07/28/090224b083031bff/2\\_0/Rendered/PDF/Economic0imp0li0ng0sanctions0on0Iran.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2015/07/28/090224b083031bff/2_0/Rendered/PDF/Economic0imp0li0ng0sanctions0on0Iran.pdf).

<sup>49</sup> Letter to POTUS regarding Iran negotiations. In United States Senate [database online]. Washington, D.C., Available from <http://www.foreign.senate.gov/imo/media/doc/3-18-14%20Letter%20to%20POTUS%20Re%20Iran%20Negotiations.pdf>.

3662), the IRGC Sanctions Act (H.R. 4257), the Iran Ballistic Missile Prevention and Sanctions Act of 2016 (H.R. 4342), the Iran Ballistic Missile Sanctions Act of 2016 (S. 2725), and an extension of the Iran Sanctions Act (P.L. 104-172). Similar proposals have also been introduced at the international level within various multilateral forums. Clearly, given its decision to engage with the United States and members of the international community over the future of its nuclear program, Iran was not willing to endure the cost of being targeted by even harder hitting sanctions. Therefore, TSI-N is ranked as *high*.

The consequences of reaching an agreement with the United States and members of the international community were also potentially high for Iran. First, as Blanchard and Ripsman appropriately note, “the regime believes that the abandonment of its nuclear weapon programs would make it vulnerable to American and/or Israeli attack.”<sup>50</sup> This concern is surely warranted given the numerous reports citing Israeli preparations for pre-emptive strikes on Iranian nuclear facilities.<sup>51</sup> The flaw, however, is that there are no reputable reports indicating an American or Israeli intent to strike facilities within Iran that have not been linked to the development of the regime’s nuclear weapons program. It is not out of the realm of possibilities, though, that the prevailing ideology within Iran is one that promotes a narrative of offensive American and Israeli actions aimed at drawing Iran into state-on-state conflict, irrespective of Iran’s development of a nuclear program which poses an existential threat to states such as Israel.

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<sup>50</sup> Blanchard and Ripsman (2013), p. 143.

<sup>51</sup> See Gur, Haviv R. Netanyahu makes a case for a preemptive strike. In The Times of Israel [database online]. Israel, 2016]. Available from <http://www.timesofisrael.com/netanyahu-makes-a-case-for-preemptive-strike/>; Chumley, Cheryl K. Israel mulls preemptive attack on Iran as nuclear talks falter. In The Washington Times [database online]. 2016]. Available from <http://www.washingtontimes.com/news/2014/nov/24/israel-mulls-preemptive-attack-on-iran-as-nuclear-/>; and Ravid, Barak. Netanyahu orders IDF to prepare for possible strike on Iran during 2014. In Haaretz [database online]. 2016]. Available from <http://www.haaretz.com/israel-news/1.580701>.

Blanchard and Ripsman further assert that the regime in Tehran “finds external demands for internal political change unacceptable because they would undermine the regime.”<sup>52</sup> This notion is valid from the perspective of an insulated, hardline regime – just not within the construct of the terms outlined in the Joint Comprehensive Plan of Action (JCPOA).<sup>53</sup> Moreover, as a report published by the Congressional Research Service notes, “No U.S. Administration has stated that sanctions on Iran were intended to bring about the change of Iran’s regime, although some have asserted that that outcome should have been the goal of the sanctions.”<sup>54</sup>

Lastly, Blanchard and Ripsman state that Iran “fears compliance would undermine its foreign policy independence and regional hegemonic position.”<sup>55</sup> However, since the JCPOA went into effect, Iran has not only continued its support for terrorist organizations around the world, but it is also playing an active role in supporting ongoing fights in Iraq, Syria, and Yemen. It has even violated United Nations Security Council resolutions regarding the development of intercontinental ballistic missiles (ICBMs), which are only used to deliver nuclear warheads.

It is easy to say that compliance with the demands of third-party actors would limit a country’s ability to act with an aggressive and dominating posture on the world stage. However, in Iran’s case, the regime has chosen to remain steadfast in pursuing its hostile and destabilizing foreign policy. Were it not for the limitations placed on it by the very nature of agreeing to an international accord that temporarily limits its development of a nuclear weapons program,

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<sup>52</sup> Blanchard and Ripsman (2013), p. 143.

<sup>53</sup> Parameters for a joint comprehensive plan of action regarding the Islamic Republic of Iran’s nuclear program. In The White House [database online]. Washington, D.C., 2016]. Available from <https://www.whitehouse.gov/sites/default/files/docs/parametersforajointcomprehensiveplanofaction.pdf>.

<sup>54</sup> Katzman, Kenneth. *Iran sanctions*. In Congressional Research Service [database online]. Available from <https://www.fas.org/sgp/crs/mideast/RS20871.pdf>.

<sup>55</sup> Blanchard and Ripsman (2013), p. 143.



perhaps Iran would act in an even more aggressive fashion than we have seen since implementation of the JCPOA. Given these circumstances, it is justified to rank TSI-C as *medium*.

### ***Degree of Stateness***

Throughout its history as a multi-decade target of unilateral and multilateral sanctions, Iran has maintained a high degree of stateness. Today, it has a high degree of autonomy, a moderate-to-high degree of capacity (high coercive capacity, moderate economic capacity), and a moderate degree of legitimacy.

### **Autonomy:**

Supreme Leader Ayatollah Ali Khamenei dominates the political decision making process. He is the chief foreign policy executive and responsible for guiding and ultimately approving all major domestic policy objectives. However, Khamenei's role in Iranian politics is not that of a traditional dictator. To this effect, the Iranian political structure is a complicated system of interlinked domestic political constituencies with drastically different and competing interests.<sup>56</sup> To the outside observer, the Iranian political system may appear complex and difficult to fully understand.

In Iran, the Supreme Leader maintains a life-long term and is chosen by an elected body of 86 individuals known as the Assembly of Experts. In addition to being responsible for choosing the next Supreme Leader, the Assembly of Experts also has the power to amend the Iranian constitution. The Council of Guardians (COG) is another important institution in Iranian politics as it is responsible for reviewing all legislation to ensure its compliance with Islamic law.

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<sup>56</sup> See Appendix – Chart 2

It consists of 12 individuals who have historically played active roles in the hardline/conservative camp. Most notably, the COG is responsible for vetting candidates running for public office by “evaluating their backgrounds according to constitutional requirements that each candidate demonstrate knowledge of Islam, loyalty to the Islamic system of government, and other criteria that are largely subjective.”<sup>57</sup> Reports indicate that approximately 40% of more than 12,000 candidates for Iran’s parliamentary elections failed to meet the COG’s requirements.<sup>58</sup> The parliamentary system consists of 290 publicly elected individuals. Despite deferring to the authority of the Supreme Leader, this body – the Majles – has consistently been highly factionalized throughout the course of Iran’s history. Iranians do publicly elect a president, however presidential authorities, like those of the Majles, defer to the will of the Supreme Leader. In this sense, the president only has the capacity to push for policies so long as they receive the tacit approval of the Supreme Leader. The Expediency Council advises the Supreme Leader, oversees the office of the president, and resolves disagreements between the Majles and the COG. Interestingly, the Expediency Council is led by Mohsen Reza’i, a former commander-in-chief of the Islamic Revolutionary Guard Corps (IRGC), one of the most powerful constituencies in Iranian politics. Collectively, these institutions form a highly insulated, yet factionalized government. While some, particularly the Majles, may call for political and economic reform, they have proven to always defer to the will of the Supreme Leader. Therefore, Iran has a *high* degree of autonomy.

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<sup>57</sup> Katzman, Kenneth. *Iran: Politics, gulf security, and U.S. policy*. Washington, D.C.: Congressional Research Service, 2016.

<sup>58</sup> Ajiri, Denise H. 'Reality is even worse': Reformist hopefuls banned from Iran’s parliamentary poll. In *The Guardian* [database online]. Iran, 2016]. Available from <http://www.theguardian.com/world/Iran-blog/2016/jan/19/Iran-guardian-council-blocks-reformists-february-parliamentary-poll>.

## Capacity

Iran maintains a robust domestic intelligence and police apparatus. Since the 2009 Green Revolution in which thousands of Iranians openly protested what was believed to be a rigged presidential election, these forces have gained even more influence within the regime. According to a RAND report investigating the structure of Iranian governance:

“...the IRGC pursues missions related to internal security and regime survival...where its roles overlap with those of the Law Enforcement Forces (LEF) and the Ministry of Intelligence and Security (MOIS)...The IRGC-Qods Force, other elements of the IRGC, and the MOIS all play a role in collecting intelligence, intimidating dissidents, and nurturing pro-Iranian proxies in foreign nations. Finally, the MOIS shares its domestic-security responsibilities with other institutions: the Basij militia, [a popular resistance force with an estimated active strength of approximately 300,000 and a claimed mobilization capacity of 5 million,] the LEF, and some vigilante or pressure groups often associated with prominent ultraconservative clerics.”<sup>59</sup>

These forces extend their reach into nearly all facets of Iranian life. Reports indicate that resistance efforts will have little chance of materializing “as long as Khamenei...the Revolutionary Guard, the Basij paramilitary, riot police and the plainclothes officers have the weapons, the jails, the courts, the intelligence apparatus and the mass-communications system at their disposal.”<sup>60</sup> Therefore, in concurrence with the original assessment made by Blanchard and Ripsman, it is within reason to rank Iran’s degree of coercive capacity as *high*.

Blanchard and Ripsman are likewise correct in noting that “Iranian economic capacity has been noteworthy...though it has declined to *moderate*, whereas it might previously have been classified as *high*.” To this effect, the section on TSI-N appropriately demonstrates the

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<sup>59</sup> Thaler, David E., Alireza Nader, Shahram Chubin, Jerrold D. Green, Charlotte Lynch and Frederic Wehrey. *Mullahs, Guards, and Bonyads: An Exploration of Iranian Leadership Dynamics*. Santa Monica, CA: RAND Corporation, 2010. <http://www.rand.org/pubs/monographs/MG878.html>. Also available in print form.

<sup>60</sup> Mattair, Thomas R. 2010. The United States and Iran: Diplomacy, sanctions and war. *Middle East Policy* 17 (2) (06/01): 52.

degree to which the Iranian economy was decimated by the most recent multilateral sanctions campaign imposed upon it by the United States, European Union, and other members of the international community. These sanctions weakened critically important sectors of the Iranian economy – particularly concerning the crude oil industry – and resulted in devaluation of currency, inflation, uncertain commodity pricing, and high unemployment.

The regime has been able to resist the impact of sanctions in certain respects. It has pursued promoting non-oil exports, which, according to testimony offered by Dr. Patrick Clawson, has generated \$46 billion.<sup>61</sup> These exports include “minerals, cement, urea fertilizer, and other agricultural and basic industrial goods, mainly to countries in the immediate neighborhood.”<sup>62</sup> The regime has likewise partially privatized portions of state-owned enterprises in an effort to skirt sanctions. To this effect, reports indicate that:

“State transfer of Iran’s public sector companies seems to have been channeled toward organizations whose member constituencies had been produced alongside the state itself, whether large semi-public pension funds, cooperatives attached to “revolutionary” institutions like the IRGC, semi-public banks or holding companies fashioned by these very companies to protect their own stock and prevent ownership dilution.”<sup>63</sup>

Lastly, the regime has sought to reduce subsidies on gasoline and restrict imports in an effort to maintain necessary levels of hard currency. Therefore, as Blanchard and Ripsman note, Iran has scaled back from a *high* to *moderate* degree of economic capacity. Taken in aggregate, *high* and *moderate degrees* of coercive and economic capacity respectively amount to a *moderate-to-high* degree of capacity.

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<sup>61</sup> United States Senate Banking Committee, *Iran Adapts to Sanctions in the Absence of New Measures*, Cong., 114th sess., 2015, 1-6, [http://www.banking.senate.gov/public/\\_cache/files/c14cdda3-9fb3-45e6-8fb2-5ae4570ea34a/33A699FF535D59925B69836A6E068FD0.clawson testimony12715.pdf](http://www.banking.senate.gov/public/_cache/files/c14cdda3-9fb3-45e6-8fb2-5ae4570ea34a/33A699FF535D59925B69836A6E068FD0.clawson testimony12715.pdf).

<sup>62</sup> Katzman, Kenneth. *Iran sanctions*, p. 58.

<sup>63</sup> Harris, Kevin. Iran’s political economy under and after the sanctions. In The Washington Post [database online]. Washington, D.C., 2016]. Available from <https://www.washingtonpost.com/blogs/monkey-cage/wp/2015/04/23/Irans-political-economy-under-and-after-the-sanctions/>.

## Legitimacy

Most recently, large-scale violent dissent plagued the streets of Tehran in 2009 during the Green Revolution in which thousands of Iranians protested the presidential election of Mahmoud Ahmadinejad. Since then, public dissent of the status quo resulted in the landmark victory of “reformist” President Hassan Rouhani in 2013. Some analysts argue that sanctions “contributed to the political climate in which the candidate more committed to ending international isolation won.”<sup>64</sup> The policy of international isolation stems entirely from the hardline IRGC and Supreme Leader. Since then, Rouhani has formed a growing coalition of individuals in Iran who seek to open and ultimately reinvigorate Iran’s economy. According to an analysis of the recent Majles elections:

“The pro-Rouhani List of Hope won about 90 seats in the initial round, and another 30+ in the runoff. Sources estimate that pro-Rouhani representatives will have 122 – 135 seats in the incoming Majles—a plurality but not an outright majority.”<sup>65</sup>

These results suggest widespread approval of how President Rouhani has handled negotiations with the United States, European Union, and other members of the international community regarding the country’s nuclear weapons program.

Furthermore, the recent Assembly of Experts election demonstrated popular disapproval of the traditional hardline stance taken by those close to the Supreme Leader. Moderate-conservatives won 52 seats, while the conservative camp took only 36.<sup>66</sup> Notably, the seats won by moderate-conservatives included all but one of Tehran’s 16 seats. Moreover:

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<sup>64</sup> Katzman, Kenneth. *Achievements of and outlook for sanctions on Iran*. Washington, D.C.: Congressional Research Service, 2014.

<sup>65</sup> Katzman, Kenneth. *Implications of Iranian elections*. Washington, D.C.: Congressional Research Service, 2016.

<sup>66</sup> Abdolmohammadi, Pejman. Iranian elections: The rise of the pragmatists. In Arab Gulf States Institute in Washington [database online]. 2016]. Available from <http://www.agsiw.org/Iranian-elections-the-rise-of-the-pragmatists/>.

“Two prominent hardliners—current Assembly chairman Ayatollah Mohammad Yazdi and Ahmadinejad mentor Ayatollah Mohammad Taqi Mesbah-Yazdi—lost their seats. The only hardliner to win a seat from Tehran Province was the current CoG chairman, Ayatollah Ahmad Jannati, who placed last.”<sup>67</sup>

It is widely accepted that increased participation of the disaffected middle class and youth populations in this election cycle played a major role in ousting hardline ayatollahs.<sup>68</sup> Notably, these results occurred despite the Council of Guardians preventing thousands of would-be reform and conservative candidates from running altogether.<sup>69</sup> Therefore, legitimacy is ranked as *moderate*.

### **Analysis and Discussion**

In relation to competing models and theories of economic statecraft, the modified conditionalism theory offered by Blanchard and Ripsman is far superior to any alternative. In particular, the commercial liberal, political realist, and general conditionalism arguments all have shortcomings which Blanchard and Ripsman address and ultimately account for.

They correctly note that the arguments put forth by commercial liberals tend to “ignore the facts that economic statecraft does not have merely an aggregate national effect, but affects domestic groups differentially; that disaffected groups do not necessarily have access to the state; and that the state itself may not have the ability to construct policy in accordance with its own preferences.”<sup>70</sup> To this effect, the commercial liberal approach operates in a world where states strictly act in accordance with whatever their economic interests dictate, regardless of the political objectives they may seek to accomplish. Blanchard and Ripsman’s theory, however,

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<sup>67</sup> Katzman, Kenneth. *Implications of Iranian elections*.

<sup>68</sup> Abdolmohammadi, Pejman. Iranian elections: The rise of the pragmatists.

<sup>69</sup> Iran: Threats to free, fair elections. In Human Rights Watch [database online]. 2016]. Available from <https://www.hrw.org/tet/node/285902>.

<sup>70</sup> Blanchard and Ripsman (2013), p. 19.

accounts for instances in which a state may willingly accept economic losses in order to advance a particular political or ideological agenda.

The political realist literature similarly has a number of shortcomings. Because political realists operate under the assumption that only political imperatives will bring about political change, they fail to recognize instances in which economic constraints resulting from sanctions have brought about meaningful change on the part of target states. In Iran, for instance, economic isolation surely contributed to the rise of moderate-conservative/reformist politicians such as President Hassan Rouhani. His rise, with the tacit support of Supreme Leader Ayatollah Ali Khamenei, resulted in an agreement between Iran and the international community surrounding development of its nuclear program. Although some argue that the JCPOA agreement is not strong enough, the agreement itself demonstrates the effectiveness of multilateral sanctions in constraining the Iranian economy to the point where Iran's domestic political institutions supported certain shifts in nuclear and foreign policy.

Lastly, although the conditionalist approach is more sophisticated than its realist and liberal counterparts, it also is limited in ways that restrict the academic community's ability to properly understand how the presence of certain factors can increase or decrease the likelihood of a sanctions regime accomplishing its goals. To this effect, the conditionalist approach encourages analysts to note the ways in which policymakers must balance economic considerations against geopolitical interests. However, the conditionalist literature largely relies on the notion that governments will always behave in accordance with whatever assumptions are made of authoritarian or democratic systems. They therefore fail to note how domestic constituencies can differ from country to country, even within insulated authoritarian regimes.

Collectively, the aforementioned realist, liberal, and conditionalist approaches have been recognized as static and largely narrow in scope. In contrast, Blanchard and Ripsman's theory of economic statecraft is dynamic and allows researchers to evaluate why sanctions may be more likely to succeed in accomplishing the goals set forth by policymakers under certain conditions and fail to under others. In Iran's case, their theory appropriately accounts for the ways in which a multitude of factors ultimately impacted the regime's decision to comply, albeit in a limited and less than transparent fashion, with the demands of sender states. It allows for an in-depth analysis of the threats to Iran's strategic interests, as they concern both compliance and non-compliance. Ultimately, this analysis determined that Iran's *high* TSI-N overwhelmed its *moderate* TSI-C. The hypothesis offered by Blanchard and Ripsman therefore stands true, that "TSI should have a direct effect on compliance, the higher the TSI, the more likely the target state is to comply with the sender's demands."<sup>71</sup>

Likewise, the above analysis concludes that Iran has maintained a *high* degree of stateness throughout its history as a multi-decade target of unilateral and multilateral sanctions. The regime has remained insulated, yet is concerned primarily with regime stability. Therefore, popular discontent with the regime's traditionally isolationist policies prompted the government in Iran to take on a slightly different posture, opening itself to the prospects of and ultimately agreeing to negotiations surrounding the development of its nuclear program. Concerning degrees of stateness, Blanchard and Ripsman provide the following hypothesis:

"If the target government prefers not to comply with the sender's demands, the likelihood of compliance will depend on the level of target state stateness. The higher the level of stateness, the less likely compliance is. The lower the level of stateness, the more likely compliance is."<sup>72</sup>

The abovementioned analysis of Iran's *high* degree of stateness confirms this hypothesis.

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<sup>71</sup> Blanchard and Ripsman (2013), p. 25.

<sup>72</sup> Blanchard and Ripsman (2013), p. 31.



## **Conclusion**

In the last few decades, sanctions have undoubtedly become an increasingly popular tool for governments around the world. Yet, much of the existing literature concerning economic sanctions has failed to provide lawmakers with a proper understanding of how they ought to craft sanctions regimes which target and ultimately compel core constituencies within target states to pressure their respective foreign policy executives into complying with the demands of sender states. It has not, in this sense, produced a theory flexible enough to evolve over time in response to changing political, economic, and geostrategic considerations. However, Blanchard and Ripsman's theory does exactly that. It pushes the academic community forward in an effort to identify how the presence of certain conditions – or lack thereof – can increase or decrease the likelihood of a sanctions regime's success. It is, in effect, one of the most significant, yet under-evaluated theories addressing sanctions as a tool of economic statecraft.

At the time of publication in 2013, Blanchard and Ripsman determined that Iran's *high* degree of stateness and strong TSI-C (in relation to a lower TSI-N) produced the conditions in which the regime was able to continue ignoring the demands of sender states. However, in light of developments that have occurred since they originally made that assessment, conditions on the ground have changed. Prior to enactment of the JCPOA, Iran was more isolated than it ever had been before. Its economy failed to adjust for increased inflation and currency devaluation and the threat of even harder-hitting multilateral sanctions began to concern everyone in Iran, from the hardline IRGC to average citizens in the street who were struggling to deal with exorbitant prices on commercial goods. Clearly, the threats associated with non-compliance grew to the point where the regime in Tehran simply could not afford to continue along its path of isolation – at least for the near term.

The analysis presented in this paper has ultimately demonstrated that states must take into account a multitude of factors when deciding whether to comply with or ignore the demands of sender states. Of course, states with *high* degrees of stateness will likely be able to engage in policies of resistance with greater ease than those exhibiting *low* degrees of stateness. However, as this analysis of Iran's threats to strategic interests concludes, no state is able to ignore political and strategic realities without bearing the associated costs. In Iran, economic sanctions arguably played a major role in producing an environment where continued non-compliance would ultimately threaten what the mullahs have been concerned with most – securing the regime from external threats in order to ensure the continued promotion of the Islamic revolution at home and abroad. They have also at least temporarily deescalated tensions between Iran and the international community, providing policymakers an opportunity to pursue diplomatic channels that may have otherwise never materialized or even been addressed.

For these reasons, it is critically important that the academic community give greater consideration and attention to Blanchard and Ripsman's theory of economic statecraft. Obviously, one cannot expect that sanctions will unilaterally prevent armed conflict from arising in the future. However, as this case study demonstrates, sanctions have the potential to incentivize cooperation even in the most hostile and drawn out conflicts.

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**“WE CAN TURN EVERY THREAT INTO AN OPPORTUNITY.”**

**– SUPREME LEADER ALI KHAMENEI**

## **I. Introduction**

As a tool of statecraft, economic sanctions have grown increasingly popular among lawmakers seeking to compel target state behavior. In response, target states have implemented new policies aimed at mitigating the impact of future sanctions regimes. These actions not only limit the non-kinetic means by which sender states can exert influence on target states, but also unintentionally push target states away from Western financial markets and institutions. Drawing upon adaptive resilience theory, this paper argues that states will seek to subvert the aims of sender states by developing resistance economies with the explicit goal of limiting the negative impact brought about by the imposition of economic sanctions regimes.<sup>73</sup>

More specifically, this analysis will explain how Iran, Russia, and Cuba have developed resistance economies that will likely prove effective in assuaging the impact of future sanctions regimes imposed upon them. Importantly, unlike much of the academic literature surrounding the subject of economic sanctions, this paper advocates neither a sanctions-optimist nor a sanctions-pessimist outlook. Rather, it emphasizes the need for policymakers to address the potential unintended secondary effects of any given sanctions regime – irrespective of whether the intended policy aim of the sanctions regime in question is ultimately achieved. In this sense, it is possible for a sanctions regime to be both successful in achieving its stated short-term policy objective while likewise creating the conditions by which the target state is incentivized to

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<sup>73</sup> Surely, governments will take a multitude of factors into consideration when determining how to implement ongoing or new economic policies. It is therefore unlikely that sanctions will be the sole determining factor resulting in a state’s decision to implement policies that result in diversification of goods and decreased export concentration. Therefore, the analysis presented in this paper demonstrates how sanctions, in addition to other factors as fleeting foreign aid and/or reductions in the price of oil, can incentivize countries to adopt reforms that, in the long run, may prove more challenging for Western, sanctions imposing countries, to counteract.

develop an economy that could prove to be more resilient to the imposition of future sanctions regimes.

In order to demonstrate the degree to which states diversify their economies in response to or in anticipation of the imposition of sanctions regimes, this paper will draw on data using the Herfindahl-Hirschman Product Concentration Index – a tool used by the United Nations and World Bank – to determine an exporting country’s vulnerability to trade shocks. At the outset, it is important to note that regardless of whether the actions taken by target states to mitigate the impact of economic sanctions are actually effective in undermining sender state aims, policymakers ought to consider how the emerging counteractions taken by target states could one day complicate the imposition of future sanctions regimes. With this understanding in mind, it is prudent that the academic and public policy communities recognize the literature’s gap in understanding how states can grow both more defiant in the face of and resilient to the imposition of economic sanctions regimes.

## **II. Literature Review**

It is apparent that policymakers are increasingly relying on the imposition of both unilateral and multilateral sanctions in order to compel state behavior. However, the existing literature on the subject seems to focus almost exclusively on the immediate effectiveness – or lack thereof – of sanctions as a tool of statecraft without necessarily giving consideration to the multitude of unintended or secondary effects brought about by the imposition or anticipated imposition of any given sanctions regime. This literature includes that of the sanctions pessimist, sanctions optimist, and sanctions conditionalist camps.<sup>74</sup> Although some literature does, in fact,

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<sup>74</sup> Of the sanctions pessimist literature, Baldwin (1985) argues that economic sanctions fail to prevent the use of military force in conflict and only succeed in accomplishing their goals when aimed at addressing relatively low-priority issues. Authors subscribing to the sanctions pessimist school of thought are strikingly dismissive of giving

touch on the secondary impact sanctions may have on innocent civilians living in a particular target country, a gap still exists as it concerns the unintended, secondary effects sanctions can have in shifting the calculus of foreign policy executives in target states to grow increasingly resilient to future imposition of sanctions.<sup>75</sup>

Filling the aforementioned gap, this paper draws on resilience theory as applied in ecology, psychology, disaster studies, geography, political science, and economic literature. In particular, it addresses two frequently cited schools of resilience theory – equilibrium systems theory and complex adaptive systems theory – before operationalizing the latter in a first of its kind application to target state behavior prior to and following the imposition of sanctions.

### *Equilibrium Systems Theory*

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economic sanctions nearly any notion of legitimacy as a tool of statecraft. They mostly look at sanctions within a vacuum, as a tactic that should be evaluated without giving consideration to other forms of hard and/or soft power being employed simultaneously. Baldwin writes that “[t]he overall impression one derives from the literature is that economic statecraft is so obviously useless as to raise question about the good judgment of any policy maker who gives serious consideration to such techniques.” Researchers interested in exploring the works of early sanctions pessimists ought consider reviewing Hoffman (1967); Galtung (1967); Doxey (1971); Barber (1979); Losman (1979); and, Renwick (1981). In contrast to sanctions pessimists, sanctions optimists tend to support the notion that economic constraints can play a key role in bringing about a shift in state behavior. They believe that sanctions will become increasingly effective when they are multilateral, long lasting, and comprehensive. However, some of these authors disagree as to whether the imposition of sanctions against innocent bystanders does more harm than good in bringing about behavior change on the part of target states. For more on sanctions optimists, consider reviewing Hufbauer, Schott, and Elliott (1985); Daoudi and Dajani (1983); Shambaugh (1996); Shambaugh (1999); and, Lopez (2002). Separate from the sanctions optimists and pessimists, sanctions conditionalists assert that the likelihood of behavior change through imposition of economic sanctions can increase or decrease depending on the presence of certain political conditions. These authors lend a high level of legitimacy to the notion that legislators and foreign policy executives must balance the considerations of economic and geopolitical interests within the framework of the institutions that influence state policymaking. To this effect, many of those who fall within the sanctions conditionalist camp validate the importance of understanding how core constituencies interact within governments and ultimately contribute to a foreign policy executive’s decision to comply with or ignore the demands of sender states. They emphasize that the impact of sanctions on a target state’s political constituencies is not, as many have argued, always monolithic. Most notably, Kirshner’s (1997) theory of economic statecraft sought to explain how sanctions function, rather than determine their quantitative effectiveness. For more on sanctions conditionalists, consider reviewing Kirshner (1997); Kaempfer and Lowenberg (1992); Morgan and Schwebach (1997); and, Mansfield and Pevehouse (2013).

<sup>75</sup> For an overview of the impact of sanctions on civilian populations of target countries, see Major and McGann (2005); Damrosch (1993); Walker (1995); and, Arnove (2002).

Addressing single equilibrium systems (entities for which deviation from any given status quo can be observed through a single, constant metric), ecologist C.S. Holling (1973) first described resilience as “a measure of the persistence of systems and of their ability to absorb change and disturbance and still maintain the same relationships between populations or state variables.”<sup>76</sup> Oftentimes described as “engineering resilience,” this concept “concentrates on stability at a presumed steady-state, and stresses resistance to a disturbance and the speed of return to the equilibrium point.”<sup>77</sup> In this sense, it focuses on the ability of a particular subject to “bounce-back” following a shock – whether it be physical or psychological.<sup>78</sup> In operationalizing the concept of regional economic resilience, Hill et al. (2008) argue that resilience is “the ability of a region...to recover successfully from shocks to its economy that either throw it off its growth path or have the potential to throw it off its growth path but do not actually do so.”<sup>79</sup> If applied to economic sanctions, this definition would only label a target state resilient if it were able to bounce back to the level of economic output and stability it experienced prior to the actual imposition of a given sanctions regime.

Unlike the literature concerning single equilibrium systems, that which addresses multiple equilibrium systems does not subscribe to the notion that systems are linked to one

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<sup>76</sup> Holling, C. S. 1973. Resilience and stability of ecological systems. *Annual Review of Ecology & Systematics* 4 (12/01): 17.

<sup>77</sup> See Pendall, Rolf, Kathryn A. Foster, and Margaret Cowell. 2010. Resilience and regions: Building understanding of the metaphor. *Cambridge Journal of Regions, Economy and Society* 3 (1) (03/01): 71; Berkes, Fikret, Carl Folke, and Johan Colding. 1998. *Linking social and ecological systems : Management practices and social mechanisms for building resilience*. Cambridge ;New York: Cambridge University Press.

<sup>78</sup> See Vale, Lawrence J., and Thomas J. Campanella. 2005. *The resilient city : How modern cities recover from disaster*. New York: Oxford University Press; Walker, Brian, Stephen Carpenter, and John Anderies. 2002. Resilience management in social-ecological systems: A working hypothesis for a participatory approach. *Conservation Ecology* (11955449) 6 (1) (06/01): 14; Walker, Brian, C. S. Holling, and Stephen R. Carpenter. 2004. Resilience, adaptability and transformability in social-ecological systems. *Ecology & Society* 9 (2) (12/04): 158; Bonanno, George A., Camille B. Wortman, Darrin R. Lehman, Roger G. Tweed, Michelle Haring, John Sonnega, Deborah Carr, and Randolph M. Nesse. 2002. Resilience to loss and chronic grief: A prospective study from preloss to 18-months postloss. *Journal of Personality and Social Psychology* 83 (5) (11/01): 1150.

<sup>79</sup> Hill, Edward, Howard Wial and Harold Wolman, "Exploring Regional Economic Resilience" Macarthur Foundation Research Network on Building Resilient Regions, University of California, Berkeley, 2008.

single equilibrium point in perpetuity. In this sense, resilience in multi-equilibrium systems “emphasizes conditions in which disturbances...can flip a system from one equilibrium to another.”<sup>80</sup> Multi-equilibrium systems are therefore understood to be “complex, non-linear and self-organizing and permeated by uncertainty and discontinuities.”<sup>81</sup> Redding (2002) adds to the literature concerning multi-equilibrium systems by developing a model of “endogenous innovation and growth, in which technological change is path dependent.”<sup>82</sup> In this sense, systems will respond to dramatic shocks by establishing new points of equilibrium – new status quos. This line of thinking is surely more robust in comparison to what single equilibrium systems literature posits. However, even in multi-equilibrium systems literature, the adaptive process is seemingly rigid – bound by the limits of newfound equilibrium. Such rigidity inhibits the application of multi-equilibrium systems literature to the study of target state response to the imposition or anticipated imposition of economic sanctions.

### *Complex Adaptive Systems*

Diverging from the equilibrium-based approach, complex adaptive systems literature argues that resilience “is a dynamic attribute associated with a process of continued adjustment. Such a framework requires no assumptions about equilibria.”<sup>83</sup> In this sense, systems are understood as existing within a fluid spectrum – one where shifts may occur at various points in response to or in anticipation of any number of shocks. Such fluidity can be applied to the study of target state response to the imposition or anticipated imposition of sanctions, representing the evolving counteractions taken by states to innovate and diversify their respective trade relations

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<sup>80</sup> Berkes, Folke and Colding. 1998.

<sup>81</sup> Ibid.

<sup>82</sup> Redding, Stephen. 2002. Path dependence, endogenous innovation, and growth. *International Economic Review* 43 (4) (11/01): 1215-1248.

<sup>83</sup> Pendall, Foster, and Cowell. 2010.



so as to grow increasingly resilient. In their foundational work, Gunderson and Holling (2002) contribute to the overall understanding of a system's adaptive capacity by establishing what is referred to as the "adaptive cycle" – a model for assessing the dynamics of ecosystems and ecological change.<sup>84</sup> In evaluating the cyclic changes that occur in forest ecosystems over time, they demonstrate the degree to which systems experience periods of exploitation, conservation, release, and reorganization. The exploitation and conservation phases are referred to as the "fore loop" of the adaptive cycle, whereas the release and reorganization phases are referred to as the "back loop."<sup>85</sup> According to Gunderson and Holling (2002), events occurring within the fore loop develop over a prolonged period of time. Those that occur within the back loop, however, are abrupt and evolve at a much more rapid rate. Additionally, Gunderson and Holling (2002) clearly demonstrate that larger systems (i.e. state economies) tend to change more slowly and less regularly than smaller systems that, in comparison, tend to experience rapid and frequent change.<sup>86</sup>

### **III. Theory and Hypothesis**

In a unique application of resilience theory, this paper makes a two-fold contribution within the academic and public policy communities. First, it draws attention to the relationship between the imposition or anticipated imposition of sanctions and target state behavior as measured by shifts in export concentration levels. Second, it operationalizes Gunderson and Holling's (2002) adaptive cycle to uniquely evaluate how states cope with changes in capital and resources as they undergo periods of resistance and systematic transition brought about by the imposition or anticipated imposition of economic sanctions.

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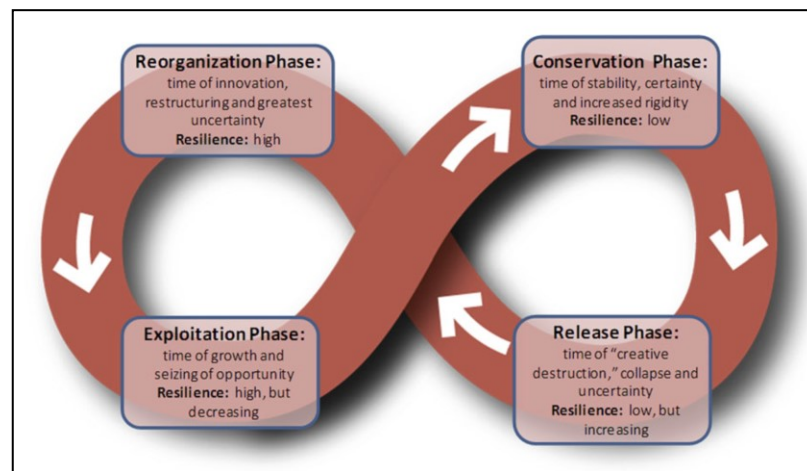
<sup>84</sup> Gunderson, Lance H., and C. S. Holling. 2002. *Panarchy : Understanding transformations in human and natural systems*. Washington, DC: Island Press.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

## *Theory*

Holling and Gunderson (2002) propose a four-phase cycle of system adaptation and change that demonstrates the continuous fluidity of complex systems behavior (see Figure 1). Beginning with the exploitation phase, a system's resilience is deemed high, yet decreasing. In this period, the system will grow and benefit from newfound opportunity. The conservation phase follows, resulting in low system resilience due to stagnation and a return to the status quo. Next, the release phase encompasses the system's destruction before it enters the reorganization phase where resilience is high due to rapid innovation and institutional/systems restructuring.



*Figure 1. As depicted in Holling and Gunderson (2002)*

## *Hypothesis*

Applying Holling and Gunderson's (2002) adaptive cycle, this paper posits that as sender states increasingly rely on the imposition of economic sanctions to compel behavior, target states will respond in turn by cycling through periods of exploitation, conservation, release, and ultimately reorganization so as to grow more resilient to and defiant in the wake of future sanctions regimes. Notwithstanding the possibility that sending states may still prove capable of

imposing significant cost on target states that choose to resist, this paper argues that the imposition or anticipated imposition of sanctions ultimately drives target states to diversify their respective economies, increasing the likelihood that policymakers will have to either impose more comprehensive, hard-hitting sanctions regimes – regardless of whether doing so is thought of having a high likelihood of achieving the desired result – or resort to other, potentially kinetic means of compelling state behavior.

#### **IV. Methodology**

A clear link exists in the academic literature between a state's level of economic vulnerability and its ability to withstand the impact of economic shocks.<sup>87</sup> Within the framework of this analysis, resilience, therefore, is defined as the ability of a target state to respond to the imposition or anticipated imposition of economic sanctions by growing incrementally less vulnerable to future imposition of sanctions through a continued process of adaptation and economic diversification. As is explained at greater length in the next section, the primary metric used here to assess economic diversification is a state's level of export concentration. As is noted throughout adaptive resilience literature, the case studies of Iran, Russia, and Cuba show the degree to which states endure prolonged periods of exploitation and conservation prior to rapidly evolving through periods of release and reorganization.

#### **V. Data**

This paper's analysis of state behavior in response to or in anticipation of the imposition of sanctions utilizes the United Nations Conference on Trade and Development's (UNCTAD) Herfindahl-Hirschman Product Concentration Index (Product HHI) dataset. This dataset covers the 20-year period from 1995-2014. According to the World Bank, the Product HHI "is a

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<sup>87</sup> Guillaumont, Patrick. 2009. An economic vulnerability index: Its design and use for international development policy. *Oxford Development Studies* 37 (3) (09/01): 193.

measure of the dispersion of trade value across an exporter's partners. A country with trade (export or import) that is concentrated in a very few markets will have an index value close to 1. Similarly, a country with a perfectly diversified trade portfolio will have an index close to zero."<sup>88</sup> Where  $H_j$  = country or country group index,  $x_{ij}$  = value of export for country  $j$  and product  $i$ ,  $n$  = number of products, the UNCTAD formula for calculating the Product HHI is as follows:

$$H_j = \frac{\sqrt{\sum_{i=1}^n \left( \frac{x_{ij}}{X_j} \right)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}}$$

In other words, the Product HHI is defined as the square root of the sum of the squared shares of exports of each industry in total exports for the country in question.

The UNCTAD data regarding Iran, Cuba, and Russia's export concentrations provides significant insights for anyone interested in observing the degree by which states can shift their respective economic strategies so as to better insulate themselves from economic shocks brought about by the imposition of sanctions. In the cases of Iran and Cuba, both countries had been the focus of various unilateral and multilateral trade sanctions throughout the entire period for which the UNCTAD Product HHI dataset offers data. Consequently, both countries can be seen as taking steps to grow less export concentrated. Russia, however, has only been the target of relatively limited sanctions aimed primarily at limiting Moscow's ability to access certain technical items used for military weapons systems. Given the lack of sanctions imposed on Russia during the 20-year period examined in the UNCTAD Product HHI dataset, Russia can be seen as becoming progressively more export concentrated until relatively recently (at which

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<sup>88</sup> WITS indicator metadata. in The World Bank [database online]. 2016 Available from <http://wits.worldbank.org/countryprofile/metadata/en/indicator/trade>.

point additional, broader sanctions were imposed by the United States and European Union). See Figure 2 for a graphic representation of the aforementioned data.<sup>89</sup>

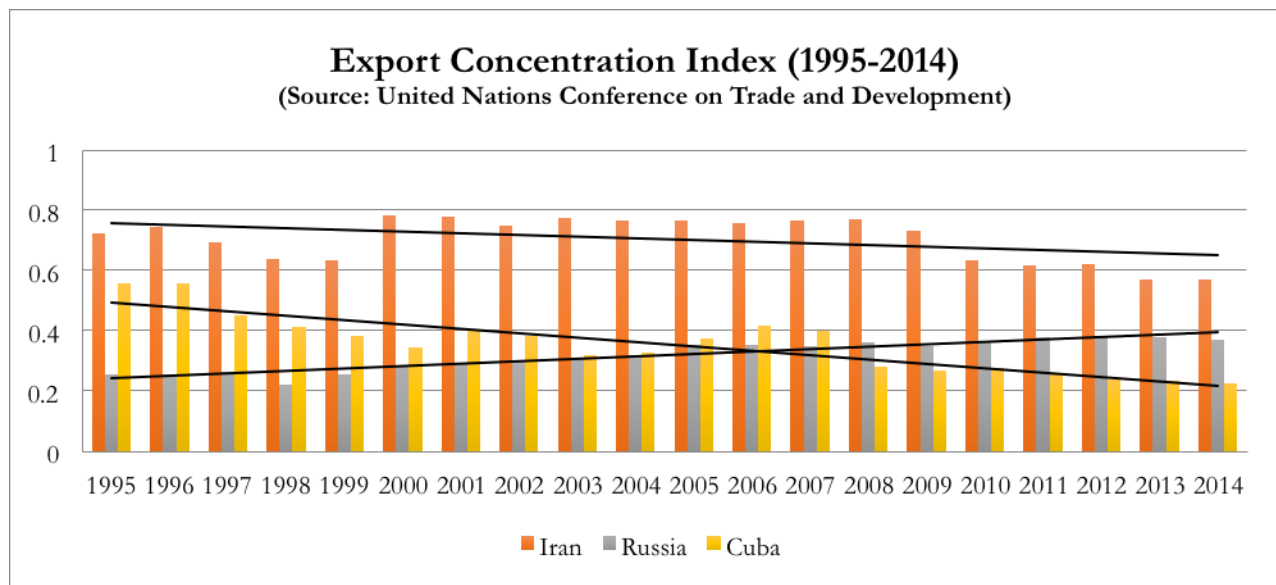


Figure 2. *Export Concentration Index (1995-2014)*

These findings are significant for a number of reasons. As is represented in the Iran and Cuba cases, the data shows that states will manipulate their economic policies so as to become less prone to sustaining the negative impact of economic shocks following the imposition of sanctions. In this sense, they further strengthen the literature's well-established link between a country's export concentration and its vulnerability/resilience. Additionally, the Russian export concentration data shows that countries may preventatively reassess their economic policies so as to mitigate the impact of sanctions regimes that have yet to be imposed at all. This finding is particularly insightful as it suggests just one way in which the frequent use of economic sanctions may unintentionally incentivize target states to pull out from the status quo Western financial order in favor of emerging alternative markets/currencies/systems. Additionally,

<sup>89</sup> A full breakdown of each country's year-by-year export concentration values can be found in the appendix. See Chart 3. Also, note that the latest HHI data set includes information for 2015 (which is later than the initial writing of this chapter). In 2015, Russia's HHI concentration level continued to drop, going from .37 in 2014 to .31 in 2015.

because Russia and Iran – both of which are major oil exporters – diverge in their respective courses of action, one can logically conclude that the imposition of sanctions was a significant factor in each country’s respective decision to become more or less export concentrated.

## **VI. Analysis**

### ***Iran***

#### *Exploitation/Conservation*

For almost the entire period of U.S.-Iran relations since the 1979 revolution, the United States has imposed some form of sanctions upon the regime in Tehran. In the 1980s and 1990s, these sanctions primarily targeted Iran’s leading role as a state sponsor of terror. In the decades to follow, U.S. sanctions policy towards Iran has grown increasingly aggressive due to the development of Iran’s widely suspected covert nuclear weapons program. However, sanctions did not begin to target Iran’s oil and natural gas sector in a comprehensive fashion until relatively recently. Therefore, in the early years of the sanctions regime, Iran earned considerable revenue from the production and export of oil and natural gas. Figure 3 shows the steady rise of Iran’s oil supply. To this day, Iran holds the world's fourth-largest proved crude oil reserves and the world's second-largest natural gas reserves.<sup>90</sup>

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<sup>90</sup> Iran - country overview. in Energy Information Administration [database online]. 2015 Available from <https://www.eia.gov/beta/international/analysis.cfm?iso=IRN>.

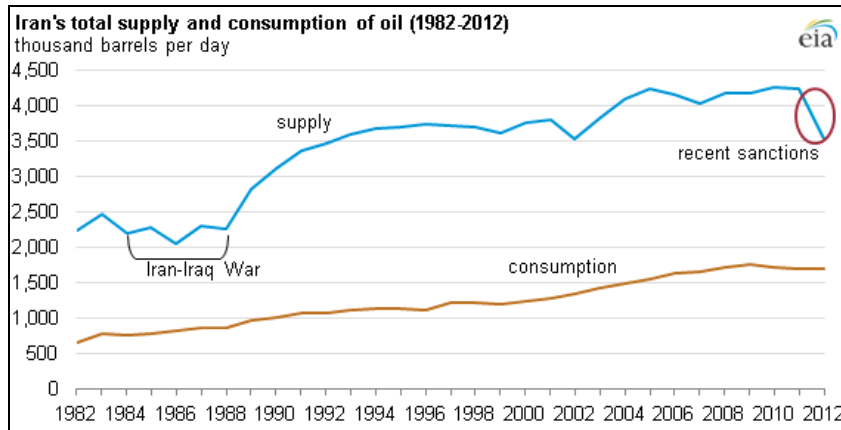


Figure 3. Iran's Consumption and Supply of Oil

(Source: Energy Information Administration)

### Release

Since 2010, international cooperation with the United States' sanctions regime brought about a measurable reduction in Iran's crude oil exports, from approximately 2.5 million barrels per day (mbd) in 2011 to approximately 1.4 mbd in 2015. Figure 4 depicts this transition.

The U.S. Energy Information Agency notes that in that time:

"Countries that reduced or halted imports from Iran replaced those barrels with similar quality crude grades from Saudi Arabia, Kuwait, Nigeria, Angola, and Iraq. Asian countries, which were mostly purchasing Iranian heavy crude oil, increased their purchases of similar crude grades from Saudi Arabia and Kuwait after 2011. In particular, China increased purchases of oil from Angola and Iraq, while other Asian countries imported more from Nigeria. The EU, which mostly purchased Iranian light crude oil until the embargo in 2012, substantially increased imports from Nigeria and Saudi Arabia. South Africa, which also halted Iranian imports in 2012, has replaced those volumes mostly with supplies from Saudi Arabia, Nigeria, and Angola."<sup>91</sup>

<sup>91</sup> Under sanctions, Iran's crude oil exports have nearly halved in three years. Energy Information Administration [database online]. 2015. Available from <http://www.eia.gov/todayinenergy/detail.php?id=21792>.

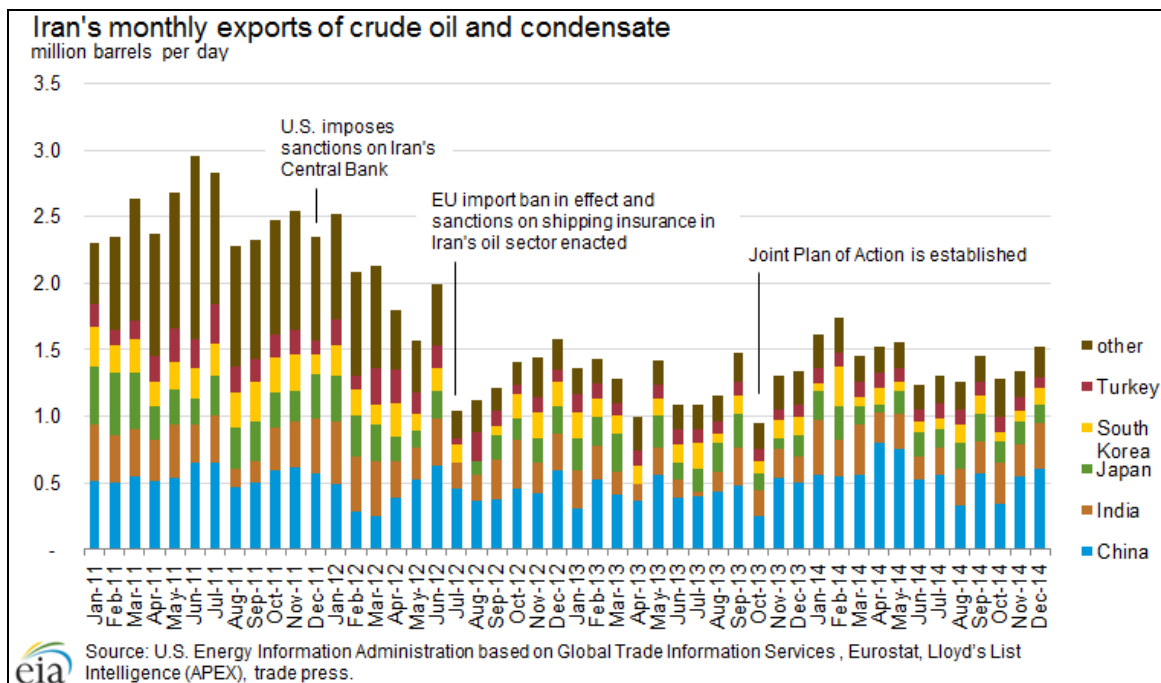


Figure 4. Reduction in Iranian Crude Exports

(Source: Energy Information Administration)

These losses cost Iran an estimated \$160 billion in oil revenues since 2012. Speaking before the Washington Institute of Near East Policy last year, Treasury Secretary Jack Lew asserted that:

“Iran’s GDP shrank by 9 percent in the two years ending in March 2014, and it is today 15 to 20 percent smaller than it would have been had it remained on its pre-2012 growth trajectory. It will take years for Iran to build back up the level of economic activity it would be at now had sanctions never been put in place.”<sup>92</sup>

As one Congressional Research Service analyst observes, Iran “earned \$100 billion from oil sales in 2011; about \$35 billion in 2013; and, because of the fall in prices, even less in 2014 and

<sup>92</sup> Lew, Jacob J. Remarks of treasury secretary Jacob J. Lew to the Washington Institute. In Washington Institute for Near East Policy [database online]. 2016. Available from <http://www.washingtoninstitute.org/policy-analysis/view/remarks-of-treasury-secretary-jacob-j.-lew>.



2015.”<sup>93</sup> Steadily declining currency values – resulting in part due to sanctions – further exacerbated the reduction in Iranian oil exports. Reports note that:

“Sanctions caused the value of the [Iranian] [R]ial on unofficial markets to decline about 56% from January 2012 until January 2014. [Subsequently,] [t]he drop in value of the currency caused inflation to accelerate during 2011-2013. The estimated actual inflation rate was between 50% and 70% (a higher figure than that acknowledged by Iran’s Central Bank).”<sup>94</sup>

Likewise, according to a report issued by the World Bank, “growth [in the Iranian economy] dropped to negative 6.8 and 1.9 percent in 2012 and 2013, respectively.”<sup>95</sup>

Altogether, the aforementioned strains on the Iranian economy would have surely become increasingly worse if Iran failed to engage in diplomatic discourse with the United States and members of the international community. In fact, before the Joint Comprehensive Plan of Action (JCPOA) took effect, the United States Congress was already in the process of crafting legislation aimed at imposing even harder hitting sanctions on the Iranian economy. To this effect, 83 United States Senators sent President Obama a letter on March 18, 2014 in which they asserted:

“Should negotiations fail or Iran violate the Joint Plan of Action, Congress will need to ensure that the legislative authority exists to rapidly and dramatically expand sanctions... We must signal unequivocally to Iran that rejecting negotiations and continuing its nuclear weapon program will lead to much more dramatic sanctions, including further limitations on Iran's exports of crude oil and petroleum products.”<sup>96</sup>

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<sup>93</sup> Katzman, Kenneth. Iran sanctions. In Congressional Research Service [database online]. Available from <https://www.fas.org/sgp/crs/mideast/RS20871.pdf>.

<sup>94</sup> Ibid.

<sup>95</sup> Economic implications of lifting sanctions on Iran. In World Bank - Middle East and North Africa Region [database online]. Washington, D.C., Available from [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2015/07/28/090224b083031bff/2\\_0/Rendered/PDF/Economic0imp0ng0sanctions0on0Iran.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2015/07/28/090224b083031bff/2_0/Rendered/PDF/Economic0imp0ng0sanctions0on0Iran.pdf).

<sup>96</sup> Letter to POTUS regarding Iran negotiations. In United States Senate [database online]. Washington, D.C., Available from <http://www.foreign.senate.gov/imo/media/doc/3-18-14%20Letter%20to%20POTUS%20Re%20Iran%20Negotiations.pdf>.

In the years to follow, the United States Congress continued to put pressure on the Administration, advocating for implementation of additional sanctions.<sup>97</sup> Likewise, proposals for additional sanctions were introduced at the international level within various multilateral forums.

### *Reorganization*

In response to what is largely recognized as the most comprehensive sanctions regime to ever be imposed upon a country, the government in Tehran sought to mitigate the impact of sanctions by developing an “economy of resistance.” Presenting the framework for the economy of resistance in February 2014, Iran’s Supreme Leader Ayatollah Khamenei asserted that the government would “turn every threat into an opportunity...The sanctions caused the massive domestic capacities of the Iranian nation to become activated.” The following are selected passages from Ayatollah Khamenei’s speech that highlight how Iran is planning on implementing an economy of resistance to the imposition of sanctions:<sup>98</sup>

1. “Promotion of domestic production, especially in strategic products and services and the consequent reduction of dependence on imports;”
2. “Targeted promotion of exportable goods and services through legal and administrative reform as well as the promotion of foreign investment for export purposes;” and,
3. “Reduce vulnerability of oil and gas exports through the selection of strategic buyers and involving the private sector in diversifying sales channels.”

These calls to action have already begun to take root in Iran. In a unique analysis of customs data provided by Iranian Customs officials, Haidar (2013) explores whether Iranian exporters simply exited international markets altogether due to economic sanctions or shifted to

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<sup>97</sup> Proposals have included, but are not limited to, the following: the FY2016 Consolidated Appropriation (P.L. 114-113), the Iran Policy Oversight Act (S. 2119), the IRGC Terrorist Designation Act (H.R. 3646 and S. 2094), the Prohibiting Assistance to Nuclear Iran Act (H.R. 3273), the Justice for Victims of Iranian Terrorism Act (H.R. 3457, S. 2086), the Iran Terror Finance Transparency Act (H.R. 3662), the IRGC Sanctions Act (H.R. 4257), the Iran Ballistic Missile Prevention and Sanctions Act of 2016 (H.R. 4342), the Iran Ballistic Missile Sanctions Act of 2016 (S. 2725), and an extension of the Iran Sanctions Act (P.L. 104-172).

<sup>98</sup> Decoding Iran’s ‘resistance economy’. in Al-Monitor [database online]. 2014 Available from <http://www.al-monitor.com/pulse/originals/2014/02/decoding-resistance-economy-iran.html>.

new markets not participating in the sanctions regime. He found that Iranian non-oil exports consistently grew in volume between January 2006 and June 2011 (the period for which he was given data).

According to Haidar, “the aggregate impact of sanctions on trade flows hides a rich set of microeconomic adjustments...Iranian exporters diverted their trade from the US and EU to Asian, African, and Latin American destinations.” Moreover, according to this analysis “the probability that any diverting exporter exits a destination imposing sanctions is 52% and that it subsequently enters a destination not imposing sanctions is 37%. Clearly, sanctions triggered Iranian exporters to divert trade and to establish new relationships in new markets.”

Notably, Haidar finds that in aggregate, Iranian exports increased after the imposition of sanctions. It is important to highlight that although these exporters were able to find new markets, ultimately exporting more than they had previously, the cost of business also increased. Surely, greater fiscal strain on middle class exporters could one day bring to bear pressure on the regime to change course and reopen trade with Western markets. The fact remains, however, that despite the additional cost incurred upon exporters as a result of sanctions, exporters were able to deflect two-thirds of Iranian exports to non-sanctioning countries. In effect, these exporters – and the Iranian economy as a byproduct – have unintentionally been pushed away from Western markets and financial institutions as a secondary effect of the initial imposition of sanctions.

## ***Cuba***

### *Exploitation/Conservation*

Prior to the 1959 Cuban Revolution, Cuba played a major role in U.S.-Latin American trade – amounting to approximately one billion dollars per year in imports and exports

collectively.<sup>99</sup> However, following the revolution and Castro’s subsequent seizure of practically all U.S. assets on the island, U.S.-Cuban trade quickly deteriorated. The Soviet Union and its Warsaw Pact allies (the Council for Mutual Economic Assistance – CMEA) quickly filled this void, providing Cuba with massive economic aid packages for the following thirty years. In response, the United States first imposed sanctions on Cuba as early as 1962 with the explicit aim of bringing about regime change through democratic elections. The United States would continue to impose additional sanctions on Cuba throughout the duration of the Cold War. Until recently, many of the sanctions imposed decades ago have remained in place. Nevertheless, according to the United States International Trade Commission (USITC), these sanctions “generally had a minimal overall historical impact on the Cuban economy...Soviet economic assistance, which peaked at nearly \$6 billion annually in the 1980s, largely offset any adverse effects of U.S. sanctions and enabled the Cuban economy to grow.”<sup>100</sup>

### *Release*

In the aftermath of the Soviet Union’s fall, Cuba suffered extreme losses. According to the Congressional Research Service, the island nation “experienced severed economic deterioration from 1989 to 1993, with an estimated decline in gross domestic product ranging from 35% to 50% when the Soviet Union collapsed and Russian assistance to Cuba practically ended.”<sup>101</sup> Similarly, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) concluded, “the use of installed capacity plunged from 70% in 1989 to less

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<sup>99</sup> *1967 business statistics*. 1967. United States Department of Commerce, [https://fraser.stlouisfed.org/files/docs/publications/business\\_stats/1967/1967.pdf](https://fraser.stlouisfed.org/files/docs/publications/business_stats/1967/1967.pdf). See tables 109, 111, 114, and 116.

<sup>100</sup> *The economic impact of U.S. sanctions with respect to cuba*. 2001. United States International Trade Commission, <https://www.usitc.gov/publications/332/pub3398.pdf>.

<sup>101</sup> Sullivan, Mark P. 2016. Cuba: Issues for the 114th congress. Congressional Research Service: Report (08/01).

than 30% in 1993.”<sup>102</sup> Cuban exports and imports also declined by 80% and 73% respectively within that same timeframe.<sup>103</sup>

### *Reorganization*

In 1994, the Cuban economy began to recover from the losses it suffered following the Soviet Union’s collapse. Notably, though, the total volume of trade would continue to remain significantly lower than it was in the late 1980s. Despite this fact, the Cuban economy proved resilient in implementing policies aimed at growing and diversifying its import and export markets. According to the ECLAC:

“Since 1997...export promotion policies began to show results, especially on the level of machine tooling, construction materials and light industry segments. The weight of manufactured goods in the country’s export mix has also grown, in part due to declines in sugar sales. As a result, the percentage of manufactured goods in total exports has steadily risen from 10% in 1990 to 37% in 1997 with 23% corresponding to nickel products. Other manufactured goods that have expanded their share of the export total include canned fish products, beverages and tobacco, chemicals, cement, medicines, steel and iron.”

Clearly, without support from the Soviet Union, Cuba’s economic situation was exacerbated by the ongoing sanctions regime levied upon it by the United States. Incrementally, however, growth in Cuba’s manufacturing sector resulted in greater circulation and reserves of foreign currencies throughout the island. See Figure 5 for a graphic representation of the rapid growth in Cuba’s manufacturing sector following the Soviet Union’s collapse.

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<sup>102</sup> *The Cuban economy. structural reforms and economic performance in the 1990s*. 2001. UNITED NATIONS ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC), <http://www.cepal.org/publicaciones/xml/8/9458/r746-rev1-parte5.pdf>.

<sup>103</sup> Ibid.

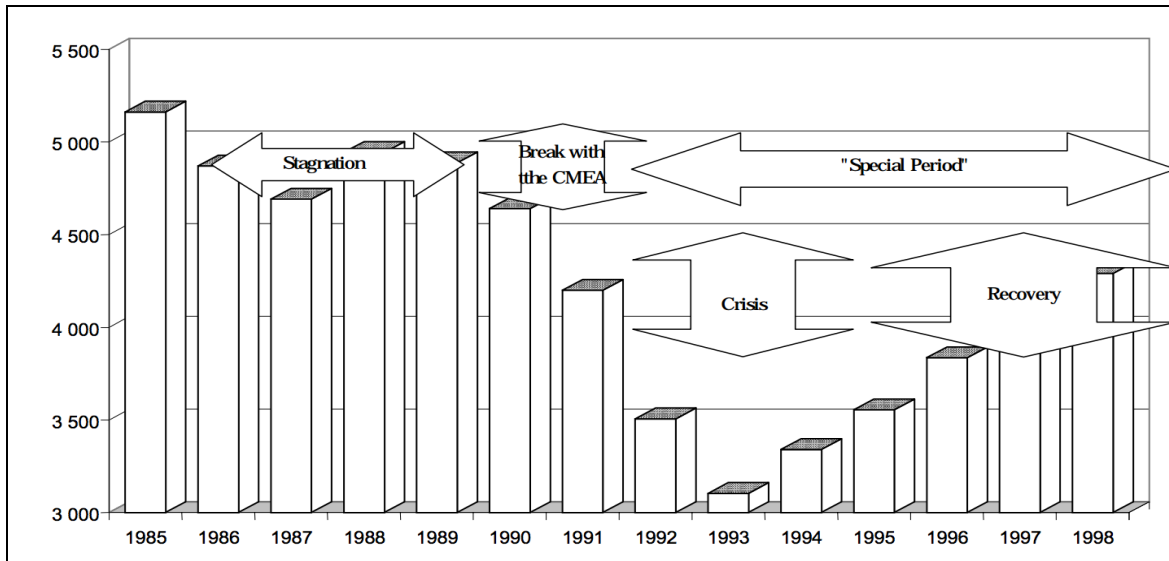


Figure 5. Growth in Cuba's Manufacturing Sector in Millions of Pesos (1981)

(As depicted in 2001 ECLAC Report)

Notably, as is evidenced by the UNCTAD data, Cuba's export concentration levels decreased at the very same time its manufacturing sector experienced significant growth. In fact, Cuba's export sector has grown increasingly diverse in the years following its initial period of recovery from the Soviet Union's collapse.<sup>104</sup>

### ***Russia<sup>105</sup>***

#### *Exploitation/Conservation*

Throughout the Cold War, Russia enjoyed considerable revenue from the former Soviet Union's vast oil production enterprise. According to Yegor Gaidar – Russia's former acting

<sup>104</sup> According to UNCTAD data, Cuba's level of export concentration has decreased by 60% from 1995-2015.

<sup>105</sup> Unlike the cases of Iran and Cuba, U.S.-Russian economic relations since the end of the Cold War have been relatively open with the exception of certain restrictions on the export of arms and various technologies used for military systems. However, following Moscow's annexation of Crimea in 2014, the United States began to impose economic sanctions on Russia. Given the recent nature of these events, UNCTAD data is not yet available to assess shifts in Russian export concentration following the anticipation of sanctions. This analysis will, however, demonstrate how doctrinal shifts by the Russian government in anticipation of Western economic sanctions coupled with significant drops in the price of oil mirror Russia's adaptive cycle as it recovered from the collapse of the Soviet Union.

prime minister, minister of economy, and first deputy prime minister – oil production in Western Siberia increased twelvefold from 1970-1982.<sup>106</sup> In the years to follow, the former Soviet Union became the world's largest producer and second largest exporter of crude oil.<sup>107</sup> At its peak, the former Soviet Union produced 11.8 mbd of crude oil in 1988.<sup>108</sup> It also produced overwhelming amounts of natural gas, approximately 11.2 trillion cubic feet per year more than its greatest competitor, the United States.<sup>109</sup> Notably, 78% of the former Soviet Union's natural gas production originated in the Russian Republic.<sup>110</sup> Similarly, in recent years, Russia has emerged as the world's largest producer of crude oil and second-largest producer of natural gas. In 2015, Russian oil output hit a post-Soviet Union high of approximately 11.03 mbd. In the same year, Russia exported more than 7 mbd.<sup>111</sup> Notably, as Russia's dependence on the production and export of hydrocarbons has continued to grow, so has its level of export concentration.<sup>112</sup>

### *Release*

Following the collapse of the former Soviet Union, Russia's production of crude oil fell to historic lows. In 1996, the country produced a mere 5.9 mbd compared to the 11.8 mbd produced just eight years prior.<sup>113</sup> As depicted in Figure 6, the decline in Russian crude oil production occurred at a rapid rate. In recent years, Russia has yet again experienced significant and abrupt shifts in regard to the production of oil. According to the United States Energy Information Agency (EIA), "oil prices fell by more than half, from an average Brent crude oil

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<sup>106</sup> Gaidor, Yegor. *The soviet collapse: Grain and oil*. American Enterprise Institute, 2007.

<sup>107</sup> *Soviet legacy on russian petroleum industry*. The University of Texas at Austin - Center for Energy Economics, [http://www.beg.utexas.edu/energyecon/new-era/case\\_studies/Soviet\\_Legacy\\_on\\_Russian\\_Petroleum\\_Industry.pdf](http://www.beg.utexas.edu/energyecon/new-era/case_studies/Soviet_Legacy_on_Russian_Petroleum_Industry.pdf).

<sup>108</sup> Ibid.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid.

<sup>111</sup> Russia - country overview. in Energy Information Administration [database online]. 2015. Available from <https://www.eia.gov/beta/international/analysis.cfm?iso=RUS>.

<sup>112</sup> According to UNCTAD data, Russia's level of export concentration has increased by 42% from 1995-2015.

<sup>113</sup> International energy outlook 2016. in Energy Information Administration [database online]. 2016.

price of \$109/barrel in the first half of 2014 to just \$52/barrel in 2015 and to \$40/barrel in the first half of 2016.”<sup>114</sup> Considering that oil and natural gas revenues account for more than 50% percent of Russia’s federal budget revenues, a drop in price of this magnitude has had a significant impact on the Russian economy.<sup>115</sup> Figure 7 shows the extent to which the Russian government is impacted by decreased oil and natural gas revenue.

Adding to the economic strain brought about by decreased oil and natural gas revenue, Russia has become the target of Western economic sanctions due to its invasion of Crimea. Currently, there are three types of economic sanctions targeting Russian state and non-state entities.<sup>116</sup> First, various Russian state-owned enterprises are barred from accessing Western banking, energy, and defense sectors. Second, as was previously mentioned, the United States as well as various Western European allied states have placed an embargo on exports of certain military technologies to the Russian government and government-affiliated companies. Lastly, an embargo has been placed on exports of technologies capable of assisting Russian attempts to explore for, extract, and produce offshore Arctic oil. Collectively, these sanctions are aimed at placing significant pressure on an already weakened Russian economy.

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<sup>114</sup> Russia - country overview. in Energy Information Administration [database online]. 2015.

<sup>115</sup> Ibid.

<sup>116</sup> Ukraine-/Russia-related sanctions. in United States Department of the Treasury [database online]. 2016. Available from <https://www.treasury.gov/resource-center/sanctions/Programs/pages/ukraine.aspx>.



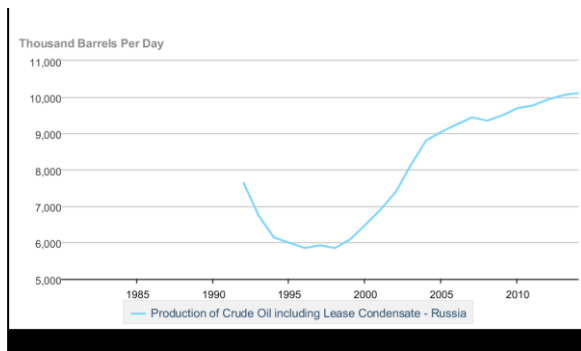


Figure 6. Russian Crude Oil Production

(Source: United States Energy Information Agency)

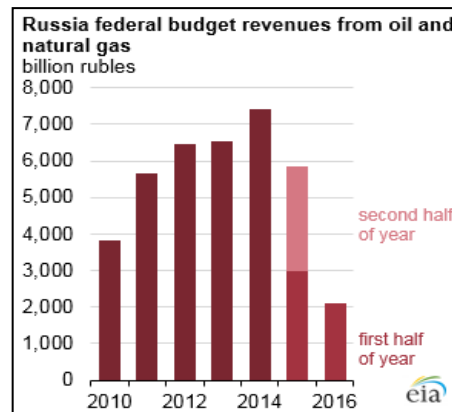


Figure 7. Russian Oil and Natural Gas Budget Revenues

(Source: United States Energy Information Agency)

### Reorganization

Prior to the imposition of Western sanctions, Russia began initial development of a concerted import-substitution campaign aimed at mitigating the impact of foreign attempts to threaten its economic sovereignty through the anticipated imposition of economic sanctions, among other forms of statecraft. As early as May 14, 2014, Putin issued three presidential directives requiring the government to assess “the possibility of competitive import substitution in industry and agriculture” with the ultimate aim of developing plans for 2014-2015.<sup>117</sup> Furthermore, citing Russian-language news reports, Connolly and Hanson (2016) note that “[a]t a meeting of the State Council on 25 November 2015, Ministry of Industry and Trade Denis Manturov reported that 570 import-substitution projects were under way. The plan envisages the

<sup>117</sup> List of instructions about additional measures for the stimulation of economic growth. in Presidential Administration of the Russian Federation [database online]. 2014 Available from <http://www.kremlin.ru/acts/assignments/orders/23900>.

implementation of 2,059 projects across 19 branches of the economy between 2016 and 2020.”<sup>118</sup>

Importantly, many analysts argue that Russia’s import-substitution campaign is destined to fail in achieving the state’s long-term objectives of creating a highly productive, self-reliant, and technologically advanced economy. According to BMI Research Group, “evidence so far suggests that drastic depreciation of the ruble and import substitution policies have done relatively little to stimulate higher production in the non-energy sector, highlighting the significant structural challenges that will hinder economic diversification.”<sup>119</sup> Their report further notes that “recent government import substitution initiatives (aimed at increasing local content at the expense of exports in sectors such as autos, pharmaceuticals, metals, mining and others) might achieve the opposite of the intended results – increasing reliance on imported goods and services, while curtailing exports.”<sup>120</sup>

Nevertheless, within the scope of this paper’s analysis, the fact remains that in anticipation of being the target of Western sanctions, the Kremlin decided to pursue this path regardless of whether it is likely to succeed or not. Although sanctions did not act as the primary driving force behind the recent recession, they have certainly limited the Kremlin’s ability to offset the impact of having reduced funds for the development of offshore and Arctic drilling projects.

Sanctions, in this sense, have not only reduced the incentive of countries to offer foreign direct investment in Russia, but they have also limited Russia’s ability to access Western

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<sup>118</sup> Connolly, Richard, and Philip Hanson. 2016. *Import substitution and economic sovereignty in russia*. Chatham House.

<sup>119</sup> Russia & CIS. 2016. *Emerging Europe Monitor: Russia & CIS* 20 (9) (09/01): 2.

<sup>120</sup> Russia business forecast report: Includes 10-year forecast to 2022. 2013. *Russia Business Forecast Report*(4) (10/01).

financial markets.<sup>121</sup> Therefore, should Russia continue to pursue its revisionist path and disregard demands by the international community to withdraw from Crimea, the West could soon be faced with a scenario in which the only means left to compel Russian state behavior are more comprehensive, harder hitting sanctions or kinetic retaliation. Should UNCTAD information become available, this paper will be updated so as to assess the degree to which Russia's level of export concentration has shifted in response to government policies including but not limited to the import substitution campaign.<sup>122</sup>

## **VII. Conclusion**

As is evidenced by the Iran, Cuba, and Russia case studies addressed in this paper, fiscal crises resulting from the imposition or anticipated imposition of sanctions can lead target states to grow increasingly resilient through adaptive processes aimed at insulating their respective economies from the imposition of future sanctions regimes. Even though sanctions may still prove effective in compelling target state behavior, the fact remains that sender states may be forced to impose more comprehensive sanctions regimes with potential for greater collateral damage in order to achieve the desired effect. Additionally, as target states grow increasingly resilient to the impact of economic sanctions, sender states will more frequently be forced to consider kinetic means of compelling state behavior. Therefore, the academic and public policy community ought to give greater consideration to the secondary, often unintended consequences sanctions regimes may bring about in the long-term. Of course, sanctions, like any form of statecraft, can be implemented effectively when utilized as part of a well-developed strategy.

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<sup>121</sup> Moody's confirms Russia's Ba1 sovereign rating; outlook negative. in Moody's Investors Service [database online]. 2016.

<sup>122</sup> Considerable potential exists for decreased levels of Russian export concentration. According to analysts at the Congressional Research Service, the Russian government hopes to diversify its natural gas exports to Asian countries including China, South Korea, and Japan until they make up 19%-20% of the total export volume by 2030. See <https://fas.org/sgp/crs/row/R42405.pdf>

However, if sending states impose sanctions without properly assessing the means by which target states can emerge resistant to and resilient in the wake of future sanctions regimes, they may tragically limit the options afforded to the very policymakers who seek to prevent escalation of existing and emerging tensions.

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**“THE MOST IMPORTANT SINGLE INGREDIENT IN THE FORMULA OF SUCCESS IS  
KNOWING HOW TO GET ALONG WITH PEOPLE.”**

**– PRESIDENT THEODORE ROOSEVELT**

## **Introduction**

This paper uniquely explores how domestic stakeholders in sanctions-sending states find mutually agreeable terms during the drafting and ultimate enactment and imposition of sanctions legislation in the United States. In particular, this study focuses on the priorities of three stakeholders: (1) industry, (2) Congress, and (3) the Executive Branch.

Because the academic literature concerning economic sanctions has largely concluded that sanctions imposition rarely if ever results in significant negative consequences to the sending state's economy, scant research has been conducted to determine how sanctions imposition affects industry operating within sending states. However, the literature on corporate political activity clearly shows how industry can influence political discourse on matters of public policy. Industry, as well as the two additional stakeholders, hold a unique set of preferences and priorities. Although a sending state's economy may not face considerable damage due to sanctions imposition, further analysis of industry's role in setting forth agreeable terms to any given sanctions regime is not only worthwhile, but necessary if academics and lawmakers alike are to have the best understanding of the factors to be considered when crafting and ultimately imposing sanctions regimes.

A comprehensive review of the stakeholders' dispositions toward previously crafted and imposed sanctions regimes would provide a clear understanding of what is typically agreeable and open for negotiation during the consideration of sanctions legislation. In this paper, I will address stakeholder concerns within the context of the drafting and ultimate imposition of the

Comprehensive Iran Sanctions and Divestment Act of 2010 (CISADA). The CISADA case study pays particular attention to the legitimate concerns of industry with respect to sanctions imposition. It also allows for an assessment of the degree to which those concerns align with or oppose those of the Congress and Executive Branch.

Utilizing Hargrave, Pacheco, and York's collective governance model, Friedman and Miles' stakeholder theory, and Besharov and Smith's analysis of organizational logic multiplicity, this paper posits that, within the context of the debate of sanctions legislation, all three stakeholders fall within the theoretical construct of "concessionary" or "necessary incompatible" (to be used interchangeably) and "estranged organizations," for which compromise comes in the form of making substantive concessions.<sup>123</sup> Although this may strike some as obvious, the way in which domestic stakeholders work together to draft mutually agreeable terms for sanctions legislation has never been studied by the academic community.

This analysis is important for several reasons. First, it expands the academic literature's focus on the economic impact of sanctions beyond that which exclusively concerns state economies to include an assessment of sanctions' impact on industry. Second, it will contribute to the literature on unintended consequences of sanctions and expand upon this focus' emphasis on the impact of sanctions to innocent civilians to show that sanctions can legitimately stifle

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<sup>123</sup> According to Besharov and Smith (2014, 372), "Estranged organizations confront inconsistent organizational goals associated with multiple logics. Yet one of these logics dominates among members and in the organizations' mission, strategy, structure, identity, and core work practices. As a result, when internal conflicts arise, differences can be resolved in favor of the dominant logic, limiting escalation and intractability." According to Friedman and Miles (2002, 6), necessary incompatible "relations occur when material interests embedded in social structures or sets of ideas are necessarily related to each other, but their operations will lead to the relationship itself being threatened. ...The situational logic is concession leading to compromise." See also: Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model." In *Academy of Management Proceedings*, vol. 2013, no. 1, p. 14906. Academy of Management, 2013; BESHAROV, MARYA L., and WENDY K. SMITH. 2014. "MULTIPLE INSTITUTIONAL LOGICS IN ORGANIZATIONS: EXPLAINING THEIR VARIED NATURE AND IMPLICATIONS." *Academy Of Management Review* 39, no. 3: 364-381. Business Source Complete, EBSCOhost; Friedman, A. L. and Miles, S. (2002), *Developing Stakeholder Theory*. *Journal of Management Studies*, 39: 1-21.

domestic interests – including those of industry and Executive Branch diplomacy – if not properly crafted. Third, it will draw attention to the need for more literature on corporate political behavior within the context of economic sanctions.

To begin, this paper will provide an overview of the literature on institutional logic, the principles of collaborative governance, and stakeholder theory. It will then discuss the selected methodology and further explain CISADA's significance as a case study in the history of sanctions imposition, as well as its relation to numerous factors that have influenced the domestic debate concerning sanctions imposition in the United States since the late twentieth century. The paper will then outline each of the three stakeholders' dispositions toward CISADA and detail how each stakeholder influences the legislation's drafting in Congress and its ultimate imposition following the law's enactment. The paper will then conclude with a discussion of the significance of these findings, framing them within the context of the existing literature on economic sanctions. It will likewise suggest additional avenues of research for the academic community.

## **Literature Review**

As a tool of statecraft, economic sanctions are described within the academic literature as having little to no impact on sending state economies. However, scant research has been conducted to assess the impact sanctions have on industry based in the sending state. Although their contributions to GDP may be marginal in relation to that of the entire sending state's economy – in particular, that of the United States' – firms are able to significantly impact political discourse on matters concerning global competitiveness. Likewise, the academic literature largely forgoes any in-depth analysis of the process employed by sanctions-sending states prior to imposing sanctions beyond recognizing sanctions as a means by which politicians



may garner domestic support through what is too frequently described as symbolic action incapable of seriously altering behavior of target states.

The following review will not only outline the key literature on institutional logic, the principles of collaborative governance, and stakeholder theory, but it will also allow the reader to understand the degree to which decision-making processes are studied, and how a void exists within the economic sanctions literature on this very subject. To begin, I will first outline the literature's contributions to our understanding of how sanctions impact sending state economies as well as why politicians impose sanctions at all.

### ***Impact on Sending State Economies***

Few studies have conducted macroeconomic assessments of the effects of sanctions on sanctions-sending states' domestic economies. Of those that do engage in such analysis, the impact of sanctions on the U.S. economy has been estimated to result in the loss of hundreds of thousands of jobs and cost between \$15 billion and \$19 billion annually.<sup>124</sup> A study sponsored by the National Iranian American Council, a pro-Iranian U.S. lobby, likewise found the American economy lost approximately \$175 billion in trade with Iran between 1995 and 2012 due to U.S. sanctions imposition.<sup>125</sup>

These studies have significant limitations and have been shown, by some, to exaggerate sanctions' potential impact on private industry in the United States. For one, estimates of the impact sanctions have on domestic private industry are limited to the period(s) being examined.

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<sup>124</sup> Askari, Hossein *Economic Sanctions: Examining Their Philosophy and Efficacy*. Westport, Conn.: Praeger, 2003; Hufbauer, Gary Clyde, Kimberly Ann Elliott, Tess Cyrus, and Elizabeth Winston. 1997. "US Economic Sanctions: Their Impact on Trade, Jobs, and Wages." *Institute for International Economics*.

<sup>125</sup> "Report: Iran Sanctions Cost US Economy up to \$175 Billion," National Iranian American Council, July 14, 2014, <https://www.niacouncil.org/report-iran-sanctions-cost-us-economy-175-billion/>. Note that NIAC is an objectively biased, pro-Iranian source.

This is an obvious, but significant point. Sanctions regimes are not uniform and they can impact a range of domestic industries depending on which country is being targeted as well as which industries are the focus of a given sanctions regime. Additionally, the impact of sanctions on domestic industry will vary in relation to a sanctions regime's level of unilateral or multilateral imposition.

Furthermore, one of the more well-cited studies conducted by Hufbauer et al. (1997) fails to account for industry's ability to diversify markets and find new buyers.<sup>126</sup> The concept known as "sanctions busting" has been studied in previous literature, focusing on how trade is diverted and sanctions-receiving countries find alternative markets for imports and exports that are not party to any given unilateral or multilateral sanctions regime.<sup>127</sup>

Moreover, developing quantitative metrics can be useful for the sake of informing policymakers whether their preferred form of statecraft is, in fact, the most effective option available to them. However, the quantitative approach taken by academics thus far in evaluating the impact of sanctions on sanctions-sending state economies has largely missed the mark by failing to recognize the multitude of domestic and international political factors that contribute to a states' formation of diplomatic policies as well as the concerns of industry. A sanctions regime's success, in this sense, is only achieved if the regime brings about significant change in the target state economy and/or political structure. However, determining the success of any particular sanctions regime should also account for the impact of sanctions imposition on industry in the sanctions-sending state, as well as the potential ability for sanctions imposition to

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<sup>126</sup> Hufbauer, Gary Clyde, Kimberly Ann Elliott, Tess Cyrus, and Elizabeth Winston. 1997. "US Economic Sanctions: Their Impact on Trade, Jobs, and Wages." *Institute for International Economics*.

<sup>127</sup> Early, Bryan R. 2009. "Sleeping With Your Friends Enemies: An Explanation of Sanctions-Busting Trade." *International Studies Quarterly* 53 (1): 49-71; See also Kaempfer, William H, and Anton D Lowenberg. 1999. "Unilateral Versus Multilateral International Sanctions: A Public Choice Perspective." *International Studies Quarterly* 43 (1): 37-58.

limit the diplomatic tools available to the sending state's government. Ultimately, the results stemming from these quantitative assessments of the impact brought about by imposition of sanctions regimes have painted a largely incomplete and misleading picture for policymakers and academics alike.

Looking at the industry's involvement in crafting sanctions legislation – and regimes' eventual imposition – a limited volume of literature concludes that interest groups have a vested stake in ensuring private sector interests are understood and valued.<sup>128</sup> In one study, Ang and Peksen (2007) provide examples of instances where industry interests were reflected through the provision of waivers to restrictions set by the imposition of sanctions on China as it concerned a moratorium on the sales of U.S. produced weapons.<sup>129</sup>

Additional literature has described certain methods employed by industry to influence the debate over sanctions legislation and imposition. Recently, Politi and McGregor (2014) argued that U.S. sanctions imposed upon Russia following the country's invasion of Crimea, Ukraine were opposed by U.S. corporations including, but not limited to, Disney, Pfizer, Caterpillar, ExxonMobil, and Disney.<sup>130</sup> These firms argued that expansion of existing sanctions would harm their foreign interests with respect to market access and reputation as reliable business partners.

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<sup>128</sup> Kaempfer, William H., and Anton D. Lowenberg. 1992. *International Economic Sanctions: A Public Choice Perspective*. Boulder: Westview Press.; See also, Kaempfer, William H., and Anton D Lowenberg. 1999. "Unilateral Versus Multilateral International Sanctions: A Public Choice Perspective." *International Studies Quarterly* 43 (1): 37-58; Kaempfer, William H., and Anton D. Lowenberg. 2000. "A Public Choice Analysis of the Political Economy of International Sanctions." In *Sanctions as Economic Statecraft: Theory and Practice*, ed. Sted Chan, and A. Cooper Drury. London: Macmillan.

<sup>129</sup> Adrian, U, Jin Ang, and Dursun Peksen. 2007. "When Do Economic Sanctions Work? Asymmetric Perceptions, Issue Salience, and Outcomes." *Political Research Quarterly* 60 (1): 135-145.

<sup>130</sup> Politi, James, and Richard McGregor. 2014. "U.S. Companies Urge Restrain on Russia Sanctions." *Financial Times Online*.

Additional open-source media reports have similarly identified instances in which U.S. companies opposed sanctions on Colombia, Iran, and Sudan.<sup>131</sup>

### ***Why Politicians Call for Sanctions***

The political calculus regarding sanctions imposition is best described by Allen's (2005) analysis of the association between economic performance and preservation of political power:

"If the burden is great, or support for the contested issue is low, public support for the government's policy may wane over time. As a result, there are political costs that accompany both resisting and maintaining sanctions, and both states must be willing to bear those costs for the sanctions to continue. These costs come as a popular judgment on the foreign policy efficacy of the national leadership. Because losing power is the worst possible outcome for leaders (Miller, 1995), neither the sender government or the target government wants to jeopardize its hold on power with unpopular sanctions."<sup>132</sup>

Although Allen's explanation does attempt to link sanctions imposition to the political calculations made by sanctions-sending politicians, it does not fully examine how those political calculations are made and how the interests of industry influence those of elected members of Congress and the Executive Branch.

Furthermore, Goenner (2007) argues that politicians assess sanctions imposition within the context of employing a relatively costless tool of statecraft, rather than calling for the more lethal and politically biting course that could be taken through direct military engagement.<sup>133</sup> The assumption that sanctions are costless, however, is flawed. As this paper will later show, members of Congress support and oppose sanctions imposition for a variety of reasons, and – as

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<sup>131</sup> Cummings, Jennifer. 2010. "The Decline of Party in the US House of Representatives, 1887-1968." The Fretelli Group for NFTC." <http://www.nftc.org/newsflash/newsflash.asp?Mode=View&articleid=2974&Category=All>; Foer, Franklin. 1996. "Economic Sanctions," Slate Magazine; Lane, William. 1998. "Testimony of William C. Lane Washing Director Governmental Affairs Caterpillar Inc. Before the U.S. International Trade Commission, "Overview and Analysis of Current U.S. Unilateral Economic Sanctions;" Reinsch, William. 2007. "US Export Controls and Economic Sanctions for the Oil and Gas Industry." National Foreign Trade Council. <http://www.nftc.org/newsflash/newsflash.asp?Mode=View&articleid=1854&Category=All>.

<sup>132</sup> Allen, Susan Hannah. 2005. "The Determinants of Economic Sanctions Success and Failure." *International Interactions* 31 (2): 138.

<sup>133</sup> Goenner, Cullen F. 2007. "Economic war and democratic peace." *Conflict Management and Peace Science* 24 (3): 171-182.

was the case in the crafting and eventual vote on CISADA – they were targeted by outside interest groups when their votes to support sanctions ran counter to industry’s stated preferences. The impact of industry’s retaliation against or punishment of individual members is somewhat subjective, but to ignore such responses, and therefore argue that sanctions are politically “costless” for members of Congress is to completely dismiss entire public relations campaigns, lobbying efforts, etc.

### INSTITUTIONAL LOGIC AND COLLABORATIVE GOVERNANCE

According to Thornton and Ocasio (1999), institutional logics are “socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules.”<sup>134</sup> In a later work, they argued that “institutional logics shape rational, mindful behavior, and individual and organizational actors have some hand in shaping and changing institutional logics.”<sup>135</sup> These sets of logics provide normalized structure within the context of individual or grouped systems. As Friedland and Alford (1991) note, these logics can overlap across fields of study and be applied in a variety of institutional settings.<sup>136</sup>

Besharov and Smith’s (2014) analysis of institutional logic and logic multiplicity subscribes to Thornton and Ocasio’s definition of institutional logics, arguing that the definition contains four critical assumptions – specifically:<sup>137</sup>

1. “[S]ocietal-level institutional logics manifest within organizations in a variety of ways, as a result of factors such as the geographic, historical, and cultural context in which organizations

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<sup>134</sup> Thornton, P. H., & Ocasio, W. 1999. Institutional logics and the historical contingency of power in organizations: Executive succession in the higher education publishing industry, *American Journal of Sociology*, 105: 801– 843.

<sup>135</sup> Thornton, P. H., & Ocasio, W. 2008. Institutional logics. In R. Greenwood, C. Oliver, R. Suddaby, & K. SahlinAndersson (Eds.), *Handbook of organizational institutionalism*: 100 –129. London: Sage.

<sup>136</sup> Friedland, R., & Alford, R. R. 1991. Bringing society back in: Symbols, practices and institutional contradictions. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis*: 232–263. Chicago: University of Chicago Press.

<sup>137</sup> BESHAROV, MARYA L., and WENDY K. SMITH. 2014. "MULTIPLE INSTITUTIONAL LOGICS IN ORGANIZATIONS: EXPLAINING THEIR VARIED NATURE AND IMPLICATIONS." *Academy Of Management Review* 39, no. 3: 364-381. Business Source Complete, EBSCOhost

- operate (Greenwood et al., 2010), the dependence of organizations on key resource providers (Jones et al., 2012), and the experiences and identities of individual actors (Lok, 2010).”
2. “Organizations frequently confront environments in which multiple institutional logics are present and thus reflect these different logics in their structures and practices (Greenwood et al., 2011; Kraatz & Block, 2008).”
  3. “[E]ven as logics influence cognition and action, actors can influence how logics are instantiated in organizations.”
  4. “Change in how logics emerge in organizations can occur for several reasons, including the cultural entrepreneurship of individual actors (DiMaggio, 1982), the dynamics of intraorganizational practices and identities (Lounsbury, 2007; Lounsbury & Crumley, 2007), and exogenous events that create overlapping roles, structures, or functions within organizations (Thornton, Jones, & Kury, 2005).”

While Besharov and Smith outline the ways in which organizational logic can blend — moving from that of conflicting viewpoints to assertions of agreement — others take a more defined, restrictive approach. Tracey, Phillips, & Jarvis (2011), for instance, argue that logic multiplicity threatens organizations’ abilities to function and find compromise.<sup>138</sup> Kraatz & Block (2008), however argue that the presence of multiple logics within a system or set of systems typically produces greater innovation and resilience.<sup>139</sup>

As Hargrave, Pacheco and York note, “Institutional scholars increasingly recognize that organizational fields are persistently constituted by multiple, often competing logics rather than by a single stable dominant logic (Dunn & Jones, 2010; Greenwood, Megan, Li, & Cespedes, 2010; Lounsbury, 2007; Marquis & Lounsbury, 2007; Purdy & Gray, 2009; Reay & Hinings, 2005, 2009; Zietsma & Lawrence, 2010).”<sup>140</sup>

Relying on much of the aforementioned literature, Hargrave, Pacheco and York (2013) develop a collaborative governance model that seeks to incorporate elements of logic multiplicity

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<sup>138</sup> Tracey, P., Phillips, N., & Jarvis, O. 2011. Bridging institutional entrepreneurship and the creation of new organizational forms: A multilevel model. *Organization Science*, 22: 60 – 80.

<sup>139</sup> Kraatz, M., & Block, E. 2008. Organizational implications of institutional pluralism. In R. Greenwood, C. Oliver, R. Suddaby, & K. Sahlin-Andersson (Eds.), *Handbook of organizational institutionalism*: 243–275. London: Sage.

<sup>140</sup> Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model." In *Academy of Management Proceedings*, vol. 2013, no. 1, p. 14906. Academy of Management, 2013.

in order to explain “how opposed actors who recognize their interdependence work together across their differences to find areas of agreement on an ongoing basis.”<sup>141</sup> The collaborative governance model, they say, “has emerged in the public policy and planning, science and technology, and natural resource management literatures (Innes & Booher, 2010; Koontz, Steelman, Carmin, Korfmacher, Moseley, & Thomas, 2004; Magerum, 2011) to explore the question of how diverse and competing actors embedded in differing institutional logics manage their interdependencies and reach consensus on how to address issues of common concern.”<sup>142</sup>

### ***Stakeholder Theory***

Like the literature on institutional logic and logic multiplicity, the academic community’s volume of work on stakeholder theory seeks to understand the interplaying dynamics between entities operating within a system. First applied to questions concerning strategic management, Freeman’s (1984) seminal “*Strategic Management: A Stakeholder Approach*” led over 100 articles on stakeholder theory to be published over the course of the following decade.<sup>143</sup>

By 2001, Freeman and McVea concluded “the time is right to switch attention to a more pragmatic approach that connects a stakeholder approach to management practice.”<sup>144</sup> As a result, stakeholder theory evolved from strictly theoretical conceptualizations to be applied in real world applications in marketing (de Bussy Ewing and Pitt 2003), public policy (Brugha and Zsuzsa 2000), research management (Bunn, Sacage and Holloway 2002; Elias, Cavana and Jackson 2002), and construction project management (Crawford 2000; Bourne and Walker 2005;

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<sup>141</sup> Ibid.

<sup>142</sup> Ibid.

<sup>143</sup> Freeman, R. E. 1984. *Strategic Management: A stakeholder approach*. Marshfield, MA: Pitman Books; Donaldson, T. and L. E. Preston. 1995. The stakeholder theory of the corporation: concepts, evidence and implications. *Academy of Management Review*, 20 (1): 65.

<sup>144</sup> Freeman, R. E. and J. McVea 2001, 'A Stakeholder approach to strategic management', in Hitt, M. A., Freeman, R. E. and Harrison, J. S. (eds), *The Blackwell Handbook of Strategic Management*, Blackwell Business, Oxford, pp. 189 - 207.

Elias, Jackson and Cavana 2004; Newcombe 2003).<sup>145</sup> Of particular interest to this analysis, Friedman and Miles' (2002) stakeholder theory model allows for an understanding of four distinct "institutional configurations with associated situational logics and strategic actions."<sup>146</sup>

## **Theory**

Utilizing Hargrave, Pacheco, and York's (2013) collective governance model, Friedman and Miles' (2002) stakeholder theory, and Besharov and Smith's (2014) analysis of organizational logic multiplicity, this paper will demonstrate that within the context of the debate concerning sanctions legislation, all three stakeholders considered in this study fall within the theoretical construct of "concessionary" or "necessary incompatible" (to be used interchangeably) and "estranged organizations," for which compromise is reached out of necessity to advance individual interests, yet requires substantive concessions.<sup>147</sup> Hargrave,

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<sup>145</sup> Austen, Siobhan. "Multi-Outcome Construction Policies: Literature Review on Stakeholder Theory," Cooperative Research Centre for Construction Innovation, January 2009, <https://eprints.qut.edu.au/26854/1/26854.pdf>; See also: de Bussy, N. M., M. T. Ewing and L. F. Pitt. 2003. Stakeholder theory and internal marketing communications: a framework for analysing the influence of new media. *Journal of Marketing Communications*, 9: 147 - 161; Brugha, R. and V. Zsuzsa. 2000. Stakeholder analysis: A Review. *Health Policy and Planning*, 15 (3): 239 - 246; Bunn, M. D., G. T. Savage and B. B. Holloway. 2002. Stakeholder analysis for multi-sector innovations. *Journal of Business and Industrial Marketing*, 17 (2/3): 181 - 203; Elias, A. A., R. Y. Cavana and L. S. Jackson. 2002. Stakeholder analysis for R&D project management. *R&D Management*, 32 (4): 301 - 310; Bourne, L. and D. H. T. Walker. 2005. Visualising and mapping stakeholder influence. *Management Decision*, 43 (5): 649 - 660; Crawford, L. 2000. Profiling the competent project manager. In *Project management research at the turn of the Millenium: Proceedings of PMI Research Conference*, 3 - 15. Paris, 21 - 24 June 2000: Sylva, NC: Project Management Institute.; Elias, A. A., L. S. Jackson and R. Y. Cavana. 2004. Changing positions and interests of stakeholders in environmental conflict: A New Zealand transport infrastructure case. *Asia Pacific Viewpoint*, 45 (1): 87 - 104; Newcombe, R. 2003. From client to project stakeholders: a stakeholder mapping approach. *Construction Management and Economics*, 21: 841-848.

<sup>146</sup> Friedman, A. L. and Miles, S. (2002), Developing Stakeholder Theory. *Journal of Management Studies*, 39: 1–21.

<sup>147</sup> Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model.;" Friedman, A. L. and Miles, S. (2002), Developing Stakeholder Theory; BESHAROV, MARYA L., and WENDY K. SMITH. 2014. "MULTIPLE INSTITUTIONAL LOGICS IN ORGANIZATIONS: EXPLAINING THEIR VARIED NATURE AND IMPLICATIONS."



Pacheco, and York describe this as “dialogue and boundary work which enable actors espousing multiple logics to collectively co-create new practices and governance structures.”<sup>148</sup>

## **Hypothesis**

This study aims to support three hypotheses:

- 1. It is expected that the stakeholder dynamics of industry, Congress, and the Executive Branch throughout the CISADA drafting process will be that of an “estranged” logic multiplicity system. The stakeholders are believed to have low degrees of compatibility and centrality.*

According to Besharov and Smith (2014), varied forms of logic multiplicity can be categorized in terms of logic compatibility and logic centrality. These dimensions can then be combined “to propose four ideal types of organizations: contested, estranged, aligned, and dominant.”<sup>149</sup> As Chart 4 below shows, there are varying degrees to which organizations can co-exist. Because each stakeholder has one primary interest that seemingly runs counter to what the other stakeholder would prefer, we can classify stakeholder dynamics during the drafting and ultimate imposition of CISADA as “estranged.” In this sense, stakeholders in this study have low degrees of compatibility and centrality.

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<sup>148</sup> Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model."

<sup>149</sup> BESHAROV, MARYA L., and WENDY K. SMITH. 2014. "MULTIPLE INSTITUTIONAL LOGICS IN ORGANIZATIONS: EXPLAINING THEIR VARIED NATURE AND IMPLICATIONS."

Types of Logic Multiplicity Within Organizations		
<b>High Centrality</b> Multiple logics are core to organizational functioning	Contested <i>Extensive Conflict</i>	Aligned <i>Minimal Conflict</i>
<b>Low Centrality</b> One logic is core to organizational functioning	Estranged <i>Moderate Conflict</i>	Dominant <i>No Conflict</i>
	<b>Low Compatibility</b> Logics provide contradictory prescriptions for action	<b>High Compatibility</b> Logics provide compatible prescriptions for action
CHART 4		
Source: Besharov and Smith, p. 371		

2. *Regarding institutional configurations, the stakeholder dynamics between industry, Congress, and the Executive Branch throughout the CISADA drafting process should be considered that of a collectively “concessionary” relationship. It is expected despite the stakeholders’ incompatible positions, they will behave in a connected manner out of necessity.*

According to Friedman and Miles (2002), necessary incompatible “relations occur when material interests embedded in social structures or sets of ideas are necessarily related to each other, but their operations will lead to the relationship itself being threatened. ...The situational logic is concession leading to compromise.”<sup>150</sup> Because each stakeholder holds seemingly incompatible positions with those of the other stakeholders, yet their positions are intractably connected to those of the other stakeholders as well, we can classify stakeholder dynamics during the drafting and ultimate imposition of CISADA as “concessionary” (see Chart 5). In this sense, stakeholders in this study are connected by necessity despite their incompatible positions.

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<sup>150</sup> Friedman, A. L. and Miles, S. (2002), Developing Stakeholder Theory.

Institutional Configurations		
	Necessary Connections	Contingent Connections
Compatible Positions	Protectionist <i>Defensive</i>	Opportunism <i>Opportunistic</i>
Incompatible Positions	Concessionary <i>Compromise</i>	Competition <i>Elimination</i>
CHART 5		
Source: Friedman and Miles, p. 5		

3. *Individually, each of the three stakeholders examined in this study are dynamic and complex. Collectively, it is expected that their behavior throughout the CISADA drafting process will exhibit the characteristics described by Hargrave, Pacheco and York (2013) in their collaborative governance model of managing institutional logic multiplicity (see Figure 3). The legislative body, Congress, harbors characteristics representative of a boundary organization, and will therefore foster dialogue – understood to mean collaboration – among stakeholders that will ultimately produce institutional outcomes of both stability and change.*

According to Hargrave, Pacheco and York (2013), there are “four models of managing institutional complexity: decoupling, hybridization, collective action, and collaborative governance.”<sup>151</sup> Within their collaborative governance model, the management of institutional logic multiplicity can be understood as evolving through a continuous cycle beginning in a constant organizational field, then proceeding into a collaborative governance structure whereby boundary organizations provide a setting for stakeholders to “produce new logics, practices, and arrangements in areas where their interests and identities converge, yet at the same time enable these groups to preserve their differences (Miller, 2001; O’Mahony & Becky, 2008).”<sup>152</sup> Boundary organizations foster dialogue among stakeholders that leads to “knowledge transformation through productive use of creative tensions,” and ultimately resulting in

<sup>151</sup> Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model."

<sup>152</sup> Ibid.

institutional outcomes of stability and change. The results, Hargrave, Pacheco and York describe, are institutional outcomes in which “relationships of trust and new conventions of collaboration.”<sup>153</sup> Furthermore, they argue that “institutional outcomes provide content for ongoing collaboration.”<sup>154</sup>

The Collaborative Governance Model of Managing Institutional Logic Multiplicity				
Organizational Field	Collaborative Governance Structures	Collaboration	Continuous Co-Production of Knowledge	Institutional Outcomes
Stakeholders embedded in:				
Logic Multiplicity	Boundary Organizations (Congress)	Dialogue	Knowledge transformation through productive use of creative tensions	Institutional stability (continued logic multiplicity through boundary maintenance)
Complexity (many independent actors)				Institutional change (ongoing adaptation of policies, programs, and practices)
Dynamism		Work with boundary objects		Relationships of trust and new conventions of collaboration
Uncertainty				
CHART 6				
Source: Hargrave, Pacheco and York				

## Methodology

Using a case study methodology, this paper will address stakeholder concerns within the context of the drafting and ultimate imposition of the Comprehensive Iran Sanctions and

<sup>153</sup> Ibid.

<sup>154</sup> Ibid.

Divestment Act of 2010 (CISADA). The CISADA case study was chosen as events surrounding the legislation's drafting allow for particular attention to be paid to the legitimate concerns of industry with respect to sanctions imposition, while also allowing for an assessment of the degree to which those concerns align with or oppose those of Congress and Executive Branch. Additionally, the CISADA legislation is believed by many to be the most comprehensive sanctions legislation ever drafted and ultimately imposed upon another country by a Western power.

To understand the dynamics at play during the period of consideration, drafting, and imposition of CISADA, this analysis will evaluate the three stakeholder perspectives individually before then discussing them collectively. But prior to addressing stakeholder views on CISADA, this analysis begins with a brief discussion of sanction events in the late 1990's and early 2000's.

Since passage of the Iran and Libya Sanctions Act of 1996, Congress has sought to make sanctions imposed by the United States on foreign countries more biting. At the heart of Congress' issue with sanctions policy is what is known as waivers – authorities granted to the president to allow for discretion in applying sanctions.

In the Iran and Libya Sanctions Act of 1996, Congress “gave the President discretion to waive sanctions if the home country of the violating firm agreed to impose economic sanctions on Iran, or if the President certified that a waiver was ‘important’ to the United States’ national interest.”<sup>155</sup> These waivers were largely included in the legislation due to pressure imposed upon Congress by the Clinton Administration, which felt as though its efforts to liberalize trade were being undermined by Congress' requirements for sanctions imposition. According to Kenneth

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<sup>155</sup> Farrar, Quinton Cannon. “U.S. Energy Sanctions and the Race to Prevent Iran from Acquiring Weapons of Mass Destruction,” *Fordham Law Review*, 2011, <http://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=4756&context=flr>.

Pollack, author of “The Persian Puzzle: The Conflict Between Iran and America,” the sanctions crafted by Congress were believed by the Clinton administration to make the lowering of trade barriers a more challenging task.<sup>156</sup> Under public pressure to respond to the bombing of the Khobar Towers in Saudi Arabia, President Clinton ultimately signed the Iran and Libya Sanctions Act of 1996.

The waivers granted under the Iran and Libya Sanctions Act of 1996 gave President Clinton discretion in lessening the impact of sanctions on trading partners in Europe. According to Kenneth Rodman, author of “Sanctions Beyond Borders: Multinational Corporations and U.S. Economic Statecraft,” American trading partners in Europe ultimately agreed to place greater export control restrictions on sanctionable items under the Iran and Libya Sanctions Act of 1996 that Iran could use to develop weapons of mass destruction.<sup>157</sup> As a result, President Clinton granted participating European countries waivers, thereby allowing them to continue much of their trade with both Iran and Libya.

As Kenneth Katzman of the Congressional Research Service notes, Congress aggressively pushed for an extension of the aforementioned sanctions legislation during the first year of Bush 43’s administration.<sup>158</sup> Five years later, Congress again took to reauthorizing the sanctions legislation, but sought to ensure that greater requirements would be placed on the Executive Branch to report on its enforcement of enacted sanctions legislation. Until then, there had been few instances in which the president imposed significant sanctions on a country or firm found to be violating U.S. sanctions law. Therefore, Congress added language that said the

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<sup>156</sup> Pollack, Kenneth M. “The Persian Puzzle: The Conflict Between Iran and America,” 134-35, 2004.

<sup>157</sup> Rodman, Kenneth A., “Sanctions Beyond Borders: Multinational Corporations and U.S. Economic Statecraft,” 2001.

<sup>158</sup> Katzman, Kenneth. “The Iran-Libya Sanctions Act (ILSA),” Congressional Research Service, July 31, 2003, <http://www.dtic.mil/dtic/tr/fulltext/u2/a475664.pdf>.

president “should” launch an investigation into claims of sanctions violations “upon receipt by the United States of credible information” that a party – sovereign country, company, individual, etc. had violated the law.<sup>159</sup> Despite Congress’ attempt to place more pressure on the Executive Branch to follow through on enforcing sanctions legislation, no firms were found to have been sanctioned.<sup>160</sup>

During the Obama Administration, as well, the sense of Congress was one of disappointment in the Executive Branch’s lack of willingness to fully execute enacted sanctions legislation. This will be explored at greater length in the following sections.

## **Data**

Introduced on April 30, 2009, the Comprehensive Iran Sanctions and Divestment Act of 2010 (originally titled the “Iran Refined Petroleum Sanctions Act”) was signed into law on July 1, 2010 by President Barack Obama.<sup>161</sup> In the House of Representatives, it received 343 cosponsors (180 Democrats, 163 Republicans) and was supported with 412 affirmative votes. In the Senate, the CISADA companion bill was considered out of regular order without cosponsors, ultimately receiving a supportive voice vote.

According to the reputable legislative tracking service Congressional Quarterly (CQ), CISADA “tightened sanctions on multinational companies that invest in Iran’s energy sector and expanded the restrictions to apply to companies that sell refined petroleum products to Tehran. It also targeted financial institutions doing business with the Central Bank of Iran.”<sup>162</sup>

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<sup>159</sup> Ibid.

<sup>160</sup> Katzman, Kenneth. “The Iran-Libya Sanctions Act (ILSA),” Congressional Research Service, August 8, 2006, <http://www.coherentbabble.com/CRS/CRS-RS20871.pdf>.

<sup>161</sup> “H.R.2194 - Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010,” United States Congress, 2010, <https://www.congress.gov/bill/111th-congress/house-bill/2194>.

<sup>162</sup> <http://www.cq.com/doc/weeklyreport-3786922?6>

### Industry

In this study, industry's concerns regarding CISADA are highlighted by a few key actors, namely: the U.S. Chamber of Commerce, the National Foreign Trade Council, USA\*Engage, and the National Association of Manufacturers. Individual companies including Cargill Inc., ConocoPhillips, Hannover Re, Bechtel Corp., Halliburton Co. and Siemens AG were among 20 companies found to have lobbied on CISADA as well.<sup>163</sup> Their concerns generally mirrored those of the aforementioned industry groups' and will therefore be considered as part of industries' broader objections toward CISADA.

According to one report covering industry lobbying of CISADA, "Business groups want to limit the impact on U.S. companies whose subsidiaries or partners do business with Iran, and on the government-sponsored export financing agencies that facilitate global trade."<sup>164</sup> In particular, industry was concerned with the prospect of preliminary House and Senate versions of the bill "effectively prohibit[ing] U.S. businesses from partnering with certain foreign companies even if the relationships have nothing to do with Iran."<sup>165</sup>

For this reason, industry groups, including the U.S. Chamber of Commerce and the National Association of Manufacturers, signed a letter arguing that the early House and Senate versions of the CISADA legislation could "prohibit any U.S. company from transacting routine

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<sup>163</sup> Boeing, Exxon say new Iran sanctions would cost \$25b," Tehran Times (Iran), May 15, 2010, <http://infoweb.newsbank.com/resources/doc/nb/news/12FD5EE385BFA630?p=AWNB>.

<sup>164</sup> Schatz, Joseph J. "On Iran Sanctions, a Delicate Lobbying Task," CQ Today (Washington, DC), April 21, 2010, accessed May 30, 2017, <http://infoweb.newsbank.com/resources/doc/nb/news/1306293E9EC99B68?p=AWNB>

<sup>165</sup> Ibid.



business with critical partners from around the globe even if those transactions have no bearing on business with Iran.”<sup>166</sup>

Additionally, one of industry’s major concerns were provisions that, depending on how they were interpreted by the Executive Branch, would have made U.S.-based companies entirely liable for the actions of foreign subsidiaries that may have passively engaged in certain sanctionable activity with barred Iranian entities. An example of this would be an American insurance company with a foreign subsidiary based in Europe that underwrites an insurance package for a cargo-shipping vessel that transported a container of goods found to have been linked with a sanctioned Iranian entity. Industry was extremely concerned about the implications of such a provision and successfully fought to have elements of the provision eliminated or at least made less severe.

### *Executive Branch*

Having committed itself to engaging diplomatically with Iran, the Obama Administration’s reluctance in supporting CISADA stemmed from its belief that provisions within the bill would hinder ongoing efforts at the time to broker an agreement with Iran over its nuclear program.

According to a December 11, 2009 letter sent to Senate Foreign Relations Committee Chairman John Kerry, Deputy Secretary of State James Steinberg argued, “At this juncture, I am concerned that this legislation, in its current form, might weaken rather than strengthen international unity and support for our efforts.” Aside from the mere timing of the legislation, Steinberg wrote, the administration had “serious substantive concerns, including the lack of

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<sup>166</sup> Starks, Tim. "Plenty of Push for Iran Sanctions Legislation, but Little Consensus Yet," CQ Today (Washington, DC), March 15, 2010, accessed May 30, 2017, <http://infoweb.newsbank.com/resources/doc/nb/news/13C66F96C2F5C830?p=AWNB>.

flexibility, inefficient monetary thresholds and penalty levels, and blacklisting that could cause unintended foreign policy consequences.”<sup>167</sup>

Just five days after the Steinberg letter was sent, Frederick Jones, a spokesman for Senator Kerry, informed the press on December 16, 2009 that Senator Kerry’s office was “working with the administration to reach a solution that achieves the minimum all parties” needed.<sup>168</sup>

Months later, the White House publically stated its support for a “cooperating-countries” exemption that would allow the administration to waive sanctions for countries it believed were cooperative with its strategy to pressure Iran into a diplomatic settlement over its nuclear program. Furthermore, the president reportedly asked the House leadership...to put off the sanctions bill until after the current work period” in 2010 so as to give his administration more time to negotiate with Iran.<sup>169</sup>

### Congress

In Congress, CISADA received overwhelming bipartisan support. Congressional support for sanctions legislation typically receives strong support from members of Congress, but as Richard Sawaya, director of USA\*Engage noted, CISADA “violates all the normal political rules, in the sense that it is truly bipartisan.”<sup>170</sup> Out of 435 possible votes in the House, CISADA received 412 in support, with most of the opposing votes coming from members who argued

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<sup>167</sup> Rogin, Josh. “Exclusive: State Department letter to Kerry outlines ‘serious substantive concerns’ with Iran sanctions bill,” Foreign Policy, December 11, 2009, <http://foreignpolicy.com/2009/12/11/exclusive-state-department-letter-to-kerry-outlines-serious-substantive-concerns-with-iran-sanctions-bill/>.

<sup>168</sup> Kampas, Ron. “Obama and Kerry slowing sanctions legislation push,” Jewish Telegraphic Agency, December 16, 2009, <http://www.jta.org/2009/12/16/news-opinion/politics/obama-and-kerry-slowing-sanctions-legislation-push>.

<sup>169</sup> Lake, Eli. “White House seeks to soften Iran sanctions,” Washington Times, April 29, 2010, <http://www.washingtontimes.com/news/2010/apr/29/wh-seeking-soften-iran-sanctions/>.

<sup>170</sup> Schatz, Joseph J. “On Iran Sanctions, a Delicate Lobbying Task,” CQ Today (Washington, DC), April 21, 2010, accessed May 30, 2017, <http://infoweb.newsbank.com/resources/doc/nb/news/1306293E9EC99B68?p=AWNB>

against further unilateral sanctions imposition from the United States either because they believed doing so was not effective, compared to multilateral sanctions imposition, or because they believed that imposing additional sanctions – of any kind – would foster deeper resentment and animosity in Iran and potentially lead to further escalation with an already hostile regime. And, as mentioned, the Senate passed CISADA on a voice vote, thereby preventing any analysis of individual member support or opposition to the bill.

Members of Congress have historically opposed industry and Executive Branch calls for waivers that could lessen the impact of sanctions legislation. With CISADA, this much remained true. As one report notes, “Foreign Affairs Committee Ranking Member Ileana Ros-Lehtinen (D-FL) and Reps. Gary Ackerman (D-NY), Brad Sherman (D-CA), Jim Acosta (D-CA), David Scott (D-GA), Ron Klein (D-FL), Dan Burton (R-IN), Edward Royce (R-CA), and Mike Pence (R-IN) as well as Sens. Joe Lieberman (I-CT) and Robert Menendez (D-NJ) all spoke out against watering down the bill in any way.”<sup>171</sup>

According to Congressman Berman, the Executive Branch “want[s] to be authorized to impose sanctions, if they so choose, but they don’t want to be required to impose them. But it is in this context, however, after the passage of twelve years during which there have been no determinations of sanctionable investments – despite the fact that we all know such investments have taken place – we have our own, I think quite compelling concerns.”<sup>172</sup>

Aside from Congress’ dissatisfaction with the lack of enforcement of previously enacted sanctions legislation, many members of Congress find that voting in favor of Iran sanctions is an easy political victory. As one industry lobbyist noted, “the business aspects kind of pale in

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<sup>171</sup> “Iran Sanctions Bill Conferees Oppose Carve Outs, Berman may Compromise.” 2010. *Inside US Trade* 28 (17). <https://search.proquest.com/docview/1013996575?accountid=11752>.

<sup>172</sup> Ibid.

comparison” to the politically popular position taken by members of Congress to prevent a nuclear Iran.<sup>173</sup> And, as was discussed in this paper’s literature review, some members of Congress view sanctions imposition as a costless form of statecraft, preferable to alternatives involving more immediate and direct escalation of tensions.<sup>174</sup>

## **Discussion**

The three stakeholders addressed in this study – industry, Congress, and the Executive Branch – clearly held varying policy preferences. Interestingly, those of industry and the Executive Branch actually tended to align more so than many would initially think. Because industry was concerned with the legislation’s potential unintended impact of limiting U.S. competitiveness and the Executive Branch was concerned with the legislation’s potential unintended impact on active diplomatic engagement, both stakeholders were able to successfully push for a number of changes to the earlier proposed House and Senate versions of CISADA that would have proven much more economically biting and diplomatically restrictive.

Reviewing the aforementioned data within the context of this paper’s three hypotheses, we see that each hypothesis is substantiated.

### *Hypothesis #1*

Each of the stakeholders in this case study proved to have one primary interest that seemingly ran counter to what other stakeholders preferred. Industry was most concerned with maintaining uninhibited access to markets, the Executive Branch was most concerned with maintaining a wide array of diplomatic options in engaging Iran, and Congress was most

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<sup>173</sup> Schatz, Joseph J. "On Iran Sanctions, a Delicate Lobbying Task," CQ Today (Washington, DC), April 21, 2010, accessed May 30, 2017, <http://infoweb.newsbank.com/resources/doc/nb/news/1306293E9EC99B68?p=AWNB>

<sup>174</sup> Goenner, Cullen F. 2007. "Economic war and democratic peace." Conflict Management and Peace Science 24 (3): 171-182.

concerned with enacting politically sound legislation that would punish Iran. Therefore, the stakeholders meet Besharov and Smith's (2014) criteria for "estranged" logic multiplicity by maintaining low centrality (one logic is core to organizational functioning) and low compatibility (logics provide contradictory prescriptions for action).

### *Hypothesis #2*

Because each stakeholder held seemingly incompatible positions with those of the other stakeholders, yet their advocacy in support of or opposition to certain elements of the CISADA legislation were intractably linked and influenced by the other stakeholders, the stakeholder dynamic at play in the CISADA case study met Friedman and Miles' (2002) definition of a "concessionary" institutional configuration.

### *Hypothesis #3*

In the CISADA case study, the three stakeholders follow Hargrave, Pacheco and York's (2013) model of logic multiplicity. Beginning in a constant organizational field, the stakeholders found themselves operating in a status quo environment before calls for new sanctions legislation necessitated their entrance into a collaborative governance structure bound by the operations of Congress. As an institution, Congress facilitated discourse among the relevant stakeholders – just as a boundary organization would. Through debate, legislative markups, and various other forms of public discourse, the debate in Congress incorporated various stakeholder preferences – thereby meeting Hargrave, Pacheco and York's (2013) criteria for boundary organizations to "produce new logics, practices, and arrangements in areas where their interests and identities

converge, yet at the same time enable these groups to preserve their differences (Miller, 2001; O'Mahony & Becky, 2008).”<sup>175</sup>

Through a process of collaboration – or legislative deliberation, in this case – the Executive Branch ultimately received the cooperating-countries waiver it sought, it was able to maintain the trigger for sanctions at a \$20 million threshold – as opposed to a previously proposed \$1 million threshold – and it was able to maintain some leeway in delaying certain investigations into sanctions violations that would have otherwise been required in previously proposed versions of the CISADA legislation.

For its part, industry benefited much in the same way as the Executive Branch by maintaining much, but not all, of the status quo with respect to waivers. And politically, members of Congress scored a major win by passing with overwhelming bipartisan support the most comprehensive sanctions legislation.

As Hargrave, Pacheco and York (2013) argue, the resulting institutional outcomes should have then necessitated further collaboration – which they did. In the months following CISADA’s enactment, members of Congress continued to introduce legislation that would further sanction Iran, reduce the diplomatic freedom afforded to the Executive Branch, and limit opportunity for commercial activity by U.S. industries operating in or with partners conducting business in Iran.

## **Conclusion**

Unlike any other study pertaining to the imposition of economic sanctions, this paper explores the various stakeholder preferences relevant to the formation of sanctions policy. In

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<sup>175</sup> Hargrave, Tim, Desiree F. Pacheco, and Jeffrey G. York. "Managing Logic Multiplicity: A Collaborative Governance Model.

doing so, this paper has contributed to the academic community's understanding of not only the various factors that should be considered when discussing sanctions as a tool of statecraft, but most importantly, how sanctions imposition can cause unintended consequences for industry and parties within the sending state's Executive Branch. By examining how the relevant stakeholders make their preferences known with respect to sanctions legislation, the academic and public policy communities can gain greater insight into the realm of what is economically, diplomatically, and politically feasible.

As a whole, this chapter should be viewed as a plausibility test, one aimed at identifying possible areas for future research. Given the scant literature available concerning the impact of sanctions imposition on domestic stakeholders within the sending state, this chapter helps frame the conversation and recommends that additional research incorporating collective governance models, stakeholder theory, and organizational logic multiplicity analysis be conducted to assess the policy preferences of parties involved in sanctions imposition. Such research would strengthen both the public policy and academic communities' understandings of the impact sanctions imposition can have on stakeholders within the sending country.

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## **Conclusion**

There is no denying the fact that economic sanctions have evolved a great deal over the years. In the wake of growing state sponsorship of terrorism over the last few decades, policymakers are increasingly imposing both unilateral and multilateral sanctions as a crucial tactic in the overall statecraft tool belt. However, the existing literature on the subject seems to imply that sanctions are overwhelmingly ineffective in changing target state behavior unless the sanctions regime is set in place to achieve relatively low-priority goals as they concern behavior change in countries with democratic governance. Therefore, either policymakers have failed to internalize the existing sanctions literature and are naive to its findings, or the existing literature has simply not been useful in addressing the needs and concerns of those very policymakers.

Shining a brighter light on the nuances involved in the formation and ultimate imposition of sanctions regimes, this thesis looked at the following three questions:

1. How can the presence, or lack thereof, of certain factors in authoritarian regimes impact the chance of a sanctions-receiving state either complying with or ignoring the demands of sanctions-sending states?
2. Do target states diversify their economies so as to become more resilient to the impact of sanctions imposition?
3. Through what process are domestic stakeholders (industry, Congress, and the Executive Branch) within the United States able to find mutually agreeable terms during the drafting, enactment, and imposition of sanctions legislation?

Altogether, what this thesis proves is that the literature concerning sanctions literature has too frequently overlooked the complexity of sanctions. Much of the literature focuses entirely on

quantitative measurements of the effectiveness of sanctions, but fail to account for the multitude of factors that can go into not only defining what a government's definition of success is, but also the range of factors at play that can influence a state's decision to comply with or ignore the demands of sanctions-sending states.

Ultimately, the academic community ought to build upon the research incorporated in this thesis if it is truly interested in providing sound recommendations to members of the public policy and legislative communities. After all, this thesis was designed to shed light on various areas of research on sanctions that have largely been ignored or gone unaddressed by the academic community.

Rather than continue discussing whether sanctions are simply effective or not, the research presented here aims to dive deeper and explore the various points of consideration one must necessarily explore when studying and ultimately crafting sanctions legislation and the subsequent sanctions regimes.

To some, this thesis may seem dismissive of quantitative research on economic sanctions. However, that is far from the case. Instead of using quantitative metrics to determine whether sanctions are definitely effective or not, the academic community should attempt to quantify behavioral metrics and economic data points in order to develop a working theory or algorithm that can assist in determining the conditions under which certain types of sanctions regimes will prove effective in accomplishing defined sets of goals with respect to particular targets.

If the academic and public policy communities are to gain a better understanding of the nuance involved in crafting economic sanctions policy, the first step will require abandoning the notion that sanctions either work or they don't. Once we have accepted the idea that sanctions are just like any form of statecraft in that they require a nuanced application to be used

effectively, then, and only then, will we be able to proceed in evaluating where, when, and how to impose sanctions.

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## Appendix

Chart 1

### **Top Oil Buyers From Iran and Reductions**

(amounts in barrels per day, including condensates)

<b>Country/Bloc</b>	<b>2011 Average</b>	<b>Average (JPA Start - Implementation Day)</b>	<b>Current Levels</b>
European Union (particularly Italy, Spain, and Greece)	600,000	Negligible	Oil imports restarted as of March 2016
China	550,000	410,000	increase to unspecified levels
Japan	325,000	190,000	likely increase
India	320,000	190,000	likely increase
South Korea	230,000	130,000	likely increase
Turkey	200,000	120,000	likely slight increase
South Africa	80,000	Negligible	unclear if imports restart
Malaysia	55,000	Negligible	same as above
Sri Lanka	35,000	Negligible	same as above
Taiwan	35,000	10,000	likely small increase
Singapore	20,000	Negligible	unclear if imports restart
Other	55,000	Negligible	likely small increase
<b>Total</b>	<b>2.5 mbd</b>	<b>1.057 mbd</b>	<b>1.4 mbd estimate</b>

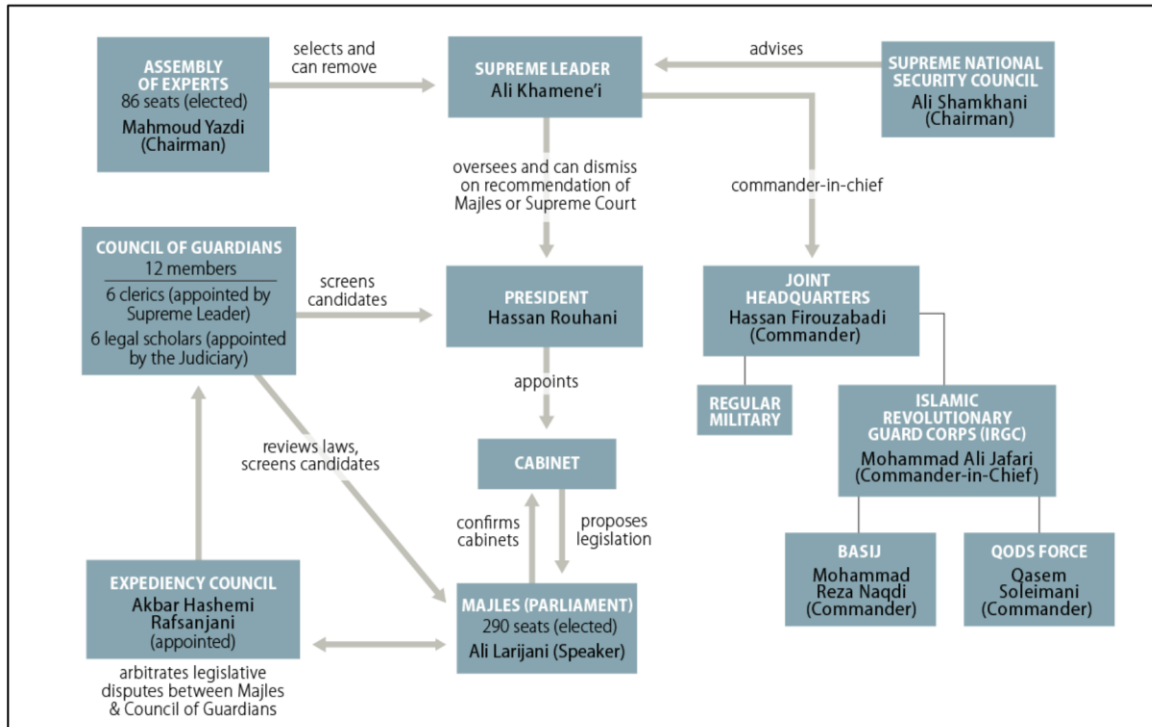
**Source and Note:** International Energy Agency and rough estimates based on CRS conversations with foreign diplomats and press reports. Actual volumes might differ, and import volumes may fluctuate dramatically over short periods of time as actual tanker deliveries occur. Figures include purchases of condensates, which are light petroleum liquids that are associated with oil and natural gas production.

Source: Congressional Research Service <sup>176</sup>

<sup>176</sup> Katzman, Kenneth. *Iran sanctions*.

Chart 2

## Structure of the Iranian Government



Source: Congressional Research Service<sup>177</sup>

<sup>177</sup> Katzman, Kenneth. *Iran: Politics, gulf security, and U.S. policy*.

Chart 2

Export Concentration Index by Country (1995-2014)					
(Source: United Nations Conference on Trade and Development)					
IRANIAN EXPORTS		RUSSIAN EXPORTS		CUBAN EXPORTS	
Year	Concentration Index	Year	Concentration Index	Year	Concentration Index
1995	0.722252678	1995	0.255934068	1995	0.558911738
1996	0.742943998	1996	0.255934161	1996	0.557684668
1997	0.692555211	1997	0.262228516	1997	0.449316705
1998	0.63631858	1998	0.222237609	1998	0.412105008
1999	0.632044259	1999	0.255954037	1999	0.383340835
2000	0.782605244	2000	0.281311461	2000	0.342123027
2001	0.778109118	2001	0.293227653	2001	0.400179223
2002	0.750320684	2002	0.296783202	2002	0.382868989
2003	0.774390068	2003	0.309796279	2003	0.319855039
2004	0.765689566	2004	0.320747792	2004	0.326527044
2005	0.767032136	2005	0.352048311	2005	0.372713783
2006	0.7570867	2006	0.351734869	2006	0.416171094
2007	0.766370694	2007	0.348377938	2007	0.39893022
2008	0.771589886	2008	0.363248886	2008	0.27837975
2009	0.733546573	2009	0.347487366	2009	0.268690911
2010	0.635841017	2010	0.366263665	2010	0.275675941
2011	0.615184165	2011	0.376532991	2011	0.255423104
2012	0.622844953	2012	0.382402523	2012	0.239371606
2013	0.571375964	2013	0.377433468	2013	0.232121445
2014	0.571062838	2014	0.369605809	2014	0.224558548
<b>CI AVG</b>	<b>0.704458217</b>	<b>CI AVG</b>	<b>0.31946453</b>	<b>CI AVG</b>	<b>0.354747434</b>
<b>Δ (1995/2014)</b>	<b>0.15118984</b>	<b>Δ (1995/2014)</b>	<b>-0.113671742</b>	<b>Δ (1995/2014)</b>	<b>0.33435319</b>

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## **Curriculum Vita**

A Maryland native, Max Meizlish attended the University of Maryland, College Park where he graduated with a B.A. in Government and Politics and minors in Global Terrorism Studies and Israel Studies before completing an M.A. in Global Security Studies from Johns Hopkins University.

Prior to working as a policy analyst in the private sector, Max conducted legislative and policy research for various members of Congress in the House of Representatives and the United States Senate. He has also worked at numerous think tanks in Washington, DC where he developed an understanding of homeland security and defense policy.