2012

Not-So Splendid Isolation: an IPE Study of Iranian Sanction Busting

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NOT-SO SPLENDID ISOLATION:
AN ANALYSIS OF IRANIAN SANCTION BUSTING

by

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B.A. University of Central Florida, 2009

A thesis submitted in partial fulfillment of the requirements
for the degree of Master of Arts
in the Department of Political Science
in the College of Sciences
at the University of Central Florida
Orlando, Florida

Spring Term
2012

ABSTRACT

This study analyzes the US sanction regime imposed on the Islamic Republic of Iran. This single case study assesses its weaknesses and shortcomings in order to present a preliminary conclusion of the character of Iranian policies to bust the US sanctions regime. In charting the evolution of the US sanction regime through three distinct "waves" of sanctions the study highlighted the general shortcomings of the regime. First, the US sanction regime has failed to impose significant costs on Iran. Second, the slow pace of unveiling each new wave of sanctions failed to bring the necessary immediate pressure on Iran. Third, the inability of the US to gain sufficient multilateral support has limited the scope of the sanctions. These failures has allowed the Iranian leadership to construct a viable counterstrategy to bust US sanctions and continue the stalemate over the conflict of an Iranian foreign policy based on supporting Hamas and Hezbollah and the continued secrecy of its nuclear program. The Iranian counterstrategy has been centered on a domestic economic policy of autonomy, the courting of states outside the US sanction regime through the use of its valuable energy resources and the procurement of sanctioned goods through regional third party states.

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LIST OF ACRONYMS/ABBREVIATIONS

AIPAC	American Israeli Public Affairs Committee
BP	British Petroleum
CIA	Central Intelligence Agency
CISADA	Comprehensive Iran Sanctions and Divestment Act
EAA	Export Administration Act
EO	Executive Order
ESR	*Economic Sanctions Reconsidered*
EU	European Union
GWOT	Global War on Terror
IAEA	International Atomic Energy Agency
ILSA	Iran-Libya Sanctions Act
IRGC	Islamic Revolutionary Guard Corp
MCO	Multi National Corporation
NIOC	National Iranian Oil Company
NPT	Nuclear Non-Proliferation Treaty
SOE	State Owned Enterprise
UAE	United Arab Emirates
UN	United Nations
UNSC	United Nations Security Council
US	United States of America

CHAPTER ONE: INTRODUCTION

The sanctions regime against Iran is one of the most sustained campaigns of economic coercion in US foreign policy. The use of economic sanctions as the primary tool of a foreign policy is unique in the wider story of how the US has used economic sanctions in the post WWII global order. Investigating the application of a sustained comprehensive sanction regime the Iranian case presents a challenge to the predominant thinking about economic sanctions. Indeed, it is the uniqueness of US policy in this regard that has led to a lack of scholarly understanding as to how a state responds to a targeted campaign of comprehensive economic sanctions. This thesis is intended to provide the foundation for the development of a theory for the strategic context of a state under a comprehensive sanction regime.

Economic sanctions are a type of economic coercion and are a useful option for the policymaker. The use and abuse of economic sanctions provided a lively debate in the scholarly community with regard to their utility in achieving the goals of the policymaker. Sanctions have their appeal in being a rather serious threat which, in the case where threats fail to yield the desired changes in the target state's behavior, following through with imposing sanctions is often a more appealing approach than threatening and engaging in military action. Economic sanctions function as a policy whereby the degree and impact of the policy is under reasonable control to those who implement them, and whose consequences are not so dire that the targets of economic sanctions respond with drastic and violent reactions. Diplomatically, states can enact sanctions as a response to moral issues where military action may not warrant. Militarily, sanctions can restrict an opponent's access to weapons and technology. It is the utility of economic sanctions as somewhat of a “middle way” that have provided many instances of economic coercion in the post WWII global order.

Economic coercion is often used in conjunction with other policies. As part of a larger strategy, sanctions serve as a means of accomplishing a policy goal. During times of war, economically destructive policies are used to inhibit an enemy from effectively mustering resources on the battlefield. Blockading enemy ports, denying access to resources outside the waring country, preventing the flow of international payments for supplies, attacking supply and commerce logistics and coercing allies and nonaligned states from trading with the enemy are all part of the larger grand strategy of war. Sanctions and economic coercion in general, have similar uses in times of peace. After victory in World War II the US shifted its global policy to a primarily economic orientation. The establishment and maintenance of internal economic order required supporting policies from its allies. Through intergovernmental agencies like the UN, World Bank and IMF the US was able to coordinate global economic policy. In such a system, the use of military intervention to enforce economic policy was often unnecessary, counterproductive and simply undesirable. Thus, the utility of sanctions in imposing costs to coerce a state through nonviolent, economic means (Kirshner, 1998). It is in the context of the post-WWII era that sanctions are primarily understood today.

Opposed to the general use of force in the international system states have turned to less drastic measures of coercion. The globalizing of the world economy and the rapid economic growth of the past 70 years have placed economic conditions and development at the forefront of what political leaders are expected to accomplish while in power. This preliminary condition of sanctions logic reflects the usefulness of sanctions to the policymakers of the sending state. If sanctions can hurt the development of a state's economy, then the leaders will suffer domestic costs. To alleviate these costs and maintain power a state's leaders will yield to the demands. Based on this rational model of behavior, sanctions appear to have much going for them, yet, most studies find severe problems in the various applications of economic sanctions. Indeed, the attractiveness and apparent ease with which a state's leaders can threaten sanctions often leads to the wrongheaded application of this coercive tool. What has resulted is the over–application of sanctions into situations where the policy has little chance of successfully coercing the target (Huffbauer et. al. 2008, ch. 1). The relative ease in which sanctions can be threatened between two states in a dispute does not reflect the ability to marshal political support for the costs associated if the regime is imposed. The result has been the checkered record of sanction success.

The mainstream of scholarship on economic sanctions has addressed this discrepancy between an effective policy tool and its often wrongheaded application. Modern studies of economic sanctions are analyzed as being part of how states negotiate with each other. The relationship can be defined as a country that threatens or imposes sanctions referred to as the "sender," and the state which is the focus of those threats or policies referred to as the "target." Here, a disagreement between the sender and target has been the catalyst of the situation, and sanctions are often tied to a specific action or policy of the target. The purpose of an economic sanction is to impose a cost on a target and then remove the cost when the target complies. The conflict that has ensued between the two states will need to be resolved if the target does not wish in incur the costs associated with the imposition of the threatened sanction. This does not necessarily mean that sanctions are always intended to have devastating effects on the target.

Part of the utility of sanctions is that the degree and specificity of sanctions are controllable; thus, the sender can measure the stakes of the sanction more accurately. In general, the scale of a sanction regime can be limited, specified and highly selective in the targeting of the target state's economy and leadership; or, comprehensive, targeting multiple sectors and intended to inflict significant costs to the state. Regardless of scale, sanctions, as a tool of economic coercion, have been primarily investigated as a back and forth negotiation between states whereby scholars have debated as to the conditions required for the successful outcome of a sanctions policy.

In this view of economic sanctions, the threat and imposition of sanctions are conceptualized as states involved in a bargaining process (Cortright and Lopez 2002, Drezner 2000). Often the focus is on the economic and political "costs" to the sender and target whereby the leaders of these states are highly dependent on the requirement of perfect information. The emphasis is on the decision of the target to comply or yield to the political motivations of the sender state and accounting for the accurate costs associated to all options available to the target. This has fit in line with the game theory methodology used to determine the best conditions for sanctions successfully coercing an opponent; thus, when deciding whether or not sanctions "work" is when the target state complies with the sender's demands.

In the analysis of the rational negotiation approach the judgments and conclusions of a policy of economic sanctions is highly dependent on the outcome. In using a cost/benefit approach that is tied to outcomes, the conclusion is that the best sanctions are the sanctions that are never implemented. Because all sanctions carry costs to the sender (no powerful state is truly isolated from its target) the best outcome is where no costs are incurred and the target has complied to the sender's demands. According to the rational negotiation approach economic sanctions can work, often times work best, when the sender changes the behavior of the target without ever having to implement the sanction in the first place. The scholarly work done in this approach has highlighted many apt and insightful observations in evaluating the process of initiating sanctions. Indeed, the majority of observations fit within the scope of the rational negotiation approach. That is, where the issue at stake is subject to minimal coercive efforts where the threat or imposition of low to moderate costs can successfully alter a target's behavior. As to this study, the expansive literature on evaluating the costs will be used in understanding the context of the strategic options faced by the target of sanctions.

Where the scope of this study differs is where the rational model of a singular instance of the use of sanctions as a negotiation gives way to a larger intransigence between the sender and target. In a situation where the target refuses to yield to imposed sanctions and the sender pursues further sanctions the scope of the initial sanction regime widens with each successive round. The result of this process is fundamentally different than the common case observed in the study of economic sanctions. In a sustained campaign of sanctions the rational negotiation dynamic gives way to two fundamental aspects: first, what must the sender do to ensure further sanctions have the desired effect; and second, what is the target's response to mitigate the intended effects of the sanction.

This study will employ a case study research design to determine the strengths and weaknesses of the approach to sanction busting in the existing literature of economic sanctions. The premise that states naturally seek to undermine imposed sanctions by seeking alternate allies to engage in trade that replaces the loss associated is a given in the common understanding of economic coercion. Much of the work done in sanctions is based on the assumption that if the target state finds that it is incapable of replacing the costs of sanctions effectively and the target's leadership can give into the sender's demands without drastic domestic and international consequences than the sanction will likely succeed. Sanctions are approached primarily from the perspective of the sender. If the politics surrounding the issue is favorable and the sanction regime is effective then success is the sender's to lose. What is often left out in most studies is a proper treatment of the target's counterstrategy in mitigating the sender's sanctions. The sanctions literature can advise what type of sanction to use, whether the sanction regime should be multilateral, what type of target regime is most susceptible to sanctions and the scale of costs to inflict. What the sanction literature has difficulty explaining is determining which counterstrategies work best for the target given the faults of the various conditions and policies of economic coercion. The case of Iran in the sanctions literature presents a difficult challenge to the conception of what most sanctions studies intend to accomplish: providing advise to the sender. The conception of this study is to provide an overview of the sanctions literature in the context of the Iranian case and then provide an explanation of the Iranian counterstrategy to undermine the sanction regime.

This study is intended to be only a preliminary approach to the subject of sanction busting, and will not develop a complete model of target state behavior. The overall goal of the study is a theory generating case study, of which this thesis is the first part. The nature of this study is primarily an exploratory one. John Gerring (2007) defends this approach to case study research by stating that social science research requires some scholarly attention to be focused on these "exploratory" or "theory-building" exercises to break the conjecture/refutation cycle and define new problems for wider scholarly work. Correspondingly, this initial study will be limited in the external validity of its preliminary conclusions due to its small-N, single case structure. The case of Iran has been chosen due to the extreme values of the traditional variables in the larger context of sanctions studies.

In terms of the duration of the sanction regime, the scale of costs sought by the US, the political motivations of both the US and Iran and the amount of economic and political capital expended to see both states' strategies through all of this distinguishes the Iranian case apart from most cases of economic coercion. What is sought is an open ended study of the relationship between the traditional dependent variable, the likelihood of sanction success, and the independent variables, primarily defined in the sender's scope of action, in the context of the Iranian case to establish a new theory of target state behavior. Gerring (2007, 104) does warn that this method does go against the maxim of "selecting based on the dependent variable," in this case the failure of the US sanctions regime. Yet, this is the purpose of extreme-case selection; to glean from the variance of values a common theme perhaps running through the wider body of observed cases which can redefine the theoretical relationship. The issue of its wider application, that of the theory's external validity, can only be tested after it has been generated and not before.

To establish this study on solid theoretical grounding it will be necessary to examine the sanction regime through the literature on economic sanctions. The analysis will look at the manner and degree in which the Iranian case differs from the conditions set forth by the previous works on economic coercion. The primary theoretical purpose will focus on the "strategic context" that an imposed sanction regime creates between the target and the sender. The main theoretical factors not developed in the scope of this study, but still requiring mentioning, are a developing of a third party state's model, the institutional factors aiding in the target state's ability to bust sanctions and the policies available given the context of the sanction regime. While not covering all of the factors that contribute to the development of a complete model, the initial groundwork for the model will be constructed and this will provide a clear path for the work necessary to complete the larger scope of this study.

The purpose of this thesis is to examine the US sanction regime against Iran and discover what aspects of this policy have contributed to the counter strategy of Iran in overcoming the intended costs. The second chapter will provide a general introduction to economic sanctions and an overview of the scholarly analysis of the conditions best associated with the successful application of sanctions policy. After this, several studies will be reviewed that have examined how the targets of sanctions have adapted to the various restrictions placed on them through sanctions. As discussed above there are many differences between the US sanction regime against Iran and the common use of sanctions in the wider scope of the policy. The third chapter provides a basic overview of the US sanctions regime by providing the political context for each successive initiation of sanctions, the costs on Iran and the strengths and weaknesses of each policy. The fourth chapter will provide a commentary using the established literature as a guide to critique US policy. Combining the established analysis of the conditions best associated for successful sanctions and the analysis of scholars that have examined the means of how targets bust sanctions this chapter will end with providing the factors that best explain the ability of Iran to survive US sanctions. The fifth and final chapter will summarize the findings of this thesis and use this to provide the basis of a general model of sanction busting and highlight areas needed for further research.

CHAPTER 2: LITERATURE REVIEW

An economic sanction is any attempt by a state to disrupt the flow of economic interactions of another state. The construction of supporting policies for enacting and enforcing economic sanctions will be referred to as a "sanctions regime." An economic sanction in the singular sense can refer to the type of economic activity associated with the focus on the policy, i.e. trade, financial or monetary; which will be covered more in depth below. Also, an economic sanction can refer to the sector associated with the focus of the policy, i.e. energy, agricultural, military arms or financial. The use of multiple sanctions across types of economic activity and sectors will be referred to as a "comprehensive sanctions regime" or as "comprehensive sanctions" depending on the rhetorical demands. Attempts by a state to mitigate the costs, avoid enforcement and gain allies to subvert a comprehensive sanctions regime will be referred to as "sanction busting."

For the purposes of this thesis the familiar terminology for sanctions will be used to define the state based actors involved. All sanctions involve at least two states: one state that imposes the sanctions against another state whose behavior it wishes to alter by imposing the costs associated with the sanction. In this basic relationship the state that imposes the sanction will be referred to as the "sender," while the state that has the sanction imposed upon it will be referred to as the "target." This basic scenario of a sanction episode draws a linear connection between the two principal actors. However, no sanction episode occurs within a vacuum, as the costs associated with the sanction are spread to the other states with relations either with the sender or the target. Such states not involved in the basic dichotomy above will be referred to as "third party states" regardless of the affiliation to either the sender or target such states have chosen.

As stated, this paper will analyze the factors that contribute to the target of sanctions in busting behavior. In doing so, states use the main entities and arraignments available in the modern globalized economy. For state to state interactions, the sender and target will often attempt to acquire the assistance of other governments either sympathetic to the political factors or motivated by economic opportunities. Regardless of affiliation states that officially engage in the policies of the sender or the target are referred to as "allies." Apart from the state based language above, states rely on various economic actors to carry out sanction busting. Important in this analysis will be the role of autonomous nonstate actors such as multinational corporations (MNC) and state owned enterprises (SOE). In defining the sanction busting interactions between all of these actors a relationship that involves an open, transparent and official connection between the target and another actor is referred to as a "formal" interaction, while the use of subterfuge, obfuscation, criminal and other methods outside the common international norms of transparency in economic interactions will be referred to as "informal."

Types of Sanctions

For the purposes of this study economic sanctions are divided into two camps: trade and financial sanctions. Trade sanctions seek to impose costs by limiting the target's exports to outside markets and restricting imports into the target's domestic market (Hufbauer et. al., 2007). By denying a target the free flow of economic transactions the target sees costs increase by lowering the prices received for exported goods and raising the price of imported substitute goods. Apart from raising the costs of economic discourse the sender may seek to deny the target of a specific good all together. In this case, the costs of losing access to markets does the economic damage intended and also serves to affect the strategic capability of a hostile target. Thus, the goods under sanction may have political significance beyond the economic costs. This category, called strategic goods, are most often associated with the military basis of hard power; they can be direct capability goods from small arms to nuclear weapons technology and delivery systems or provide complementary functions such as computer technology, raw materials or sources of energy. By far the most often used sanctions are also the easiest to ensure compliance; that of the sender limiting or denying its exports from reaching the target. Import controls are used less due to complications in legal authority for the sender, except in extreme cases such as the US comprehensive sanctions taken against Cuba, Iran and Libya.

Financial sanctions seek to deny the target of the normal flow of money and investment. Senders can deny a target access to official monetary measures, such as access to central banks, or through the denial of promised aid. Usually, this occurs in the denial of military and development assistance from the sender which then can be returned if the target complies. Also, the sender can impose restrictions on private financial actors (banks, investment firms, MCO’s) from investing in the target states’ economy. Such sanctions are intended to impose costs on benefits associated with the interruption of economic and political incentives already in place and then returning to status quo ante after the target capitulates. A sender may also seek to confiscate the financial assets of state, private or individual actors located within the sovereignty of the sender. Such “asset freezes” as they are known, work according to a hostage logic in the costs they impose. Financial sanctions share a commonality with trade sanctions in that they can be "targeted" to specific sectors or even specific actors within the target. A sender may target the energy sector of a target while allowing investment in a target's agricultural sector to continue unhindered. Similarly, the sender may sanction specific firms, be they SOE or private, due to its association with an offending political leader, as well as freeze all associated assets of that particular individual.

Within the context of a comprehensive sanctions regime, the use of sanctions would incorporate multiple sanctions across the types described above. Apart from the basic typology of trade sanctions broadly defined as restrictions on physical goods to the that of financial sanctions defined as restrictions on capital, sanctions can be defined according to their scope. General sanctions, or embargoes, are bans on trade against an entire sector or even all sectors of the economy in the target state; because of the diffused nature of the targeting and the inability to control the effects throughout the economy of the target these sanctions have become known as "dumb" sanctions. In contrast, targeted sanctions focus on specific institutions, institutions or individuals within the target state. These sanctions, because of their ability to target specific strategic entities within a state and avoid the collateral damage of broader sanctions are known as "smart" sanctions.

Regardless of the tool, sanctions should be focused to serve the policy goal. There is no one type of sanction or combination of sanctions that can guarantee to exert the pressure needed to ensure target state compliance. The success of sanctions is dependent on several major factors discussed below. The first discussed is the work of Hufbauer et. al.'s study of sanction which set out to identify the conditions in which sanctions are most likely to succeed. Next, is the debate over the use of unilateral or multilateral sanction regimes in securing target state compliance. The third section will look at the domestic structure of the target in determining the appropriate sanctions to bring the most efficient pressure on the leadership of the target. These sections will form the basis of how this thesis will evaluate the US sanctions regime against Iran. The sections following these will deviate from the conception of asking what factors best lead to a sanctions regime success to focusing on which factors the target can use to undermine the initial conditions of a sanction regime. This conceptual pivot is of primary importance due to the general nature of the sanctions literature as being primarily focused on the dilemmas facing the sender in constructing the sanction regime. While this body of work has contributed much to the advances in economic coercion, the study is intended to be the first step in asking what are the primary dilemmas facing the target.

Economic Sanctions Reconsidered

The classic analysis of economic sanctions entitled *Economic Sanctions Reconsidered* (*ESR*) by Gary Hufbauer, Jeffrey Schott, Kimberly Ann Elliot and Barbara Oegg is the standard by which most studies draw their inspiration. The most recent edition expands the data used by the authors to include the post Cold War spike in sanction use. Primarily, the study attempts to answer the question: do sanction work? The criteria as to whether a policy of implementing sanctions works the authors chose to cite successes as cases where the target yielded to the policy goals of the sender. For the authors, each sanctions episode has a beginning, middle and end;

with the end being either the capitulation or resistance of the target. The goal of the authors is to find out what factors contribute to finding out when, not whether, economic sanctions work.

In examining the data collected on sanctions episodes, some 204 cases in the 3rd edition, Hufbauer et al. provide the scholar looking at sanctions a rich source of analytic material. The variables are divided into political and economic sets. Political variables include the context of the sanctions policy including the other policies in conjunction with the sanctions, the amount of international support, the role of international organizations and a typology of democratic and authoritarian states. Economic variables include the measure of potential and realized costs to both the sender and target, the commercial ties between the sender and target, the size of the economy in aggregate and per capita terms, and the health of the target economy. In the quantitative analysis the authors provide a thorough analysis of the potential conditions best suited for ensuring a successful sanctions policy. Sanctions, according the authors, are a limited tool and are often misused in that policy makers often respond with the need to act in cases where punitive measures in foreign policy are warranted.

The analysis conducted with the above variables reflects the mixed record of economic sanction success. The world of international politics is endlessly complicated and the policymaker is trying to solve problems with limited resources and time. Indeed, Hufbauer et al. understand this and do not overreach in their conclusions as to why sanctions do not often achieve the stated goals of the policymaker. In discounting the symbolic aspects of imposing sanctions the authors found that sanctions succeed in only 34% of the cases studied. Within this, the authors divided the sender's demands by scale and found that modest goals were much more likely to have success, about 50% of the cases observed. Target state policies that contained heightened importance were not more likely to be abandoned in the face of sanctions (namely military operations). For the authors, the ideal set of conditions for sanctions can be surmised as follows: the demands of the sender should be modest and not of great importance to the target; the target should be a democracy with significant economic ties to the sender so that imposed costs can be significant; autocratic regimes should be avoided; implementation of the sanctions should be done quickly and completely, with as few allies the better who are willing to absorb significant costs to their economy and have leaders in political positions to see the policy through (Hufbauer et. al., ch.6).

Such conditions lend the best chances of the sanctions succeeding in achieving the foreign policy goals of the sender, that is altering the policy of the target to conform the the senders demands (Huffbauer et. al., 157). This rigid interpretation of sanction success does leave the other aspects of the sender's political motives for sanctions out of consideration. The authors are also understanding of the use of sanctions in conjunction with other methods of foreign policy; namely military and diplomatic measures. Thus, if the use of sanctions in a specific situation did not meet the criteria for sanction success, this does not mean the use of sanctions was ill-advised or wrong. Sanctions are a limited tool, and their use and ability to inflict necessary costs are hampered by the political conditions to which they are tailored. Sanctions can serve the domestic leaders of the sender by taking a moral stand against the reprehensible actions of dictators, achieving a more "rhetorical" or political victory than a policy success (Huffbauer et. al., 158-60). Even when accounting for these gradations in sanctions success the partial success rate for sanction was still roughly 34% of the cases observed.

ESR stands as a landmark in the study of sanctions. The breadth of the study and the study's conceptualization of the essence of the analysis of sanction success provides the basis for the evaluation of a sanction regime. This study relies on the on the work of Hufbauer et. al. for the definitional aspects of sanctions and providing a framework for the analysis. The influence of *ESR* was in postulating the question of when economic sanctions work set the stage for the mainstream work of economic sanctions in attempting to find which of the factors identified were the most influential in determining a successful policy of economic sanctions. Since the impact of the debate was so significant the investigations will be used in determining the essential weaknesses of the US sanction regime against Iran.

<u>Unilateral Vs. Multilateral Sanctions</u>

Apart from the conditional political and economic variables used in the study, Hufbauer et. al. identified several limitations relevant to economic sanctions. The use of sanctions in the proper conditions can lead to its failure by not linking the desires of the sender to the realities of the situation. Goals are poorly defined, the means not effectively implemented, and the cooperation of other states not effectively marshaled. These problems of coordinating multilateral sanctions when compared to unilateral sanctions, several studies have shown that unilateral sanctions appear more effective (Kaempfer and Lowenberg 1999, Drezner 2000, Miers and Morgan 2002). Three theories suggest why this is the case.

First, the selection effects argument says that the cases of multilateral sanctions are often over high profile issues that are of high importance to the parties involved. The target of a multilateral sanctions regime has more at stake in the issue that is the primary cause of the sanctions. The target state's leadership is faced with suffering high domestic costs if seen as capitulating to the sender's demands. Further, a target state's may also face the international consequences of backing down to the sender's demands. Thus, target states engaged in disputes where issues of importance are at stake have little incentive to capitulate to threats of sanctions and are often willing to "go the distance" and incur significant costs if sanctions are imposed. Complicating this fact is that the sender does not have perfect information regarding the preferences of the target. Threats can be insufficient, or intelligence inaccurate. Senders can miscalculate and be forced to impose inadequate sanctions that have little chance of success. This inadequate option may even be preferred when faced with having to back down against an obstinate target. The selective effect argument states that the reason sanctions do not work is because most studies do not account for the cases were the target conceded to the threat of sanctions. Thus reiterating the maximum that the best sanctions are the ones never imposed.

Second, the public goods argument states that the coalition of senders contains free-riding incentives whereby the supposed higher costs of multilateral sanctions are mitigated by each member offsetting the costs of imposing sanctions onto the other senders, thereby diminishing the overall punitive cost on the target making it less likely to concede. Further, imposed sanctions distort the domestic politics of the target country in reorganizing economic activity. As the target begins to seek new trading partners, states within the sender's coalition find that free-riding on the other states enforcement can remove the cost of sanctioning the target by maintaining or expanding economic ties. Here, the damage associated with denying the free-trade market to the target only produces a mercantilist reaction within the target as economic rents are increased. Apart from distorting the economic effects of the sender's coalition, the target state under sanctions has its negotiating position with states outside the coalition altered as well. The cost of sanctions is that it lowers the value of exports and raises the price of imports. States that remained outside the coalition understand the favorable conditions and respond to the perverted economic incentives created by the sanctions regime. Multilateral sanctions are important in that it also matters who does not join the sending coalition as much as who does. Here, states show their willingness to counter the sending coalition by denying taking part and providing the target state leadership with the rationale to resist sanctions (Kaempfer and Lowenberg 1999).

Third, the spatial theory argument points to the difficulty of unifying the demands and preferences of the senders who each have multiple issues at stake. This multiplicity of issues over time leads to each member of the coalition removing its own costs of imposing a sanction by coming to terms with the target directly and compromising on the initial motivations of the regime. For multilateral sanctions to be effective in this argument the issues must be narrow so that a consensus among all the members is reached as to the purpose of the sanction. Further, the construction of an ad hoc coalition based on a single state’s preferences is less likely to have the necessary mechanisms to ensure issue salience is maintained and effectively enforced. Thus, multilateral sanctions would be more effective if an international institution served as the mechanism for conducting the policy (Koehane 1984, Bapat and Morgan 2009).

Regime Type and Sanction Effectiveness

Economic sanctions are not equally effective against all types types of states. The domestic distribution of power among internal factions and structure of the institutions present unique challenges to the various sanctions policies that can be imposed. Reflecting the divide between the democratic regime structure and the authoritarian has formed the basis for the analysis of how sanctions can be most effectively used to achieve policy goals. What interests the scholarship on the effects of sanctions by regime type are two main factors: how well does a specific type of sanction affect the base of support for a target's leadership and what structural realities within the target's government make it most vulnerable?

A sanctions regime is intended to impose costs on two main groups within the target country, the central leadership and the core groups that support the leadership. Each state taken within its own context is unique in terms of its governing structure and the networks and institutions supporting that structure. While each country may be distinct in its contextual variables the overarching goal of enacting economic sanctions is to change the policies of the target. To accomplish this, sanctions can either focus on specific targets within the government or the supporting groups outside the government. Sanctions that target core groups within the government are intending to alter the political power by shifting the preferences of the leadership. targeted groups become less valuable to the leadership and the policy preferences advocated by those groups become less attractive when tied to the impetus for the sender's sanctions regime. sanctions whose purpose is to support opposition groups are intending to weaken the entrenched core coalitions and bring about a change in the leadership. It is the effects that sanctions have on these “microfoundations” within the target state that led scholars to examine the context of the potential effects sanctions impose on the domestic political structures of the target. As Kirshner notes this approach focuses not on, “how those sanctions hurt the target state, this approach emphasizes how groups within the target are affected differentially, and how these consequences change with the form of statecraft chosen” (Kirshner 1997).

In this approach to sanctions the type of regime, that is how democratic a regime is, reflects how the core groups are distributed within the domestic political context. The goal of economic sanctions is to inflict necessary costs onto the groups most central to the governing leaderships base of power. Democracies tend to have larger and more dispersed groups on which leaders rely to stay in power. The leadership’s “winning coalition” in a democratic state is responsive and expressive to the domestic changes in incentive structures (Bueno de Mequita et. al. 2003). Thus, the goal of sanctions is to affect these groups by imposing costs in a manner that can force these core groups to exert pressure on the leadership to yield to the demands of the sender. Robert Pape (1996) asserts that the intended effect of such a policy mirrors that of the aerial bombing strategy where a threshold of resistance is present and the imposition of costs is widespread among the population of the target. The goal, therefore is to inflict widespread economic costs which translate into direct political costs for the leadership. When sanctioning a democracy the goal is to ensure that as many relevant groups are affected as possible so that the response of the citizenry will be to exert its political influence on the leadership. This can occur because of the means available to democratic leaders is limited on enforcing its determination to resist the demands of the sender.

The political institutions that govern a democracy are dispersed in their political power, responsive to political will of the voters and bound by the legal authority that empowers the voters. Thus, the winning coalition of the democratic state must appeal to the usually large and multiple groups of their constituency. The need for the target's leadership to retain these groups' support to maintain its power means that if a sender can manipulate even a relatively small segment of the winning coalition to defect it will increase the pressure on the leadership to yield. If the leadership of the target fails to heed to the demands of its dissenting coalition members it risks dismantling its own base of support and losing in the next election. Further, democratic leaders lack the capability for direct coercive measures over large portions of the population and must respect the consequences of the electoral process. The responsiveness of elections and the lack of coercive measures reflect the diffused power within a democratic state and a prudent selection of the type of sanction by the sender can exploit the potential divisions within the power base of the targets leaders (Kirshner 1997, Brooks 2002).

Authoritarian rulers present a different set of challenges for the sender. While the winning coalition within a democracy tends to be larger and widely dispersed the authoritarian leadership often depends on a select group of relatively small core supporters. The lack of responsiveness to the leadership's decisions means the accountability in resisting economic sanctions is narrower than democratic leaders (Kirshner 1997, Brooks 2002, Allen 2005, Lektzian and Souva 2007). While the groups remain relatively smaller in authoritarian regimes than in democracies this does not mean that the core supporters can be insulated from the effects of economic sanctions, nor are they any less responsive to the imposed costs. Yet, the institutional structure of authoritarian regimes allows the leadership more options for responding to the costs of sanctions to ensure the target regime can continue to resist the sender's demands for policy change.

The lack of democratic institutions allows authoritarian rulers to avoid the pitfalls sanctions present their democratic counterparts in three ways: deflecting the costs of sanctions onto politically marginalized groups, manipulating economic structures to punish rivals and reward supporters and finally, having more freedom in responding to the distorting economic incentives of sanctions. Authoritarian rulers are not bound to the political will of their constituencies in the way found in democracies. The expression of displeasure by the public has limited institutional support structures and individuals face potential coercive measures by the punitive apparatuses of the rulers. Thus, the expression by the general citizenry in resisting the damaging effects of sanctions and the policies that triggered them contains a high personal risk and faces significant institutional barriers as the costs of suppression are low compared to the costs of alleviating discontent (Brooks 2002). Authoritarian regimes are presented with populations that are diverse in their preferences and support for the leadership. With the rule of law being generally weaker in these regimes, the ability of the ruling coalition to manipulate its economic structures in response to sanctions is less constrained than in democracies. Recognizing this, authoritarian rulers have the ability to reward supporting groups at the expense of others as economic rents increase as the perverting effects of sanctions take hold (Kaempfer and Lowenberg 1999). Spreading costs across large groups through economic sanctions against a authoritarian leader's will not provide the adequate pressure necessary for the leadership to capitulate to the senders demands. If the base of support for the authoritarian rulers is narrower then so should the focus of intended costs be for the sanctions employed.

This ability to deflect the costs of sanctions in an advantageous manner means that the sanctions policy chosen should focus intently on those with direct influence in the winning coalition. These targeted sanctions are designed not to impose widespread costs, but to inflict significant costs on specific actors within the regime. While Galtung (1967) noticed the famed "rally-round-the-flag" effect of sanctions where the population of the target responds with solidarity to the rulers its presence in mobilizing support does not appear sustainable (Baker and Oneal 2001). In cases where the authoritarian ruler depends on their populist credentials to maintain power the effects of economic sanctions appear to exert the necessary pressure for capitulation (Escriba-Folch and Wright 2010). This, however, does not reflect the vast majority of authoritarian rulers and often the coercive mechanisms available to crush dissent remain intact. While general sanctions may work in a limited number of cases the use of targeted sanctions to diminish the private rewards on the ruler's selected coalition members may exert enough pressure to ensure capitulation to the demands of the sender.

The use of sanctions against different types of regimes reflects the intended policy goal of the sanctions regime and is crafted to inflict costs on the target state. How best to accomplish these goals and which segments of the populations are to be targeted is dependent on the domestic structures of the target state. Generally, democracies with their large winning coalitions, dispersed political power and responsive democratic institutions in choosing the leadership are more susceptible to the coercive effects of general sanctions that impose costs on a larger scale over the targeted population. Authoritarian regimes with small winning coalitions, narrow political bases of power and the lack of democratic responsiveness are more susceptible to targeted sanctions affecting a strategically small portion of the society politically relevant to the leadership. It is important to note that these generalities do not imply that such measures guarantee success. The low rate of sanction successes reflects the poor application of sanctions policy as well as the political determination of democratic politics and authoritarian rulers to resist economic coercion in most circumstances. Resistance entails the economic and political motivations of the relevant actors to respond to imposed sanctions and the perverted economic conditions created by such policies. In order to investigate these factors the analysis must move beyond the generalized typology of states and the associated prudent sanctions policies.

Black Knights and Sanction Busting

In the initial analysis on the limitations of sanctions Hufbauer et. al. identified the role of "black knights" who could intervene between the sender and target to provide supplementary assistance to the target by trading with, facilitating financial transactions for or supplementing denied aid to the target. While the presence of these black knights in sanction busting has been observed in various cases, such as in Cuba and the Soviet Union and North Korea and China, an exhaustive study was finally taken up by Bryan Early. In the general study of sanction busting Early (2010) looks into which states are most likely to sanction bust and why by focusing on bi-lateral trade before and after sanctions are imposed. To examine the motivating factors Early develops two models based on realist and liberal theories of international relations. Realism focuses on the political motivations for the third party state in responding to imposed sanctions while the liberal places profit and market incentives as being the central factors.

According to the realist interpretations, political leaders are the primary drivers of their states' trading behaviors. The classic example of this political motivation in determining the direction of trade between states under sanctions is the USSR's support to Cuba after the general trade embargo imposed by the US after the Castro regimes assumption to power. In *ESR,* the black knight states are not classified as to the political ties in determining sanction busting behavior. Early (2010) hypotheses that states that have security pacts with the target will be more likely to sanction bust, as will states identified as rivals to that of the sender. Similarly, if a third party state has a security pact with the sender it will be less likely to sanction bust, as will a rival of the target state.

Liberal theories emphasize the role of market interactions as the primary determinant of the flows in international trade. It is the search for profit that determines whether or not the firms of a state seek economic opportunities in the international market. The political factor does play a role in that businesses prefer the stability associated with good governance and standardized practices in the rule of law. Sanctions can increase the amount of uncertainty within the relationship between the politics between the sender and target. However, the removal of a sender's domestic firms from the target creates a vacuum in the market which can appeal to the profit incentives for firms located in third party states and override the concerns over uncertainty by increasing the returns of trade. In looking at the case of Cuba after the US embargo saw a rise in the politically motivated trade by the USSR, but also saw a rise in the trade between Canadian, French and Japanese firms as well. In mitigating the risks and absorbing the influx of exports from the target country large economies are expected to have better positions to engage in sanction busting trade. Political considerations are not lost on the liberal perspective. As such, the established political ties between the third party state and the target foster economic arrangements. One case that of past colonial ties between the target and third party state are expected to foster a sanction busting relationship after sanctions are imposed. Apart from purely political ties, the size of the trade between the target and third party state matters as well. Here, states that are more dependent on the trade with the target are more likely to sanction bust.

Early's model focused on the bilateral trade between the target and the third party state before and after sanctions were imposed. His model found significant support for the liberal set of hypotheses and only minimal support for the realists. For the realist perspective the political and security pacts formed between the sender and third party states should rule the day when deciding whether or not to sanction bust. The model found that security pacts did motivate sanction busting behavior if the third party state had a pact with the target prior to sanctions. While a security pact with the sender actually increased the likelihood of sanction busting trade to a higher degree than situations with security pacts between the target and third party states. Such results seem to suggest that the great power motivations posited by realist theories of economic discourse between states are a weak predictor to the profit incentives created by imposing economic sanctions. Early, however, offers some consolations to the realist interpretation by accounting for the idea that such third party states engaged in a security pact with the sender may be engaging in soft balancing against its potential rival. Under conditions of anarchy members of an alliance cannot fully trust the other states in within its alliance. Actions taken by one state to alter the balance of power through sanctions may induce its rivals to engage in counter-balancing behavior. This is furthered by the fact that rich states are far more likely to impose sanctions on poorer states than the reverse. Factoring in the liberal perspective, firms within the third party state are responding to the potential for profits created by the sender, thus the third party state can benefit from the distortions the sender initiated. Here, the third party state is in control of its ability to enforce the sender's sanctions or to engage in sanction busting. Domestic firms within the third party state can lobby its home leadership to shield themselves politically from the sender while both benefit economically from sanction busting. In combining this with the benefits of exploiting the the potentially lucrative trade vacuum exposed by the sanctions provides the liberal perspective with a predominant explanatory rationale of sanction busting according to Early.

The effects of sanction busting trade on the success of economic sanctions has often been mitigated by previous statistical studies (Hufbauer et al. 2007, Drury 1998, Drezner 2000, Nooruddin 2002) despite the theoretical understanding that such assistance by third party states would positively affect the ability of the target in mitigating the costs of sanctions in sustaining its resistance. Early (2011) attribute these findings to an inadequate coding of the original data presented by the Hufbauer et al's. black knight variable. In essence, the original variable lacked the contextual characters important to influencing the target's decision to resist sanctions. Namely, the number of parties involved in sanction busting trade, how long the trade persisted and the amount of assistance provided. In line with the liberal interpretation of Early's previous study (2010) discussed above the economic incentives created by imposing sanctions prompted numerous variation in the decisions of multiple states to increase their trade with the target. The formal ties initiated by these third party states are not entirely limited to the political ties to the sender and the economic situation created by the sanctions.

Sanctions impose costs on all parties involved in the execution of these policies. Again, the purpose of sanctions is to maximize the costs to the target to accomplish the stated political goals. If the sanctions fail to accomplish this than the potential for the success of the sanctions is severely compromised (Hufbauer et al. 2007). Sender's seek to impose costs by denying the target access to its exports, which forces the consumers of the sanctioned good to pay higher prices as the scarcity of the good increases. This increases the cost of imports to the target in three ways: first, the shock of losing access to the goods; second, the time of finding substitute trade partners; third, the increase in price for that good. The increase in price can either come from the privileged bargaining position the buster enjoys, or reflect the cost of avoiding detection from the sender. Sender's seek to increase the cost to the target and offset their own domestic costs by gaining the support of third party states for their sanctions.

Such efforts come with several major hurdles. First, the costs in gaining support raises the cost to the sender and can inhibit the punitive intent of the sanction on the target. In incentivizing third party states the sender raises the costs associated with gaining that support as partners frequently request to be compensated for their costs. This can quickly push the cost/benefit calculus out of the operational acceptance to the sender. Further, the third party states that join the coalition now have the possibility to push the responsibility of enforcing the sanctions onto other members, free-riding on the costs while reaping the benefits of non compliance. Thus, for each third party state that joins the coalition the benefits gained are essentially marginal (Martin 1992, Drezner 2000).

The second hurdle is the economic distortions associated with implementing sanctions and the change that has on the economic benefits to third party states. First, given the costs associated with coercing third party states to join the sanction regime target states can exert political leverage over third party states that are more dependent on trade with the target than the sender can compensate. This can translate into political leverage that the target can exert through the commercial interests of the third party state on the sender in mitigating the severity of sanctions (Early 2011). Next, by restricting the flow of exports to the target the cost of those goods rises; this creates the perverting effects on the economic situation within the target: the harsher the sanction the greater the cost, which means that the harsher the sanction the more profitable trade becomes for sanction busters (Kaempfer and Lowenberg 1999). This requires the availability of substitute goods in markets independent of the sender; yet, in the modern globalized economy the availability of such goods is limited in mostly unique cases. This is compounded in situations where the sanctioned goods are available but the economic incentives are lacking. This politically motivated sanction busting where the direct economic loss is compensated through the intended long-term political gain is rare, but still occurs. Such realist motivations of "blood-letting" and soft balancing remain a significant motivator for states seeking to affect their rivals, especially in the case of great power rivalry (Mearsheimer 2001, Pape 2005). It should be noted that Early's (2010 and 2011) studies found little support for the realist interpretations of the politically motivated black knight variable on a significant robustness when tested against the profit motivations.

The analysis suggests that liberal motivations predominate in formal sanction busting trade. Early reflects that while the outright measurement of the realist interpretations failed to gain significant support within the model, this could not discount the perspective entirely, though it remains clear that connecting formal security ties to sanction busting behavior in bilateral trade the potential for political sanction busting cannot be thrown out. Early's (2011) findings suggest that senders should prioritize anti-busting policies to those state most sensitive to the commercial incentives created by those sanctions.

Domestic Effects of Sanction Busting on the Target

The primary concern of most analysis of the effect of sanctions is focused on whether the conditions are conducive to induce the leadership of the target into compliance. The essential logic is one where the higher the cost the higher the likelihood of concessions. Considering the manner in which the target adapts to sanctions will determine whether the target is capable of replacing the costs. Authoritarian regimes are considered to be better positioned to exploit the incentives created by the imposition of sanctions. This is due to the lack of institutional constraints and the lack of democratic responsibilities of despots to their populations. The general effects of sanctions within a target play an important role on the ability to sanction bust.

The lack of the rule of law in authoritarian regimes is a prime example of the advantage these regimes have at successfully busting sanctions. Research by Peter Andreas has found that sanctions produce a loss in the rule of law in most states regardless of the regime type. This "criminalizing consequence" of sanctions are directly tied to the economic conditions created when sanctions are imposed. The rising demand of sanctioned imports raises the price of those goods. Consequently, incentives for black market providers are pushed to where the costs associated with the risk of punishment become lower as the payoffs become larger. The prevalence of smuggling and the acceptance of black markets in responding to sanctions becomes a part of the civil society. This mirrors the rally–round–the–flag concept where the population demonizes the sender and rallies to support the resistance of the target's regime. This may overcome the political objections to the rising costs absorbed by the population as their willingness to accept the effects of the sanction providing that the sanctioned goods can be acquired.

The development of a black market can occur through either private or state-based mechanisms. Private actors can respond effectively to the incentives of sanctions and be better positioned to operate outside of the target's borders due to the lack of official governmental ties. Previous relationships with international firms do not simply disappear after sanctions are imposed, and the connections of international firms in the target can exploit its ties to states less committed to the sanction regime. The responses of private institutions to sanctions still need to be aided by the policies of the regime. The support and cultivation of the black market by governmental restructuring also becomes a necessity. What develops is the ability of authoritarians to entrench their position politically and even gain in the informal profits of busting. While the effects on democratic regimes may be pushed to adopting policies at odds with the institutions of democratic governance. The coercive effect spreads regionally as actors and neighboring states react to the rise of the black market of the target.

The effects on the democratic structures of the economy should be understood by the sender's leaders in the context of the goals of the sanction regime. If the intention is to isolate the target's regime than the sender must ensure that the availability of substitute partners for trade are limited. Also, the regional states should be capable of effectively enforcing the sanctions on limiting the effectiveness of the black markets ability to sanction bust. If the goal is regime change then the sender should choose sanctions that do not provide the government the opportunity to manipulate the sender's coalition through bargaining with the corresponding rise in prices caused by the sanctions. While the sectors of the target's economy should be chosen by the sender to enrich members of the coalitions most favorable to the political solution desired. If the criminalizing effect is unavoidable than it might as well be manipulated to the sender's benefit.

CHAPTER THREE: IRAN CASE STUDY

This chapter will present a basic history of the political context of the US sanction regime against the Islamic Republic of Iran. A brief overview of the major events between the two nations will provide an understanding of the causes of the hostile relationship. Beginning after the Islamic revolution and the resulting hostage crisis this chapter is divided into three main periods covering the major sanctions initiatives by the US, which I term "waves." Each wave will review the precipitating events to provide a political context for their initiation. Next, each wave will examine the sanctions imposed by the US than the affect of each on Iran. The following chapter will review the entire sanction regime in the context of established sanctions literature to explain the failure of US policy in achieving the stated goals of the sanction regime. By highlighting the weaknesses of the resulting US sanction regimes the analysis will examine the response of Iran to "bust" the sanctions.

A Sanction Regime Implies Intransigence between the Sender and Target

The purpose of this paper is to analyze the context of sanction busting. The first part of this analysis is to establish the political climate of the relationship between the US and Iran that led to the imposition of sanctions. Almost by definition the enacting of a sanctions regime implies an impasse in the relationship between two states. While the provocation is perhaps over a single incident or issue the situation cannot be removed from the historical trends. In the case of Iran, US sanctions have continued for over three decades and revolved around two main issues: Iranian support of terrorist groups and the nuclear program. The stalemate between the negotiations on these issues forms the main political context for the sanction regime's persistence. The intransigence on these issues has two main factors: the domestic political climate of each country and the issue's salience among the leadership. These factors have poisoned the relationship and produced a dynamic lacking the compromise necessary to justify ending the sanctions.

The story of the domestic political situation involving the US and Iran are closely linked. Iran, possessing vast fossil fuel deposits, is of strategic importance for the US whose citizens use more fossil fuels per capital than any other state. The US gained the access to the Iranian market by way of British companies that were established there prior to WWII. For Iran, possessing such a vast amount of a valuable commodity comes with the usual trappings: corruption, profiteering and heavy involvement by other states. The abuse of power by the ruling class of Iran, enabled by their arrangements with Western MNCs, led to several political backlashes. The most famous was the rise to Prime Minister of Mohammad Mosaddegh in 1951, who swiftly carried out progressive reforms and nationalized the Anglo-Iranian Oil Company (later British Petroleum, BP) in an effort to limit foreign control of Iranian resources. Mosaddegh reached too far as the scale and momentum of his political and economic agenda began to alienate him domestically and provoked consternation in the West. The political demands for an equitable share of the oil revenue and social reforms carried Mosaddegh to power, but through the maneuvers by the established elites, aided by US and British covert assistance, he was arrested and eventually marginalized from power. The fame of CIA involvement in the coup, known as Operation Ajax, became an infamous example of Western colonial corruption. For the Iranian people, Operation Ajax became a symbol for distrusting the motivations of Western powers after the newly reinstated Shah Reza Phalavi furthered Iranian cooperation with the West in the following decades.

In the Shah the US thought it had a leader it could count on: secular, capitalist and committed to the concept of modernization. The Shah's rule lacked the turbulence of democratic representation that led to the rise of Mosaddegh and the nationalistic policies aimed against Western interests. However, the discontent of the Iranian public over the continued Western involvement did not cease. The marginalized political factions within Iran having been denied democratic expression, burdened by poor implementation of the Shah's economic policies and facing growing inequality began to mobilize in opposition. The Shah responded to this dissent with a policy of brutal and sustained repression that weakened his legitimacy among the wider Iranian public. In the growing brutality of the repression, the view of the Shah as beholden to the West's economic agenda and a secular philosophy of governing combined into the main grievances for the highly motivated opposition. The inability of the Shah to handle the growing discontent, and a general lack of political ability to exploit the mosaic nature of the opposition led to a widespread revolt and his eventual overthrow. The anger and frustration directed at the Shah and his Western backers that motivated the revolutionaries found its most acute expression in the storming of the US embassy and the taking of 52 American hostages.

The seeds of Iranian distrust were laid many decades before this incident, but for the American political consciousness Iran was no longer an anonymous state half a world away and famous for its beautiful carpets. In the eyes of US leaders the rise of Ayatollah Khomeini and the hardline taken against the US in the negotiations that followed the taking of the American hostages, Iran was now a country of dangerous religious fanatics whose doctrine was now fundamentally opposed the US. In the context of the Cold War, Iran was now opposed the cultural conflict between the US and USSR and thus rejected and sought to overthrow the "American way of Life." Further emphasizing this was the disregard of traditions of immunity for a state's diplomatic community. Yet, these all pale in the perception that a country which regarded itself as a superpower was powerless to stop the humiliation of its own citizens from being used as propaganda by a regime openly hostile to its agenda. The rhetoric of both sides fueled this rise in tensions throughout the hostage crisis.

Leaders in the Iranian Revolution had a politically useful tool to stoke a popular anti-US sentiment among the population. Heading into the 1980 elections, Republican leaders in the US used the hostage crisis to inflate the risk posed by the Islamic Revolution and exploit the perceived weakness of President Jimmy Carter's inability to "get the hostages back." The results of the crisis left an indelible imprint on the relations between the two countries. In the public sphere, the populations of both Iran and the US had very public and dramatic events for which they could directly lay the blame at the doorstep of the other state. The leaders of both states exploited the political benefits by fanning the flames of a threat hysteria directed at the other. This, in turn, led to a domestic situation in which the political factions in each state could not exploit the side of reconciliation without being accused of weakness towards an existential and unremitting threat.

What characterizes the interactions between the US and the IRI are the adoption of policies directly motivated by the strategic culture of opposing the each other in all facets of international diplomacy. Leaders of both countries have adopted policies that are predicated on the understanding that the other's ideology is illegitimate and its motivation is suspect. The sanction regime imposed by the US is not the cause of this mistrust, but a reinforcing symptom that has led to the current stalemate surrounding the issues of Iranian support for terrorism and the transparency of its nuclear program. The sanctions logic suggests that if the penalties and costs imposed on a target state are severe enough, then it is in the state's interests to concede. Such a rational conception of political calculations ignores the context of the states involved in the struggle.

The importance of the issue to a country's political leaders combined with the nature of the relationship between the sender and target may override the basic material considerations when deciding whether or not to concede to sanctions. It is difficult to say which is more important than the other: the importance of the issue and its ideological context or the political costs of yielding to an enemy. Suffice it to say that both factors combine into a powerful political force for the leadership in both the sender and the target. For the sender, this entails the extent of the willingness to impose costs on itself, motivating the political will in enacting the scope of sanctions and defining the harshness of its punishment. For the target, this entails the willingness to endure the costs, motivating the political support to resist the sender and defining the methods of how the population lives under coercive effects of sanctions. Thus, the issue for the sender is thus: can material costs be imposed that exceed the political will of the target to resist our coercion? As to the general conception of the "political will" is not a uniform variable and is defined by the political and social factors unique to each state. Such factors include the relative size of the target economy, the type of regime and the political stability of the target. Regarding the extent of the costs imposed on Iran by the US sanctions regime will be examined further in this chapter. One preliminary judgment can be stated here: it has not been enough to reverse the Iranian leadership positions on the issues surrounding the sanctions.

The US sanction regime is seeking to punish Iran over two main issues: supporting "terrorist" groups abroad, especially around Israel, and the lack of institutional openness in the Iran's nuclear program to mitigate concerns over the potential for its weaponization. Indeed, from the US perspective these issues are closely tied. Iran's support of Hezbollah in Lebanon and Hamas in the Palestinian Territories are associated with the armed resistance to Israel and US allies within the Lebanese political system. The means of resistance for these groups has often been asymmetrical in nature, used violence against soft and civilian targets as a primary strategy and are often clandestine in their tactics. In organizing and supporting such campaigns around Israel the Iranian regime has declared itself against the Arab agreements which recognize the right of Israel to exist. Combining this stance with a hyperbolic religious rhetoric associated with the language and culture of resisting Israeli policies has led hawkish policy makers in the US and Israel to a worst case scenario approach. One where the Iranian leadership would have little compunction in using a nuclear weapon to further its goals around the Israeli issue. It should be said that while the rhetoric of Hamas and Hezbollah who are directly engaged in the struggle against Israel, the leadership of the Iran have not mirrored the unequivocally violent language of these groups.

This, of course, matters little to the Israel and its allies. The fact that US and Iranian support allies who often engage in outbreaks of violence is the predominating factor that comes to define those who support the sides involved. This occurs both ways, just as the US views the violence perpetrated by Hamas and Hezbollah on Israeli targets and can attribute this to the support provided by Iran; so can Iran view the incursions by the Israeli military into the Palestinian Territory and Lebanon as based on the backing of the US. The Israel/Palestine conflict is the predominant issue that encompasses a microcosm of the mistrust between the US and Iran which contributes to the continued stalemate around the continued imposition of further sanctions.

The US is distrustful of Iranian motivations and is at odds with the strategy of supporting groups to resist Israeli policies. This distrust is profound in that the attainment of a nuclear weapon implies its eventual use against Israel. The certainty of the future use of nuclear weapons is, of course, unknowable. The threat created by the mistrust and demonization of the opponent is more important to creating a hostile dynamic between the states involved in an irresolvable sanction cycle. The importance of this is that it substantiates both the US policy of sanctions and Iranian policy to resist. Thus, both states have taken a position in which they cannot back down; to do so implies that the ideological justifications are, in a sense, invalid and the commitments to your allies are cynical and transitory. Such a position is difficult to justify to a domestic population and may come with political consequences to the ruling elite.

The First Wave: 1979-1994

There have been three distinct periods that come to define the US's sanctions regime against Iran: the early years, 1980-1994; the middle years, 1995-2005, the late years 2006-the present. Each period contains unique measures taken by the US to further the economic pressure on the Iranian regime. It should be noted that the sanction periods are not static in that the policies enacted at the outset of the period continue unchanged throughout the years covered. Rather, the sanctions "evolved" in the sense that future sanctions respond to the failures of the current policies. The evolution of the policy has been underpinned by the "essential framework" laid out in the first wave of sanctions. This framework is built on the two track policy of opening negotiations while simultaneously increasing the costs to Iran (Takeyh and Maloney 2011, 1298-99). Each wave of sanctions expanded the previous measures, continuing the expanding scale of sanctions in an effort to impose more costs on the target.

The disruption of friendly relations between the US and Iran brought about by the events of the Islamic Revolution also saw the first round of sanctions imposed. In the process of the negotiations surrounding the hostage crisis the US imposed several restrictions on the economic ties between the two states. These sanctions were tied to the release of the hostages and were subsequently dismantled after the US secured the return of its citizens. The invasion of Iran by Iraq formed the predominant strategic context for US policy following the hostage crisis. Iran, meanwhile, began to realize its revolutionary ideology in areas where large Shiite communities were located throughout the Middle East. The War years were followed by period of distraction for the US and of reconstruction for Iran. Still, the resumption of the Iranian nuclear program brought the focus of the US on Iran after the resolution of the first Gulf War. The subsequent defeat and embargoes on Iraq forced the US to reconcile the improved geopolitical position of Iran in the region. Furthered by Iranian provocations, the US evaluated the conditions of the sanctions regime and began to construct the second wave of sanctions. This section will look at this initial phase encompassing the aftermath of the Islamic Revolution, the Iran-Iraq War and the years leading up to the second wave of sanctions.

The first round of sanctions came in November 1979. The first sanction was an impounding of military aid scheduled to leave for Iran under the authority of the Arms Export Control Act. The aid, which had been paid for under the Shah's regime, was valued at over $300 million (Alikhani 2000, 66). This sanction also embargoed any future sales of military equipment to Iran. Next, the Carter administration placed a ban on all oil imports from Iran under the powers of the Export Administration Act. The intention of this sanction was to disrupt the Iranian regime's foreign exchange earnings from the U S, which amounted to about $13 million a day. Following this, President Carter signed Executive Order (EO) 12170 which placed an asset freeze on Iranian foreign deposits in all US banks. The freeze covered all governmental assets held within US government oversight. This included close to $1.4 billion of deposits and securities held with the Federal Reserve System, as well as 1.63 million ounces of gold. By far the largest measure was to impound funds and securities held by US banks totaling some $7.5 billion. The asset freeze, however, was not intended to be a general ban on normal economic activity. This continued albeit at a continually shrinking pace. Still, the asset freeze was the largest since the US freeze of German assets at the beginning of World War II (Alikhani, ch. 3).

In the initial round of sanctions the US enjoyed perhaps its most favorable position regarding Iran. The Shah's regime relied heavily on US economic policy and aid and as such the imposition of sanctions had their largest impact. In cutting off governmental financial assistance the Carter administration sought to deny Iran the benefits of their relationship with the US with no compunction about canceling the arrangements made and paid for during the Shah's regime. The US impounded all military technology not yet delivered and did not refund the costs already paid. These sanctions contained clear costs to Iran still in the process of consolidating and formalizing a new government, but the Iranian leadership had previously committed themselves to limiting the role of the US in Iranian affairs. It became apparent that the new Iranian regime took seriously the Iranian people's frustration with Western involvement in domestic affairs and was willing to accept the short term loss of the November 1979 round of sanctions. Another reason the revolutionary leaders were willing to accept this loss was the failure of the Carter administration to gain multilateral support for the oil import embargo. Great Britain, Germany and Japan all received more than 10% of their crude from Iran and were unwilling to endure the costs of joining an import embargo on Iranian crude (Alikhani, 71-2). With this failure to resolve the hostage crisis the Carter administration began to construct a second round of sanctions.

This second round of sanctions, enacted in April of 1980, was the last economic weapon available to the US. The signings of EO's 12205 & 12211 effectively embargoed all imports and exports to and from Iran. These executive orders also prohibited all financial transactions public and private, and placed a general travel ban for all US citizens. While the seeming severity of these sanctions sought to impose high costs to the Iranian regime they did not have the intended damning effect on the Iranian economy. Oil revenues coming from US companies in the months before the Shah's removal averaged around $280 million per month. In the months before the taking of US hostages, October 1979, oil revenues were down to only $26 million per month, and by April 1980, $1.4 million (Alikhani, 79). The reality of the Carter administration's failure to inflict potent economic costs on the Iranian regime resulted in the desperate Operation Eagle

Claw. The failed military operation to rescue the hostages only embarrassed President Carter and the negotiations stalemated during the summer of 1980.

While the US at the start of the hostage crisis seemed to be in an advantageous position for enacting a successful policy of economic coercion the reality was more complicated. The anger and distrust at Western imperialism within the context of the Islamic Revolution brought to power revolutionary leaders that were committed to removing all US influence from Iran. This removal would occur no matter the economic costs associated by such a policy. The Carter administration, in assuming that the Iranian regime valued its economic and political ties to the US, did not understand the commitment of the revolutions leaders to it's anti-imperial agenda. The political animosity between the US and Iran only furthered the standoff, were it not for the Iraqi invasion in September 1980 there seems little the US could have done to force the Iranian hand in the hostage negotiations.

The invasion by Iraq exacerbated the economic effects of the US sanctions and the revolutionary leader's attempts to decouple Iran from its Western economic connections. US sanctions had cut oil revenues to the newly formed regime which cut government revenue already constrained by the asset freeze. The trade boycotts fueled inflation by cutting off foreign currency flows and causing the rise in prices of sanctioned goods from re-exporters around the gulf. The sanction contributed to the turbulent events of the revolution which sent the Iranian economy into a downturn based on several factors. First, was the loss the loss of trained personal, both foreign and Iranian hampered Iranian manufacturing, which were operating around roughly 30-40% in June of 1980. Next is attributed to the desire to remove Western firms' involvement which included the difficult challenge of nationalizing and consolidating industries and the interruption of supplies for semi-finished projects by canceling many of the Shah's large scale economic plans (Miyagawa 1992, 156-7). The decision of Iran's revolutionary leaders to disengage its economy from the West was understood to come with economic costs, the sanctions implemented by the Carter Administration did exacerbate these conditions and restrict the freedom of action in responding to the economic downturn. Little headway was made in the negotiations until the Iraqi invasion presented Iran with an urgent requirement to fight the war: cash. The financial constraints on the Iranian economy caused by its own policies and the pressure of US sanctions were only fully realized when the mobilization for war had begun. Only when faced with the coming revenue crisis and potential insolvency did the Iranian leaders begin to comply with good faith measures in negotiations (Miyagawa 1992, 182-6).

The importance of the Iranian financial situation formed the backbone of the Algiers Accords which secured the release of the hostages. In exchange for the hostages the US removed all trade sanctions, returned $2.8 billion in assets, and placed the financial relations of Iran back to normal. To settle the numerous claims against Iran from the revolutionary economic policies and the hostage crisis itself the accord established the US-Iran Claims Tribunal which sought to resolve the various disputes. The tribunal remained the only official mechanism for interaction between the two governments for the following years (Takeyh and Maloney 2011, 1299).

Following the resolution of the hostage crisis the US sought to observe how the IRI would fare in the war, and whether its revolutionary rhetoric would translate into diplomatic policy. The first years of the war led to an eventual stalemate by 1984, which came with a significant human and economic cost. Preserving the stalemate became the strategic goal of the Reagan Administration and the development of the sanctions regime previously dismantled by the Algiers Accord was constructed to serve this goal. Two major provocations during this period of the war shaped US sanctions policy during this time. First, the bombing of the Marine barracks in Lebanon by Hezbollah which the US ultimately laid responsibility on Iran. The Reagan Administration used this event to categorize Iran as a state sponsor of terrorism which imposed export controls on all military sales from US based companies, prohibited US aid and required US positions in international financial organizations to decline any aid or loans. The widening of the sanctions under the designation of Iran as a state sponsor of terror continued in various measures throughout the 1980's (O'Sullivan 2003, 49).

The second major provocation revolved around the rising tensions between the Iranian naval mining of the Persian Gulf. In response, President Reagan signed the largely symbolic EO 12613 which embargoed all imported crude from Iran. This executive order, was symbolic largely because direct imports of Iranian crude by US firms was minuscule. The order did not prohibit US firms from purchasing Iranian crude, refining that crude in foreign locations and then importing the resulting products into the US. This represented a major failure in US policy due to the lack of ability of the US to further impose unilateral costs on the Iranian regime while incurring significant economic costs for itself. The political calculations of the Reagan Administration in this instance cannot be discounted. Embarrassed in the aftermath of the Iran Contra scandal, the administration was eager to prove its anti-Iranian credentials while still ensuring the rough stalemate between the two combatants. In playing Iran and Iraq off each other the US did succeed in that neither side achieved a superior geopolitical position after the cease-fire in 1988. The consequence for the US sanctions in terms of economic coercion was a regime that was a largely ineffective policy in terms of coercing Iranian behavior to comply with US demands, chiefly the end of support for terrorist groups around the Middle East. The sanctions also failed to impose significant costs due to the lack of economic trade between Iran and the US.

After the sanctions associated with the hostage crisis were lifted normal economic relations did not return and trade between the US and Iran never equaled the value reached during the Shah's reign. While the US, in principle, allowed exports to enter the Iranian market, the flow of goods remained significantly lower than when compared to pre-revolution levels (Takeyh and Maloney 2011, 1300). The same is true for US imports from Iran, mainly in the form of crude oil. The difficulty, however, is in figuring the costs imposed by the sanctions during this time as Iran was engaged in a war of attrition with Saddam's Iraq throughout most of the 1980's. EO 12613 signed by Reagan in 1987 did ban the direct import of Iranian crude, but allowed Us firms a free hand in transporting, refining and selling the products. The result was a largely limited short-term cost which eventually became a medium-term gain for Iran as US companies gradually became the largest purchasers of Iranian crude by the mid 1990's (O'Sullivan 2003, 65). The Reagan era sanctions were mostly in response to specific provocations and not part of a larger strategy to coerce Iranian cooperation on selected issues. Rather, the desire of the US was to ensure that the uninterrupted flow of oil could continue while the war raged on in a stalemate. It was not until the US upset the balance between the two states after the resolution of Iraq's failed invasion of Kuwait that the specter of a recovering Iran loomed as a strategic challenge to US interests.

The US sanctions regime of the Reagan Administration up to the end of the first gulf war was primarily a set of half-hearted measures that essentially formed around the already tarnished economic relationship between the US and Iran. While the US had taken a hard stance in cutting military sales and aid, the revelation of the Iran-Contra affair revealed the duplicitous nature of US covert policies towards the end of the Cold War. These measures in limiting the formal sale of military technology did represent the strongest unilateral measures taken by the US and imposed costs primarily in terms of military capacity and less on economic costs. The bans on selling Iran military aid soon encompassed high-tech goods and sophisticated computer systems which could have uses within supporting military capability and the reconstruction of the Bushehr nuclear facility. These sanctions were highly selective and had limited impact in terms of costs while the slow pace of commercial trade mirrored the substantial drop in volume of trade initiated by the war effort.

Both the Iranian and US leadership by the end of the wars with Iraq had politically denounced the other so that any resumption of economic ties seemed impossible. The US had no credible carrot to offer Iran, and US support of Iraq and the brutal tactics during the war meant that the Iranian leadership had no interest in any serious US offer of a cessation of hostilities. As the political climate shifted after the fall of the USSR the US viewed Iran in a different context, that of a rogue state whose opposition to the hegemonic position of the US over regional issues like Israel and post Gulf War Iraq would form the basis for a reformulation of US strategy and an eventual tightening of the sanctions regime.

The Second Wave: 1995-2005

The imposition of the second wave of sanctions on Iran by the US was a response to several factors: first, the continued threat mongering from both states; second, the changing role of the US in the post-Cold War system and the strengthened position of Iran following the first Gulf War; third, the continued progress of Iranian nuclear capability; fourth, Iran’s organizing of obstructive policies in the Israeli-Palestinian peace process. The relationship during this period between the US and Iran was dominated by a continued lack of trust. While both regimes focused on policies surrounding the turbulent events of the Soviet collapse and proceeded to define their place in the new reality, the possibility of reconciliation remained an impossibility. The US, whose interests now shifted from bi-polar struggle to system maintaining hegemon, struggled to define its role in the immediate aftermath of the Soviet collapse. Saddam Hussein's invasion of Kuwait provided a clear moral cause and posed a strategic challenge to US interests in the Gulf region. The First Gulf War ended with the US militarily crippling Iraq and then imposing severe sanctions and an internationally monitored no-fly zone over the marginalized Iraqi dictator. A weakened Iraq tipped the local balance of power directly towards Iran. Shortly after the US invasion Iran began tentative purchases of advanced weaponry to shore up its position over its hindered neighbor. The acquisitions soon caught the attention of US leaders and resulted in further restrictions on dual-use technology sales to Iran (Alikhani 2000, 162; Maloney 2003, 77). More importantly, the moves further confirmed US foreign-policy hawks eager to confirm the strategic narrative of an impending Iranian threat.

The reality of a rise in Iranian power in the region was expressed in two main areas. First, the push of Iran in seeking contractors to complete the Bushehr nuclear facility deepened US suspicion as to the ultimate goal of the program. Iran maintained a persistent legal strategy to finalize the contract disputes stemming from the cancellations of contracts following the immediate aftermath of the Islamic Revolution. By the mid 1990's the Iranian program was engaging the severely cash strapped Russian nuclear program for assistance and making overtures to the post-Soviet states in Central Asia (Alikhani 2000, 191). Second, the resolution of the Lebanese Civil War presented Iran with a unique opportunity to exert its influence in close proximity to Israel. Hezbollah, the Shiite militia turned political party, began to gain significant influence in Lebanese politics. The US, still upset over the 1983 Marine barracks bombing, saw the development as a direct affront towards its goals for a peace settlement between Israel and Palestine. Combined with the diplomatic strategy of Iran aimed at opposing the US led peace process suggested that the US needed to reevaluate its strategy regarding the growing influence of Iran (Takeyh and Maloney 2011, 1303).

The first step in the change of US sanctions policy towards Iran came in 1992. The Iran-Iraq Arms Nonproliferation Act sponsored by Sen. John McCain signaled the shifting towards a more multilateral strategy (Takeyh and Maloney 2011; Alikhani 2000; O'Sullivan 2003). Motivated by the power shifts in the Middle East, and suspicions about announcements by Iranian leadership about the desire to complete the Bushehr nuclear facility the US acted. The sanctions put restrictions on foreign military sales and widened the scope of trade labeled as dual use technology. These sanctions also required the imposition of sanctions on any person or country which transferred the technology to Iran. This measure, however, was never fully applied. Regulations for the act were never issued, but the act justified US pressure on the newly formed post Soviet states whose nuclear capabilities were a prime target of this legislation (Alikhani 2000, 165).

By the mid 1990's the US had little left domestically from which it could unilaterally deny the Iranian economy as punishment. The sanctions regime instituted by the US only mirrored the reality that even though US firms could trade with Iran following the hostage crisis, few actually did so. With trade levels between the US and Iran in the early 1990's below 10% of the 1970's average the position of the US to coerce Iranian behavior by restricting access to the US market was a hollow threat. In terms of the non-oil sector Iranian exports remained virtually non-existent in the share of total US imports. US and Iranian firms intent on obtaining products from other simply bypassed restrictions by routing products through the United Arab Emirates (UAE) and other third party states. In the 1970's trade with the UAE accounted for less than 4% of the trade volume with Iran; after US sanctions, trade grew to 18% in 1988 and averaged 10% throughout the mid 1990's (Askari et al. 2003, 197-99). While the non-oil sector remained a considerably small export market for the IRI the second round of US sanctions sought to impact the heavily centralized Iranian government dependent on oil revenue. The restrictions placed on US oil firms from directly purchasing Iranian crude, while still allowed to import the refined products of Iranian crude, had little impact in restricting Iran's ability to sell its high quality crude. This ability to find alternate markets does not mean that Iran enjoyed a free hand in developing its energy resources.

Iran's oil production has yet to reach output levels equal to that under the Shah in the thirty years since the Islamic Revolution. This loss of production capacity was caused by the loss of the foreign management and operational technicians who left after the hostility facing international oil firms during the revolution. Oil production was further impaired by the Iraqi invasion. The war diverted development funds as neglected facilities were damaged throughout the country (Askari et. al. 2003, 179-81). In coming out of the war, Iran had stabilized its oil production and began repairing the facilities damaged or necessarily neglected during the war. By 1995, US companies were purchasing 600,000 barrels of Iran's 2.6 million daily production. Though the sanctions on the Iranian oil sector during the hostage crisis did disrupt Iranian production, the nationalizing of the oil companies countered by self imposing restrictions on foreign control over the oil extracting process. The leaders of the Islamic Revolution understood the highly fungible oil resources would attract buyers willing to settle on their own terms within reason. The highly nationalistic policies centralized the operation of all domestic oil assets and ensured all revenue would flow to the government and not foreign firms. While Iran required new international buyers for its crude following the US sanctions, it's determined policy of national control over oil operations and foreign investment capital helped offset the loss of pre-revolution US oil purchases.

The US's sanctions during the first phase amounted to Iran suffering some short term costs, while mitigating the intended long terms costs. Thus, while US leaders talked tough regarding Iran, the ability to impose significant costs on the regime remained outside the political capability throughout the first wave of sanctions. The rise of US trade following the first Gulf War and oil companies continued exploitation of the exemptions on purchasing Iranian crude began to draw the attention of more hawkish members of the U.S. Congress. The hypocrisy between the antagonistic rhetoric and the leniency of the sanctions regime eventually confronted the reality of the resurgent Iranian diplomacy organized in opposing the Israeli-Palestinian peace process. By the beginning of the Clinton Administration the political landscape within the US had seized upon this contradiction and sought to rectify the weaknesses of the sanctions regime.

The disconnect between the political rhetoric of conflict between the two nations and the continuing of economic ties was not lost on American politicians sensitive to the rise of Iranian influence in the Israeli Peace Process. The influential American Israeli Public Affairs Committee (AIPAC) circulated a white paper entitled, *Comprehensive US Sanctions Against Iran: A Plan for Action*. This document highlighted the hypocritical stance of the continued economic engagement with Iran by US firms, and the growing international market engaging in the development of Iran's energy sector. The paper called for not only a ban on all US trade with Iran, but for sanctions to be imposed on firms and governments that purchased Iranian energy or invested in developing future projects. Picked up in the US Congress by Senator Alfonse D'Amato and Rep. Peter King the two lawmakers led the effort to pass the most comprehensive US sanctions against a country since the Cuban Revolution (Alikhani 2000, ch. 6).

The push for new legislation faced several challenges. The Clinton Administration was not particularly eager to enact such harsh penalties on US firms so soon out of a recession. Clinton struggled to gain executive control over how and who would be sanctioned while the senator D'Amato sought clear and unequivocal guidelines for penalties. Intending to offset the demands for a stringent sanctions regime, President Clinton sought to keep the implementation of any new sanctions within the confines of previous legislative authority. As the details of the harsh penalties in D'Amato's bill came to light a growing discontent among US allies lobbied for their removal. Clinton sought to find a middle way in the legislation that balanced the desire to appear tough on Iran with not losing US allies support for future policy initiatives regarding Iran.

The political rhetoric between D'Amato and Clinton officials regarding the toughness of the latter's stance towards Iran suddenly faced the announcement of the National Iranian Oil Company's (NIOC) agreement with the US oil firm Conoco for a $1 billion deal in developing the Sirri-A and Sirri-E offshore natural gas fields (Alikhani 2000, ch. 6; Takeyh and Maloney 2011) Despite the potential for a possible diplomatic opening, this was the first contract awarded to an American firm by the IRI since the revolution, American leaders had positioned themselves in the opposite strategic direction for the possible signal of reconciliation by the Rafsanjani Administration. As a result, the Clinton Administration was publicly embarrassed and the perception of hypocrisy was devastatingly leveled by D'Amato. The result was EO's 12957 & 12959 that banned all trade and investment with Iran's oil sector and prohibited all trade with Iran including the refined products exemption. This fulfilled the main objective by the AIPAC white paper, but the secondary objective had yet to be decided.

The fallout of the Conoco deal highlighted the interconnectedness of the IRI's energy economy with that of the US and its major trade partners. The conglomerate energy firm Total received the new contract; with the firm's nebulous holdings stretching throughout the Americas, Europe and the Middle East the ability to enact truly punishing sanctions against the IRI would have to address the international nature of the modern economy. The main thrust of this effort was to impose unilateral secondary boycotts on foreign firms that did business with Iran. The sectors affected were not merely energy firms, but included banking, manufacturing and high tech firms as well. The push for secondary sanctions against Iran faced an uphill battle as the push for free trade had been used as a neoliberal fountainhead of the post-Cold War order (Takeyh and Maloney 2011, 1302). To enact a set of punitive trade controls based on the political motivations of a single state threatened many of the principles put forward by US leadership for a generation. The sanctions faced stiff opposition from foreign firms and governments, as well as challenges against the US through the World Trade Organization.

The US brushed off the concerns as the Clinton Administration planned to include a similar exceptions provision to be held within the executive branch and to exclude foreign firms from the more punitive measures of the looming sanctions legislation working its way through congress. Clinton, facing a reelection campaign as the comprehensive sanctions legislation gained support, continued to insist on the ability to sanction Iran without the need of such harsh legislative action. Supporters of the legislation led to a campaign that highlighted the resurgent Iranian nuclear program, its opposition to Israel and a general human rights abuses spotlight campaign to stoke public opinion into supporting the harsh rhetoric against the IRI. Clinton was now faced with being outmaneuvered by the supporters of the legislation and focused his negotiations with Congress on securing the exemptions powers while convincing lawmakers of his commitment to see the sanctions through (Alikhani 2000, ch. 6). The result of this process was the Iran and Libya Sanctions Act of 1996 (ILSA).

The passage of the ILSA represented a watershed in US sanctions policy and was met with stringent resistance by US allies in the EU, Japan and Canada all of whom continued economic relations with Iran after the Islamic Revolution. In 1995, the EU exported $11.5 billion in goods to Iran while importing $18 billion, the secondary boycott threatened by the ILSA would disrupt the ongoing trade between firms in the US, the EU and Iran (Alikhani 2000, 325). The provisions of the ILSA required the executive branch to acquire information from firms doing business with Iran to determine if a sanctionable act had occurred. In protest, the EU instructed its firms to not comply with these provisions. Further, the ILSA also allowed firms to submit potential agreements with Iran for a non-binding judgment as to its potential as sanctionable under the law; the EU also instructed its firms not to submit such documents. For two years EU leaders fought against the ILSA, until the Clinton Administration finally reached a compromise in late 1998. The US allowed the French firm Total, and all subsidiaries involved, to continue its salvaged Conoco development deal unhindered by the application of the ILSA (Alikhani 2000, ch. 8).

The sanctions put forward by the ILSA took steps to discourage trade by third-party states with Iran. The effect of the sanctions was termed “secondary boycotts," meaning that the intended targets of the sanctions were foreign firms that did business with both the US and Iran. A firm could be sanctioned by making an investment of more than $20 million or more in the development of Iranians petroleum resources in any one-year period. This included the sale or transfer of any type of good, service or technology relevant to the Iranian energy sector. Penalties for violating the ILSA included the denial of any US government procurement, the canceling and non-issue of any export licenses to the firm and punitive restrictions to be placed with US financial institutions. At the time of its passing, ILSA threatened several current negotiations between US ally’s oil companies and the Iranian government. However, after the initial agreements reached between the Clinton administration and various European, Japanese and Russian firms concerning deals threatened by the ILSA, there have been no sanctions issued since the act's passage. Several deals concerning the Iran's South Pars gas field involving Total, Gazprom and Petronas were judged to be sanctionable under the provisions of the ILSA, but the State Department negotiated a waiver based on gaining increased cooperation in combating anti-proliferation and anti-terrorist policies (Kozhanov 2011, 147).

The second wave of US sanctions culminating in the passage of the ILSA represented a new step in terms of US sanctions policy. Having exhausted all available options for unilateral sanctions, and having little success motivating allies to join the campaign to isolate Iran the US focused its coercive powers on its allies. The failure to muster an effective diplomatic strategy in gaining its cooperation in imposing a multilateral sanctions regime the U.S. Congress decided to impose its determination to isolate Iran. However, two main factors limit the effectiveness of the ILSA sanctions. First, the yielding of the exemptions process to the executive branch placed enforcement of these sanctions entirely in the hands of the president. Second, the ILSA was only capable of sanctioning firms who did business with the US and Iran. While the ILSA regime has had little official successes, its effects have had an impact as investment by Western and Japanese firms in the Iranian energy sector has declined over the 15 years since its inception. Still, the main goal of imposing significant costs on the Iranian economy has remained elusive. With oil prices rising in the late 1990's and despite periods of domestic turmoil Iran has maintained moderate economic growth. This has allowed the Iranian regime to continue its nuclear program and support for various political organizations throughout the Middle East. The failure of the ILSA sanctions regime to change these behaviors of the Iranian government would lead to the institution of a third wave of sanctions.

<u>The Third Wave: 2006-2012</u>

The following decade would see significant changes in the scope of sanctions against Iran as well as the number of countries that would begin yielding to US wishes to further isolate the IRI. The Bush Admin continued the Clinton policy of granting specific exemptions for businesses under the ILSA, while extended the sanctions a further five years in the spring of 2001. The mild tone of the Presidents campaign with regards to foreign policy was overturned by the terrorist attacks of Sept 11, 2001. This single event set about a reordering of the priorities of US security policy into a broad strategy known as the Global War of Terror (GWOT). After organizing and executing of the response against al Qaeda and the Taliban in Afghanistan the US began to look at the Middle East in the next stage of its strategy. In the State of the Union address in early 2002 Pres Bush laid out the three states who represented the greatest danger for the global order; dubbing them the "Axis of Evil" Iraq, Iran and North Korea were placed in the forefront of the GWOT.

In the initial stages of the post-September 11 strategy the US sanctions regime against Iran was sidelined as the immediate goals of the US shifted to the invasion of Iraq. All diplomatic assistance for US policy was channeled into gaining support and approval for the invasion. US policy seemed to insist that the focus on Iraq would "send a message" to the Iranian leadership which would curtail its provocative behavior on the international system after being essentially surrounded by 250,000 US troops in Iraq and Afghanistan. The response in Iran was a rejection of the US demands and the political rise of the combative mayor of Tehran Mahmoud Ahmadinejad. Further, despite the allies of Iran in the Israel/Palestine confrontation being named “terrorist organizations” by the US, Iranian support for these groups expanded. The US, by 2004, was clearly losing control in Iraq and any hopes of a quick turnaround for the military resources to be refocused on Iran were fading considerably (Takeyh and Maloney 2011, 1304). The US began to marshall support for a new round of sanctions by putting pressure on the UN and IAEA to step up pressure on the Iranian nuclear program.

The link between Iranian support for Hamas and Hezbollah and its burgeoning nuclear research facilities became an obsession for the US and Israeli security apparatus. The Bush Administration’s insistence that the international monitoring bodies of the UN and IAEA had failed to detect the Weapons of Mass Destruction was the pretext for invading Iraq. This was echoed in the diplomatic effort to ensure the oversight by the IAEA would not go under-scrutinized in the case of Iran. European support for these measures had been gaining since the compromise with the US after the passage of the ILSA. European firms began to slowly shift away from future prospects for investment in Iran due to the commitment of the US legislature to economically isolate Iran and publicly shame firms that explored energy deals with Iran. By 2005, European leaders were less tied to the Iranian economy and facing pressure from the US over the continued resistance of Iran in adopting more transparent oversight regarding its nuclear program (Katzman 2011). The result was a Europe that was better positioned in 2005 than in 1996 to respond to the US calls for further sanctions was now in place; all that was needed was a trigger.

The continued campaign to realize both a fully functioning Bushehr facility a domestic capacity to complete the nuclear fuel cycle set the stage for the third wave of sanctions. Insisting that Iran open its facilities to international inspectors as required by the Nuclear Nonproliferation

Treaty (NPT) the US charged that delays in inspections and an unwillingness to fully cooperate pointed to the program's hiding a clandestine weaponization program. The acquisition of equipment necessary for enriching uranium by Iran became common knowledge. Iran's leaders had professed a desire to reach the state of a fully self sufficient nuclear fuel cycle. Such technology, however, had been obtained from sources outside the reach of the US sanctions regime and full disclosure of the scale of the operation was kept from the IAEA investigators. The result was the IAEA Board of Directors issuing a report that concluded that Iran had not complied with its obligations under the safeguard agreements to prevent weaponization (Kemenade 2010, 100-1). While lacking any direct evidence of a weaponized nuclear program the resistance of Iran to allow full access to IAEA investigators meant that the possibility could not be ruled out.

The US response was twofold. First, the push for targeted sanctions against Iran had been gaining steam through Under Secretary Stuart Levy. These new rounds of sanctions used the authority granted by the EAA, ILSA and Patriot Act to impose sanction on state based institutions, private institutions and individuals within the Iranian regime. The sanctions were first based under the auspices of designating persons and institutions under the authority of the 1980's "terrorism list." Combined with EO 13229 (Sept. 2001) the Bush administration sought to freeze the assets of any person or organization that had been determined was aiding the Iranian regime's support of Hezbollah and Hamas among others (Gurule 2009, 29). As the nuclear enrichment program became the primary focus, President Bush signed EO 13382 (June 2005) which would attempt to block the assets of groups or individuals that aided Iranian proliferation (Eckert 2008, 104). This included the continuing efforts focused on the nuclear program, but was mainly focused on recent deals with various arms manufacturers in Russia and China in the development of the Iranian missile program. These unilateral measures encompassed the first step in the administration's policy to enact a targeted sanctions regime. The next step was to enlist the UN in furthering its scope.

The second response of the Bush Administration was to push for UN sanctions on the individual entities engaged in the nuclear program and gaining support for a wholesale stop to supplying Iran with high tech components to further its nuclear and missile program. The US succeeded in passing three UNSC resolutions (1737, 1747, 1803) that mirrored the unilateral measures on the US. This period of 2006-2008 that saw these resolutions pass were aimed at the ongoing negations of the P5+1 (UNSC permanent members and Germany) over the uranium enrichment program in Iran (Takeyh and Maloney 2011, 1304; Jacobson 2008, 75). The main issue on this multilateral front was the Russian contracts with Iran to finish its long delayed Bushehr facility.

The main US problem with Russian support for the facility came in form of supplying Iran with fuel for its reactor. The Russian contractors in Bushehr had not established a smooth and well functioning relationship with their Iranian hosts. The project encountered many delays, such as conflicts over Iran's insistence for the training of Iranian personal rather than relying on Russian operators, or Iranian frustrations over the Russian firm's decision to scrap the previous German components further delaying construction, or delays in Iranian payments to Russian firms for services rendered. The result was the clear desire of the IRI to absorb as much technical ability as possible from the Russian experts whose initial agreement made them operate most of the critical systems in the facility (Katz 2008, 205). Frustration with the Iranians eventually led to Russian support for the UNSC resolution 1929 which condemns Iranian noncooperation over the nuclear program, further limits the sale of military hardware to Iran, mandates the denial of Iran to procure uranium and placed several large IRGC firms on the sanctions list. Russian support for the sanctions on the Iranian nuclear program came only after securing an agreement from the IAEA that the facility could be completed. The arraignment of that deal does state that the Russian companies will operate, provide fuel and dispose of spent fuel for three years after the plant goes operational. By gaining support for the UN sanctions on Iran the US moved to enact its second wave of unilateral measures against the IRI.

This third wave of sanctions departed drastically from the previous attempts by the US to construct its sanctions regime. Rather than focusing on the secondary sanctions on the firms that trade and invest in Iran, the focus would move towards the targeting of specific targets within Iran's government. This extended to sanctions on specific institutions such as SOE's and bonyads (state-run charitable organizations with vast holding in the Iranian Economy) while also on specific individuals within the regime. This was considered sound by US officials due to the highly centralized nature of the Iranian economy. Certain state actors with ties to the nuclear or missile programs were identified and the US began freezing these entities assets around the world. Further, the provisions within the Patriot Act allowed the US to indict Iranian support for Hezbollah, Hamas and other groups and declare their associated financial institutions as supporters of terrorism. Thus, the US banned all transactions with the largest banking entities within Iran. The major difference in these anti-terrorism measures was that they were met with much less consternation from European leaders than the ILSA provisions a decade earlier. By this time the political and economic climate in Europe had shifted away from Iran's privileged position as a significant trading partner. The convergence of US and European security policies spearheaded by the Bush administration laid the cooperative infrastructure to monitor and enforce the highly targeted nature of the sanctions. The new security regime and the sanctions built around it would form the basis for the Obama Administrations continued efforts to expand the sanctions regime (Eckert 2008).

President Obama's strategy was to first send signals to Iran's leaders that the door was open for negotiations; with the blatant election rigging during the election in mid 2009 and the subsequent protests the IRI failed to take any meaningful action. The result, especially in light of a brutal repression of the protestors, the Obama Admin set about to marshall support for the second round of its third wave of sanctions. The strategy followed the previous pattern of the Bush Admin: push for multilateral sanctions based on suspicions over the Iranian nuclear program while shoring up economic pressure through targeted unilateral sanctions (Takeyh and Maloney 2011, 1298; Maloney 2010, 133). The result was the passage of the Comprehensive Iran Sanctions and Divestment Act (CISADA) in July of 2010. This prohibited the import of previous exemptions of imported caviar carpets and pistachios. Also included were new measures that restricted the sale of refined crude products and investments, and further restrictions on financial transactions and shipping insurance. President Obama scored a further coup by bringing the EU's direct enactment of their own sanctions in line with the unilateral measures of the US. The culmination of this third wave represents the continued effort of the US to economically isolate Iran from the benefits of the modern global economy. These efforts have not yielded any major political concessions from the Iranian leadership. Still, with the momentum of the recent successes in bringing Fuller multilateral support the sanction regime has never been so expansive in its scope.

CHAPTER FOUR: COMMENTARY ON IRAN SANCTIONS

The US campaign against Iran has been traced over three main waves of sanctions. The record of these sanctions effectiveness in achieving stated political goals has been a failure for several reasons. First, the US's sanction regime against Iran has often been haphazard in its construction. Only from the onset of hostilities during the hostage crisis has the use of sanctions by the US served definitive goals and has been implemented efficiently. While this event was primarily a piece of political theatre, the sanctions policies did have a grounding in good sanctions theory: the policies involved were directed in a forceful momentum; they were tied to achievable goals, they carried the possibility of being lifted, and at the time did impose significant costs on the IRI (Hufbauer et. al. 2008). While the US was successful in enacting sanctions unilaterally it was incapable of gaining significant multilateral support for constructing a wider sanctions regime. These factors were partly responsible for the resolution of the crisis, but were by no means the main factor for the "success" in resolving the crisis (Miyagawa 1992, ch. 9). After the lifting of sanctions following the hostage crisis the relationship between the US and Iran did not improve.

As analyzed above the following years saw the tensions between the US and Iran escalate, and subsequently the exploitation of those tensions payed political dividends to the domestic leaders in both nations. The choices of both states in the subsequent events seemed to validate the portrayal of the other side as committed enemies. For the IRI, US support of Saddam Hussein in his invasion of Iran; for the US, the Marine barracks bombing and Lebanese hostage taking. Both events solidified the status of the other as requiring it to make the first gesture of reconciliation. Due to the domestic political constraints such an act of courage would not be forthcoming. The intransigence of both the US and the IRI created a policy stalemate whereby neither side has the incentives to make declarations of goodwill (Askari 2003, 194; O'Sullivan 2003, 91). The lack of direct communication compounded with strategies relying upon proxy actors only exacerbated the the strategic disconnect between both states.

The results for US sanctions policy has been the lack of a clear motivating guide for enacting sanctions again Iran. After the Marine barracks bombing the US cited the IRI's support for terrorist groups as the primary factor for sanctions. In the early 1990's, Iranian diplomacy against the Israeli-Palestinian Peace Process was the cause cited. By the mid 1990's unrealistic fears of a fast approaching nuclear armed Iran as an impending threat towards Israel provided the impetus for the ILSA. All three of these factors have now seemingly merged into a simple rejection of all Iranian foreign policy. The narrative of a nuclear armed, anti-Israeli, terrorist supporting Iran is too grand a negotiating position for the US to continue demanding the necessary changes for lifting sanctions. To do so would require a complete reversal of the Iranian diplomatic strategy for the last thirty years (Takeyh and Maloney 2011, 1302-3).

The role of US sanctions policy in constructing this irreconcilable position is partly to blame. The US, by its democratic nature, has had its sanctions policy heavily influenced by groups dead-set on curtailing Iran's policies. These initiatives have often been ill-timed and not informed through diplomatic contact through official channels. Rather, the litany of political forces led to four chaotic years of negotiating the fairly impotent ILSA provisions. The difficulty for the Clinton Administration was that the legislated provisions of the ILSA had removed much of the unilateral incentives that they could offer in case of reconciliation with the

Iranian leadership. The result being that the US was not in a position to credibly offer the more liberal minded President Khatami any possibility for lifting the sanctions.

The most recent wave of sanctions have improved on the inconsistency in US policy, but also highlights a major reason for the failure of US policy. The changing international security regimes in the post 9-11 climate also streamlined the ability to coordinate such policies among the US and the EU. This could primarily be attributed to the lack of involvement by the US Congress in this process. Still, while both the Bush and Obama Administration did successfully organize a multilateral sanctions regime through the UNSC and further the unilateral restrictions on the IRI's financial transactions, the ability of these sanctions to impose the costs necessary to bring Iran into line with US desires remains unresolved.

The second failure of the US sanctions regime is the inability to impose costs severe enough to convince the IRI's leadership to change its behavior. The first wave of sanctions initiated during the hostage crisis did reduce by a significant amount the economic discourse between the two nations. The US cancelled aid and outstanding military contracts, as well as pressured allies to cease development projects within Iran as a result of the hostilities. These actions by the US resulted in severe losses to the Iranian economy by disrupting the flow of goods, freezing assets in US banks and delaying contracted projects such as the Bushehr facility. The costs of the sanctions were compounded on the tumultuous events of the Islamic Revolution which were followed by the invasion by Iraq. The cumulative effect of these events ultimately led to the release of the hostages, but the role of the sanctions as the primary reason in achieving this goal is suspect. Indeed, bans by the IRI on doing business with the US, now labeled the “great Satan,” reflected the determination of the IRI’s leadership to establish its anti-Americanism as part of its international strategy.

The sanctions that resulted in the wake of the Marine barracks bombing in Lebanon only furthered the trends of denying the IRI access to US military goods. This formed a larger strategy of the US during the Iran-Iraq War of ensuring a strategic balance between the enemies. The bombing provided a useful pretext to formalize this policy in the scope of the US commitment to counterterrorism surrounding the Israeli-Palestinian issue. These sanctions provided the Reagan Admin with a policy so that it could be seen as responding to a blatant attack on its soldiers in the region. The use of sanctions that came with adding the IRI to the list of states that support terrorism was a symbolic use of power that formalized the policy within the context of the US policy towards the greater Middle East. By denying Iran access to technology that could be used in increasing its military capacity the US sought to ensure a continued stalemate between Iran and Iraq. Sanctions initiated in the late 1980 have sought to deny the Iranians any technology that could be used in weapons of mass destruction. Still, these sanctions, while in combination with a diplomatic strategy to prevent sales from secondary sources, remained wholly inadequate in bringing about a change in Iranian support for terrorist groups abroad.

The actual economic effect of these sanctions was limited mainly to costs associated with the rise in premiums from purchasing military technology from secondary sources that Iran needed to fight the war with Iraq. The actual costs to the economy are comparatively minimal when compared to the damage to property and the loss of life sustained during the war (O’Sullivan 2003, 63). The lack of costs to the IRI’s economy associated with the US sanctions regime was actually sought after by the US's desire to see the war end in a stalemate. Imposing harsh economic and financial sanctions would have hindered the Iranians ability to fend off the Iraqi invasion. Thus, US firms throughout the war were able to purchase Iranian crude and business continued to import and export in the non-oil sectors of the economy as well. It was only after the war when Iran began reconstruction and the US removed the balancing threat of Iraq after the First Gulf War that the issue of imposing costs on a growing Iranian economy became strategically necessary.

The second wave of sanctions embodied in the passage of the ILSA sought to punish the IRI by sanctioning secondary firms that invested in the Iranian energy sector. The US's desire to impose costs on an Iranian economy now developing after the war with Iraq had severe unilateral limitations. Up to this time, a state imposed sanctions on another by disrupting the flow of goods between them. Thus, in order for sanctions to have the desired effect the sender of the sanction must have a stake in the target's economy and be willing to endure the costs on its own domestic economy associated with the loss in trade with the target. By the mid 1990's the US trade with Iran was down to 10% of its value during the Shah's regime, and had very little to threaten Iran through unilaterally denying access to the US economy. Lawmakers in the US Congress came to believe that the answer to this problem was to sanction firms that do business with Iran by denying them access to the US economy. These "secondary boycotts" had never been executed in such a sweeping fashion before this time and faced significant challenges.

First, the ability to sanction private firms in allied states based on political motivations had dubious legal standing in international law. The US who had supported the rise of free trade institutions was essentially proposing selected tariffs on firms that did business with Iran

(Takeyh and Maloney 2011). The national interest of US allies also faced the possibility of the losses of economic wealth associated with these secondary sanctions. In effect, the US sought to punish Iran by deflecting the domestic costs of the sanctions onto other states. US allies lobbied the Clinton Admin with what they felt was unjust punitive measures on those who lacked the political will to sanction Iran. The US, by taking the fight to its allies, sought to convey the seriousness with which it took the strategy of imposing economic isolation on Iran. The costs associated with the ILSA sanctions have had a moderate impact on the Iranian economy. The lack of an efficient imposition meant that Iran had time to see the US strategy as it was developing and adjust as the conflict between the US and its allies played out in the aftermath. The general conclusion is that the ILSA sanctions did impose the significant short term "nuisance" costs on Iran's though its need to reform a new development strategy, while the medium to long term costs of these sanctions has been minimal. This is primarily due to the rise in price of oil since the ILSA sanctions and also in the ability of other states, primarily Russia and China, to fill the gap left by fleeing US allies (Askari et. al. 2003, O'Sullivan 2003). These trends would continue throughout the lead up to the third round of sanctions.

While the US has sought to impose sanctions on Iran by limiting the availability of its allies in participating in the Iranian economy, the source for development of Iranian energy assets has not lacked in potential prospects. The combination of the ILSA and the diplomatic efforts of the US after Sept 11 have brought a stagnation of Western companies in investing in Iran's energy sector. This shortfall has been filled by the aggressive energy investment strategies of Chinese and Indian companies to supply their rapid growth. Thus, the longer term costs of US sanctions intended to deny Iran access to international capital failed to gain sufficient global cooperation. The result has been an inefficient application of sanctions that has failed in its comprehensiveness to impose long term costs on the IRI. The final and most recent wave of sanctions would suffer from similar problems but is still too ambiguous in its effects.

The final round of sanctions enacted by the Bush and Obama Admins has sought to correct the failures of the previous sanctions regimes. To do so, the US marshaled its diplomatic resources around the shifts in anti-terrorism policies of its allies to directly target specific entities within Iran. Using the fear of a potential nuclear terrorist attack the US began sanctioning the financial centers involved in transactions with the groups associated with the nuclear program, namely the IRGC and Quds Forces. These groups presented a vast target within Iran for the US's new efforts at constructing a new sanctions regime. The rise to power of the IRGC and the vast and nebulous nature of their economic networks presented prime and specially defined targets for US sanctions. These sanctions have shifted the focus of imposing costs on Iran economy in general, to specifically targeting elements deemed threats to the US and its allies. To be sure, the US allowed exceptions to its previous sanctions policies on the grounds of humanitarian necessity for the general Iranian public, but the third round of sanctions sought to bypass this process by specifically focusing on predetermined targets. While the US enjoyed successes in gaining support in the UN and convincing the EU and Japan to join the US in enacting its sanctions regime, the overall effects in terms of costs remains ambiguous.

The intension of denying Iran a free hand in attracting investment and disrupting its ability to move international capital has imposed costs on Iran's leadership but the scale of these costs have not brought significant behavioral changes. This is due to the fact that US sanctions policy has suffered from its slow evolution. Through thirty years of sanctions policy the US first detached itself from the Iranian economy only to formalize the detachment some fifteen years later in the form of ILSA. This pattern of slowly changing the strategic international environment only to enact sanctions that merely mirror the reality faced by Iran remains at the heart of the US's inability to impose significant shocks efficiently. In the case of the third round of sanctions Iran followed its pattern for the implementation of the ILSA sanctions. Iran, already adjusted to the isolating effects of the ILSA sanctions by courting Russian and Chinese firms, had moved its economic interest away from only a small and select group of Western firms that already gained exemptions from US sanctions under the provisions in the ILSA. The move to deny Iran access to US financial markets was essentially a nonstarter in that Iran had already began to divest from the US financial infrastructure as its response to ILSA. Thus, the US found itself in a similar situation: the sanctions already mirrored Iran's adjustments to sanctions, and though they succeeded in imposing short term costs (mainly in the form of "nuisance costs") the lack of international comprehensiveness means that the potential for long term costs remains negligible. There are even arguments that Iran's relatively positive growth during the recent global financial crisis is because of the unintended benefits of the US's strategy to isolate the IRI from the international financial marketplace. Thus, the sanctions against Iran have failed to result in concrete policy changes that are favorable to the US. This is primarily a result of the poor construction of the sanctions regime by the US and the efforts of Iran in reacting to US policies.

<u>US Sanction Regime in the Context of *ESR*</u>

To further examine the US sanction regime against Iran the *ESR* recommendations will provide an analytic framework. The first recommendation is that the goals of the sanction regime be limited in the scope and avoided tackling audacious outcomes. The goals of the US sanction regime served to maintain issues: Iranian support of Hezbollah, Hamas and other groups and the nuclear program. The rise of the Islamic Republic came with a drastic reinvention of Iranian foreign-policy. Once an erstwhile US ally, the new regime defined itself in opposition to US policies. The new politicized Shia theocracy sought to spread its pan Islamic vision through the Muslim world. In mirroring its own overthrow from an oppressive dictator the use of violence to achieve these goals was considered necessary. The renouncing of "terrorist" Iranian support from groups such as Hezbollah and Hamas are not a clear-cut political maneuver for Iranian leaders.

The entrenching of Iran's support for these groups is based around the Israeli–Palestinian conflict. This issue has come to define the regional policy of Iran and is tied to wider US demands for the end of sanctions. The key question, is whether Iran would choose to abandon its support in the absence of a resolution to the Palestinian issue? If an agreement between the US and Iran is to combat any point in the reasonable future the assumption is that an agreement must be reached under the current status quo. This would require some amount of concession from both the US and Iran over the support for terrorist groups.

The initial problem is that the groups in question are autonomous not directed by both parties involved. Iranian concerns over Israeli policies cannot serve as the linchpin for negotiations on this issue in the same way that Iranian subsidies for Hamas and Hezbollah service the stated cause of US objections. The association of responsibility over the actions of independent third party allies is doomed to stalemate as the influence is inherently limited. Both sides can argue that it is the very support of the opponent that enables the violent conflict to continue, but the resolution of this position requires that both Iran and the US removed or limit the eggs of their respective clients. Given the large amount of political collateral invested by both states in this issue this seems unlikely. The nature of the Israeli–Palestinian quagmire and the positions of both Iran and the US and it, reflect the complicated and highly contentious issue that Iranian "support for terrorists" organizations represent. Any sanction whose removal is dependent on a major resolution of the Israeli–Palestinian issue as a prerequisite can hardly be termed limited or modest.

The nuclear issue, however, does appear to provide a more favorable scenario for success. Within this issue rests with the Iranian leaders refusal to adhere to NPT protocols and the distrust over Iranian secrecy regarding its enrichment program. The accusation of US leaders is that the secrecy implies that Iran is violating the NPT by using the legal acquisition of nuclear technology and development for weaponization. This suspicion is further deepened by the continuation of the Iranian missile program; a presumed delivery system for nuclear weapons.

The inherent distrust between the US and Iran also plays a dominating role in this issue. The potential for military confrontation from the US or Israel is never far removed from the conflict over Iranian proliferation. This fuels a cyclical security game were threats require the response of more threats, and the potential for military conflict between highly despairing military capability requires a deterrent for the weaker party. This cycle can be broken, but would require ground given by both sides. Historical examples for de-proliferation do offer some precedent that Iran can maintain its nuclear program, and have the infrastructure for the complete fuel cycle, while meeting its requirements under the NPT. For this to happen, the removal of the US as a security threat would be the first requirement. Even then, there remain no guarantees that Iranian leaders would give up all research on weaponization. Still, while this issue does appear to be the most resolvable of the two it could hardly be modest in its scope.

Another prime condition from *ESR* states that when the target and sender have positive diplomatic relations the likelihood of concessions is raised. From the extensive discussion this point requires little explanation here, but does allow for another requirement to be discussed. Sanctions that are accompanied by covert or military actions are also less likely to succeed. The logic of these points is that a target when confronted by a hostile sender has less incentive to be seen yielding to an adversary. When the sender accompanies sanctions with military backing the stakes of conflict are raised and the ability to conduct open negotiations is hindered. Apart from the failed attempt to rescue the hostages there have been no direct actions taken by the US. Still, US backing Iraq during the 1980's, the presence of US military throughout the 1990's and the occupation of Iraq and Afghanistan in the to thousands have not remove the specter of potential military action and has not abated Iranian security concerns.

When it is time for sanctions to be imposed *ESR* recommends that two main factors represent the optimal manner for their execution. First, sanctions should be implemented forcefully and in as short a period as needed. Second, sanctions should require as few other countries as possible to affect the desired costs. This point is one of effectiveness and efficiency, hit the target fast and hit the target hard. The time associated with securing a successful counter strategy to avoid the costs of sanctions can be a weakness for a target facing a well organized and highly effective sanction regime. Often the larger the number of allies the less likely a policy can be implemented. Coordinating all the interests and concerns into a policy that must be initiated at the behest of multiple sovereign partners does not lend itself to a favorable comparison to a smaller cabal of like-minded senders. The implications of these two requirements also look into the previous recommendation that the goal of the sender must be modest. A more modest goal would imply a less complex structure and policy to see it ends through. The modesty not only refers to the goals but also the means of achieving these goals. Regardless of the goals, poorly implemented policy is never desirable. All sanctions should strive to have impact in their implementation and enforcement. This should have a net gain for the sender in terms of the costs associated within the regime.

ESR places primacy on the issue of costs for both the sender and the target. Costs to the target should be maximized while the sender should limit its own exposure to its domestic costs. One of the best means for achieving this is by following the previous advice about effective implementation. Sanctions constructed to maximize costs to the target can see a good plan go to waste if not effectively implemented. If the costs to the target are delayed and spread out this allows the target to construct and execute a counter strategy. Once the target can lessen its cost of maintaining a stalemate the less coercive effect the sanction regime possesses. The Association of an efficient policy and the ability to impose forceful and significant costs to the target has represented a major failure of US policy towards Iran.

While the US has made the use of sanctions a cornerstone of its policy towards Iran, the quality of that policy is dubious. Overall, the sanction regime has been piecemeal at best and not succeeded in recruiting enough allies to have a forceful impact on the run. As reviewed above, the messy implementation of the ILSA regime was telegraphed to Iran through the legislative debate within the US and failed to gain any impact through cooperation with US allies. While the long-term effects of reduced the involvement of US allies in the Iranian energy sector the prolonged negotiations gave Iran plenty of time to respond and mitigate the intended costs.

The first wave consisted of, at the onset of the hostage crisis, the best record for the force and efficiency requirements, but failed in that it required too many allies to bring sufficient costs to bear. This inability to inflict sufficient costs resulted in the 15 month-long hostage crisis. The following sections were primarily directed at the military and nuclear acquisitions of the Iranian regime. The limited number of states that have access to the high-tech products and services are few; implying a high probability for success. As of this writing, Iran has yet to acquire nuclear weapons capability. This part of the US sanction regime has succeeded in significantly delaying this acquisition, but it's course of ability has failed to resolve the issue.

The third wave has benefited from the post-September 11 security regime for these points. The increasing cooperation between the US and Europe has made the implementation of the financial sanctions much more efficient. The globalized nature of banking and the ability to process information and enforce sanctions has led to these targeted sanctions in becoming the backbone of US policy. The utility of these sanctions in terms of cost to the target is reduced over time. This is due to several factors: first, the rise to power of nations outside of Europe means that more countries are required to forcefully impose costs on the target and second, realizing this, Iranian leaders can begin to shift its requirements away from participating members to the rising states outside the sanction regime. Each successive round has a diminishing return to the sender in the cost it imposes on the target.

The final *ESR* recommendations concerned the domestic situation of the target. Economic sanctions have the best possibility of success if the target is already in a state of economic decline or upheaval. Since most sanctions involve a sender country with a much larger economy the shocks associated with sanctions often fall on targets with less than optimal conditions. *ESR* found that this condition does not imply the relative size is that important of a factor when other considerations are considered: goals, warmth of relations prior to sanctions, and the timely imposition of sanctions. The final domestic consideration for the target is the type of regime faced.

Authoritarian regimes, as analyzed previously, present significant problems to the sender. They stereotype among Western democracies concerning autocratic regimes as always near the verge of succumbing to a population eager to embrace Western political ideals has provided justification for many miscalculations and Western foreign-policy. In keeping in line with the condition of modest goals the survival of a despot's regime is its primary concern. Sanctions intended to bring about a change in the target's leadership does not meet the modest criteria when considering its importance to the target. The sender's attempts to manipulate autocratic regimes face an opponent without the constraints of democratic institutions and political pressures. The malleability of costs and the ability to transfer hardship without the political constraints of the rule of law and a politically mobilized citizenry make autocratic regimes difficult targets and significantly reduce the success of sanctions. In the case of Iran the democratic structure plays an important explanatory role in the performance of the US sanction regime.

The US has sought to coerce Iran by focusing on the energy sector, military procurement and nuclear technology. This is meant the primary intended effects of the sanctions are on the government with unavoidable secondary costs on the population of Iran. The structure of the Iranian economy is highly centralized in the sectors targeted by US sanctions. Military and nuclear embargoes are obviously aimed at the military institutions of the regime. The targeting of the energy sector is intended to deny the main source of funding to the regime. The changing dynamics within the Iranian economy clearly highlight the challenges associated with sanctioning the Iranian regime. There are three unique factors in this regard.

The first factor is the dominant position of the *bonyad*, a charitable conglomerate, which was created by the regime after the revolution as a means for managing the large state-run economy of the Shah through the theocratic structure of the new government. These bone jobs or large corporate like entities that make up roughly 30 to 40% of the economy. *Bonyads* are, in principle, separate from other SOE's, but are highly political entities. Though their initial duty is to provide aid to the impoverished in Iran, over the course of the years since the revolution they have become powerful economic institutions. The charitable conception of the *bonyad* provides unique economic opportunities that make targeting these institutions difficult for sanction regime. First, *bonyads* are not subject to the laws of normal economic discourse; second, *bonyads* are exempt from oversight by the Iranian Parliament and executive administrations and are answerable only to the supreme leader. The lack of transparency, allows the Iranian regime the ability to deflect the costs of sanctions from the public. The lack of transparency also makes targeting entities owned by *bonyads* difficult is the ownership and function of these companies are not part of the public record. *Bonyads* also present the ability to create and remove companies unhindered by governmental economic regulations. The *bonyad* system provides a valuable resource for avoiding the efforts of targeted sanctions by providing a smokescreen outside of the observable economy.

The second institution is the IRGC, a branch of the Iranian military that was initially charged with ensuring the survival of the Islamic theocracy and enforcing its laws. Today, the IRGC has over 100,000 active members and is one of the largest economic organizations in the country. The reasons for its rise as an economic power are similar to those of the *bonyad*. Initially, the IRGC was established after the revolution as a check on the Shah's army. This sensitive domestic role was directed under the auspices of the Ayatollah Khomeini. The IRGC was granted extralegal status similar to that of the *bonyads* and was not subject to governmental oversight. The reforms instituted after the Iran-Iraq war allow the IRGC to acquire business holdings as a means of meeting its budget. Over the last 15 years the economic strategy has provided political power as many prominent positions in the Iranian regime are now held by former and current IRGC members. The status of the IRGC is an economic and military institution combined with the extralegal position within the society raises significant challenges for sanctions policy. The US leaders can target the leadership of this group in its intentions to enact punitive economic efforts it is still faced with the inability to determine whom that leadership delineates its objectives. Operating outside of an already obtuse, centralized economic system has aided the regime in building its nuclear and missile programs which are under the direction of the IRGC.

The third major factor in the difficulties in sanctioning Iran is the presence of vast energy resources. In the two other comparisons of US comprehensive sanction regimes, Cuba and North

Korea, the influence of oil wealth is obvious. Both Cuba and North Korea, while having maintained a determined policy of opposition in the face of sanctions, have also been severely encumbered in their economic development. Iran, although not a bastion of development, does enjoy an enviable position of having a GDP nearly 10 times that of Cuba and 20 times that of North Korea. Indeed, oil revenue alone in Iran surpasses the combined GDP of these countries. The value of having a highly fungible and valuable commodity in subverting the effects of sanctions is paramount in helping explain why Iran is such a difficult target to sanction.

In the context of the *ESR* conditions for successful sanctions, oil wealth presents considerable obstacles. If denying the Iranian regime the benefits of its oil trade is a paramount objective of US sanctions, then it would require the participation of a majority of the developed economies. Hence, it fails the recommendation of requiring a limited number cooperating countries to implement the regime. The importance of oil for the modern economy cannot be easily offset without significant cost to the sender's of those sanctions. The incentives created by an insufficiently constructed oil embargo for third party states not participating in the sanction regime enjoy a privileged negotiating position with the target; as sanctions tend to reduce the price of a target's exports. Given the vastness of Iran's oil supply and its high value, both parties still gain in the transaction. All of this is evident in the difficulty in gaining multilateral support for US sanctions as Iran has had limited trouble in finding alternate buyers and investors. EU members' investment and purchases in Iranian oil have fallen since the ILSA only to be replaced by the rise of the Chinese and Indian economies. The vast trade in oil also provides Iran with a considerable amount of foreign exchange which can be used to facilitate its participation on the international markets for clandestine procurements of sanctioned goods.

All of these factors present the US sanction regime against Iran in a unique position of facing the possibility that sanctions may not succeed in isolating the regime, but hinder its potential for development. With the strategic importance of Iranian oil supplies, the extreme demand for those resources and the ability of the burgeoning super powers to strike better deals with an Iran under sanctions than with other suppliers the current ineffective stalemate will likely continue. Iran, it seems, is able to succeed in avoiding the full effect of US sanctions just enough to continue its current foreign and nuclear policy.

CHAPTER FIVE: CONCLUSIONS

In the end the failure of the US sanction regime has been the inability to gain the political cooperation to effectively isolate the Iran and impose the costs necessary to succeed. US policymakers have understood that an expansive multilateral sanction regime was what was necessary to bring the largest amount of costs to bear on the Iranian regime. The failures of US policy are complicated when given the political context for each wave. The first wave of sanctions was intended to resolve the hostage crisis negotiations, but could not garner the support of its allies to succeed in a timely fashion. Reagan's strategy was to ensure a stalemate in the Iran-Iraq war and to keep Iran from procuring the military means of succeeding to spread its interpretation of militant Shia liberation in Lebanon and elsewhere. Here, the sanctions regime was playing a more nuanced and less ambitious coercive agenda. In the final round of sanctions during the first wave that followed the cease-fire of the Iran-Iraq war the US turned to further the military embargoes and extend provisions to keep a recovering Iran from acquiring nuclear capability.

The continuation of the principles laid down towards the end of the first wave and into the early years of the Clinton administration were ill-equipped to respond to potential diplomatic breakthroughs in the US-Iran relationship. The potential for such deals did exist, but such a diplomatic rapprochement would have required time to develop the adequate amount of trust necessary to begin dismantling the US sanctions regime. The more ardent opponents of Iran in the US are unwilling to run the risk of a potential betrayal, or having the good faith extended by both parties ruined by some unforeseen factor and resulting in a stronger Ian as a consequence.

By the enlistment of the U.S. Congress the Hawks won the policy debate within Washington and Clinton was forced to adopt the ILSA provisions that would dominate the US sanction regime for the next 10 years.

With the passage of the ILSA, the strategy of the US sanction regime was now rededicated to the use of economic coercion as a means of altering Iranian behavior. Congressional leaders understood the past failures of the US sanctions were their inability to build a large enough coalition in imposing costs on Iran. Now, the US brought its coercive measures to bear on its allies. The logic of this is similar to that of the studies of Early (2010) where he observed that states most likely to engage in sanction busting trade are those states aligned with the sender. The US, in seeing the duplicitous nature of European and Japanese firms' continued economic dealings with Iran, essentially sought to sanction its allies for failing to cooperate with US wishes. Strangely, this also mirrors conditions set forth by ESR where friends are more likely to comply to a sender's demands then enemies. Since the deals reached by the Clinton administration to exempt European firms that occurred around the passage of the ILSA the involvement of Western firms in the Iranian economy has reduced.

This is a result of both the ILSA and the cooperation between European and US leaders in the post Sept. 11 security structure. The change in priorities for European leaders following the continued antiterrorist lobbying of the Bush administration did result in the desired outcomes of the architects of the ILSA regime. However, the value of the Iranian energy reserve and the rise of the Asian economies soon fill the gap left by exiting European and Japanese firms. Ironically, the source of this glut in funds during the Chinese economy was funded in part by the US trade imbalance and budget deficits throughout the 2000's. While Hawks in the US could celebrate a victory in removing a major source of necessary investments in the Iranian energy sector the relative keys with which Iran was able to procure its replacement provided the impetus for the third wave of sanctions. The initial break of European duplicity in dealing with Iran by the ILSA regime made these further efforts possible by reducing the cost for the Us and its allies in eliciting cooperation for the expanding sanctions.

The continuation of the US strategy to rely so heavily on economic coercion will require a similar break from the Asian powers of China and India. Both of these nations are now poised to be the largest purchasers and investors in Iran's energy sector. The historical pattern of Iranian sanction busting surrounding its energy sector is primarily due to the value of its vast energy resources. The motivation of countries willing to renounce US calls for sanctioning Iran are based in a larger debate surrounding international relations. Our sanction busters actively attempting to subvert the strategic dominance of US power by soft balancing against the US? Or, are sanction busters simply responding to the demands of their own domestic economies and the incentives created by the US sanction regime? Evidence from the quantitative studies covered in the study suggests the latter position is predominantly the best explanation. Reality, however, is more complicated than a single theoretical argument.

Were the value of the sanctioned good not so high the US efforts at isolating Iran would have been more successful. It should be said that this does not mean that US desires to change Iranian foreign-policy would have a guaranteed of success. In examining the target state's ability to sanction bust the primary factor is that it must find willing partners to trade with, or be willing to endure the difficulties of near total economic autonomy. Target states with the means to coerce its allies or with something of value to offer them have the greatest ability to find sanction busting partners. Power, as realized here, reflects the target's ability to use its economic assets and position in the global economy in order to gain allies willing to go against the sender's sanction regime. The target, if faced by a moderately competent sanction regime, will incur some costs that leadership has already accepted as necessary to continue the policies as it sees in its national interest. Sanction busting is the policy of every target that chooses stalemate instead of yielding to the sender. The more powerful and successful the target, the longer it can resist.

For Iran this resistance has centered on several strategies. The first wave of sanctions began with the highly specified context of the hostage crisis. Occurring after the Islamic Revolution the US was faced with a new Iranian leadership that had previously committed itself to cutting off its ties to the West. By the time US sanctions were imposed in November 1979 it was as if Iran had already begun a strategy of self imposed economic independence to counter the loss of trade. The lack of multilateral support and an eager USSR provided Iran little difficulty in modestly diversifying its economic relations and countering the loss of goods and services from US sanctions. It was only after the invasion by Saddam Hussein and the recognition of Iranian leaders that its financial position regarding the US asset freezes and finical sanctions necessitated compromise with the US. In the years during the Iran-Iraq war a reengaged US sanction regime sought to limit the availability of military goods to Iran in order to ensure a favorable geopolitical outcome. Following the war, sanctions imposed to deny Iran the direct export of its crude to US markets were undercut by the ability of US firms to import the refined crude products and required only basic measures to counter.

The second wave of US sanctions sought to end the leniency of previous unilateral sanctions in the first wave and expand its multilateral efforts to deny Iran a free hand in developing its energy sector. The ILSA regime sought to gain multilateral support by imposing secondary sanctions on firms and states that invested in the Iranian energy sector or aided its military and nuclear programs. In this case the Iranian strategy was aided by several preliminary factors. The process of passing the Congressionally mandated sanctions occurred over several years, this allowed Iran with plenty of time to observe the content of the sanctions and begin planning a policy to adjust. The upheavals of European and Japanese firms in response to the ILSA regime delayed the effects of the secondary sanctions and were further mitigated through the exemption process whose negotiated resolution occurred several years after its imposition. While the initial ban on US firms from purchasing Iranian crude did impose some short-term costs the value of the commodity was easily sold to purchasers outside the ILSA regime.

The inability to efficiently roll out the ILSA sanction regime and the combative nature towards US allies removed the strategic shock to the Iranian economy. Iranian leaders began to court alternate markets for its highly valuable energy sector and reduced the efficacy of the sanctions by maintaining economic relations with most of its European trade partners. While Iran faced an initial shortfall of investment capital in the years following the full imposition of the ILSA regime, these costs were eventually replaced as new relationships were established. The replacement strategy has exploited inability of the US to coerce participation in the ILSA regime. Firms in Russia, China, India and Indonesia with few or no ties to the US economy began to respond to the vacuum left from the slow removal of European, Japanese and South Korean investors in Iran's energy sector. The result for the ILSA regime has been primarily in costs associated with the delay in development by having to establish new economic ties.

The third wave of sanctions have sought to constrain the ability of Iran from engaging the the global economy. Initially the US expanded its newly created security structure involving the finances of terrorist groups to inhibit Hamas and Hezbollah from cooperating with and receiving aid from Iran. In building off this initial structure the US marshaled the necessary political capital to enact the first UN sanctions on the Iranian nuclear and missile program. These sanctions have primarily sought to restrict the capability of Iran, rather than impose significant costs. While cooperation among European banks in implementing the anti-terrorist financial sanctions has been effective Iran is still capable of maneuvering around this structure by implementing alternate financial relationships to fund Hamas and Hezbollah. Iranian leaders have used the high demand for its energy resources as the primary means of establishing an alternative market for its sanction industries. As the US has denied Iran the ability to freely use Western dominated financial structures and institutions, Iran has formed direct trade deals with Chinese, Indian and other firms through subsidiary conduits in regional financial centers. Often based in outside the Western dominated financial structure, such as the UAE, Kuwait, India, Hong Kong and Singapore, these large banking institutions now have the means to handle the large transactions associated with securing sovereign transfers of energy resources. It has been the rise of the Asian economies in the last decade and their ability to offer as a viable alternative to the Western financial structure that has corresponded with the expansion of the US sanction regime in gaining European cooperation.

The US has also faced difficulties in bringing sufficient pressure on the leadership of Iran. Directing the impact of sanctions on the target's ruling elite is a major factor in bringing the requisite pressure for a solution viable to the domestic politics within the state. Iran presents several difficulties in this regard. While it is not controversial to classify Iran as not being a democracy, there is difficulty in placing Iran directly in the authoritarian category as well. the myriad of factions within Iran compete in a much more dynamic and fluid manner than simply being dominated by a single leader or tightly bound oligopoly. The rise to power of the IRGC does demonstrate that the conception of Iran as being dominated by any single actor is simply not accurate. The highly centralized economy that is lacking in Western traditions of transparency combined with the inability of US policymakers to determine the structure of the political power in Iran make identifying which groups to pressure difficult to target. High levels of political animosity between the US and Iran means that any attempt by the US that appears directed at aid a domestic faction in Iran would damage the domestic credibility of any potential allies. With the initiation of the third wave of sanction US leaders turned to a strategy of targeting members and institutions of the Iranian domestic structure that they knew they wanted to punish rather than selecting targets that potentially threaten the domestic factions the US would like to see come to power. This has primarily served to limit the acquisition of nuclear and missile technology while also intending to restrict the power of those targeted as well.

Further Research

This study has undertaken and evaluation of the US sanction regime against Iran to highlight its weaknesses and gain a preliminary understanding of the means sanction busting available. This has primarily been constructed on the relationship between the two states within a sender/target dynamic. To expand the implications of this analysis several further steps must be taken. First, is to expand the theoretical implications for third party actors along a state-based and firm-based analysis. Several studies have examined the incentive structures surround the various types of sanction regime and will provide a valuable resource in expanding a model of sanction busting (Shambaugh 1999; Rodman 2001; Bapat and Morgan 2003). Expanding on the third party dynamic would require an accounting of the immediate regional concerns for the target and the sender. Is the sender geographically close to the target? Is the target a dominating presence in the regional power structure? What is the size of the target's economy in relation to its regional neighbors? Questions such as these have often been overlooked in the quantitative study of sanctions as bargaining games. In developing a model of sanction busting the regional context of the target is important for both the target and sender in gaining potential allies either for or against the sanction regime.

Next, this study also focused primarily on a state-based analysis for US sanctions and the formal response to that policy in sanction busting. In constructing a full analysis of sanction busting informal methods must be factored into the model. This presents several difficulties. By its very nature informal methods are hidden from the normal conduct of established international trade. Thus, measuring and modeling the means, size and scope of a sanction busting policy using informal methods would be difficult to establish in methods similar to analyzing formal methods. In order to accomplish this several interdisciplinary resources will be required to draw upon. The economic literature that has studies illicit economies would be necessary to establish the incentive structures of smuggling physical goods and various financial based crimes, i.e. money laundering and offshore tax havens (Gup 2007; Costigan and Gold 2007). Sociological studies involving the structure of such groups and the likelihood of gaining participants would help identify the potential for a target in gaining support for informal sanction busting missions.

In completing the picture of the target in facing a sanction regime the primary focus of the literature has ignored the basic strategic circumstances of the counter-strategy of sanction busting. Often studies simply assume that most target will seek alternate markets for sanctioned goods and third party states will reap the benefits of having a dominant negotiating position. What is lacking is a formal understanding of the possible responses of the target and the conditions that determine the context facing the target. While the impressive body of scholarship in addressing economic sanctions has yielded significant advances in the construction of policy the lack of a formal understanding for the target's context does reflect that the investigation into economic sanctions is not over.

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