

**CNMS**

مركز الدراسات الشرق أوسطية  
مركز پژوهشهای خاورمیانه



**LONDON  
MIDDLE EAST  
INSTITUTE**

SOAS University of London

## **Common Fallacies of Economic Sanctions: Lessons from the MENA Region**

**Dr Hassan Hakimian**

**Director – London Middle East Institute, SOAS**

**CNMS, Philipps-Universität Marburg**

**4 June 2019**



## Outline

---

### 1. Understanding Sanctions

- a) Context
- b) Features

### 2. Common Fallacies

### 3. Iran Sanctions

- a) Impact
- b) Response

### 4. The Qatar Blockade

- a) Impact
- b) Response

### 5. Sanctions – MENA Lessons

---



## Economic Sanctions – Neither War Nor Peace?

---

- In international relations conflict between nations is generally conceived in binary terms: war or peace.
- Sanctions fall in between the two extremes but are capable of causing as much if not more damage.
- Hence they have been likened to:
  - **Carpet bombs**
  - **Murder**
  - **Economic warfare**
  - **Economic Terrorism**
  - **Weapons of Mass Destruction!**



## The Sanctions Armoury

---

- Military blockade
- Arms embargoes
- Restrictions on admission of listed persons (travel ban)
- Freezing of assets (persons or entities)
- *Economic* sanctions, more specifically:
  - Blockading the Central bank
  - Assets Freeze
  - Trade sanctions
  - Financial Sanctions
- Economic sanctions are **Economic tools** used to force a change in the behaviour of a target country

## Sanctions on the Rise

---

- The use of economic sanctions to achieve international political objectives has been on the rise in the past century.
- **1990-99**: 66 sanctions (over 7 each year)
  - Of these two-thirds are US sanctions
  - During the Clinton administration alone 35 US sanctions affecting 2.3 billion people worldwide (42% of the total population)
  - Currently, the US has nearly 8,000 sanctions in place worldwide – with Iran by far the harshest state target
  - **Russia** too has sanctions against Georgia, Moldova and Ukraine
  - **China** uses them against Japan and the Philippines over maritime disputes.



## UN Sanctions

---

- **Article 41, CHAPTER VII:** action with respect to threats to the peace, breaches of the peace, and acts of aggression:
  - The Security Council may decide what **measures not involving the use of armed force** are to be employed (international law)
  - These may include **complete or partial interruption of economic relations** and of rail, sea, air, postal, telegraphic, radio, and other means
- Since 1966, 30 such sanctions regimes:
  - Mostly against states (Southern Rhodesia, South Africa, the former Yugoslavia (2), Haiti, **Iraq** (2), Angola, Rwanda, Sierra Leone, Somalia and Eritrea, Eritrea and Ethiopia, Liberia (3), DRC, Côte d'Ivoire, **Sudan, Lebanon, DPRK, Iran, Libya** (2), Guinea-Bissau, Central African Republic (CAR), **Yemen, South Sudan** and Mali,
  - And non-state entities (Da'esh, Al-Qaida and the Taliban).



## Sanctions – Big Boys’ Game?

---

- **The great majority of sanctions are imposed by large countries against smaller nations.**
- It is thus fanciful to expect Luxembourg to impose sanctions against Germany or San Marino against Italy!
- In 80% of cases ‘Sender’ > Target more than 10 times
- In 50% of cases Sender > Target by 100 times
  - **KSA + UAE + Bahrain + Egypt GDP = US\$1,363 billion = almost 9 times Qatar’s GDP (\$153 billion, 2017)**
  - **US+EU = 40% of World GDP; Iran = 0.5% so 80 times**



## **‘Success’ – The Determinants**

---

1. **Relative size of sender and target**
2. **Trade linkages**
3. **Type of Sanctions**
  - **Trade sanctions**
  - **Financial Sanctions**
  - **Assets Freeze**
4. **Economic health and political stability in the target country**
  - Ironically perhaps, successful sanctions are associated with relatively more accountable and democratic regimes – not so with dictatorial regimes.





## 'Success'? – A Benefit-Cost Approach

---

**Mechanisms** bringing about change:

1. **Hardship** → rebellion/revolt or social implosion → regime change
2. **Regime caves in to pressure** → change of behaviour

### 1. 'Benefits' - The real objective/s?

- **Explicit vs implicit**
- **Varied in nature:** nuclear non-proliferation (Iraq and Iran) to respect for human rights (Myanmar); counterterrorism ( Hamas and Al Qaida) or even limiting conventional weaponry (Iran's ballistic missiles test)
- **Regime change** is often an unstated, implicit or real objective.

### 2. But what costs?

---



## Costs

---

### Do means justify ends? (Examples from Iraq)

- **Direct or explicit costs** (easier to quantify)
    - In Iraq, GDP per capita slashed by 72% 1990-92 and then again by 51% 1992-96
    - Severe damage to physical and social infrastructure
    - Infant mortality doubled 1990-98
  - **Hidden costs:** fanning sectarianism as the Baathist regime justified the annihilation of civil society institutions
  - **Unanticipated outcome:**
    - Anarchy and chaos
    - Failed states?
-

## Sanctions – Seven Fallacies

---

- No 1:** Sanctions are generally presented as alternatives to war
- No 2:** Widespread belief that “if sanctions are hurting they are working”
- No 3:** Sanctions are smart and operate in a discriminate fashion



## Sanctions – Seven Fallacies (cont'd)

---

**No 4:** Sanctions promote human rights

**No 5:** Sanctions are necessary and effective for regime change

**No 6:** Sanctions weaken the target government (the public sector)

**No 7:** Sanctions are effective against nuclear proliferation.

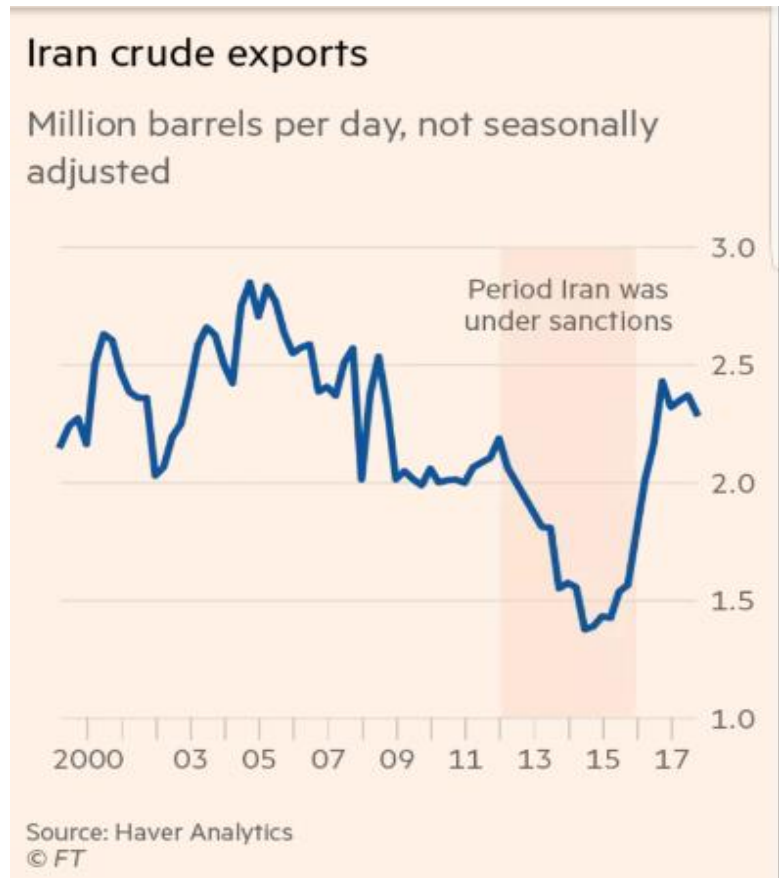
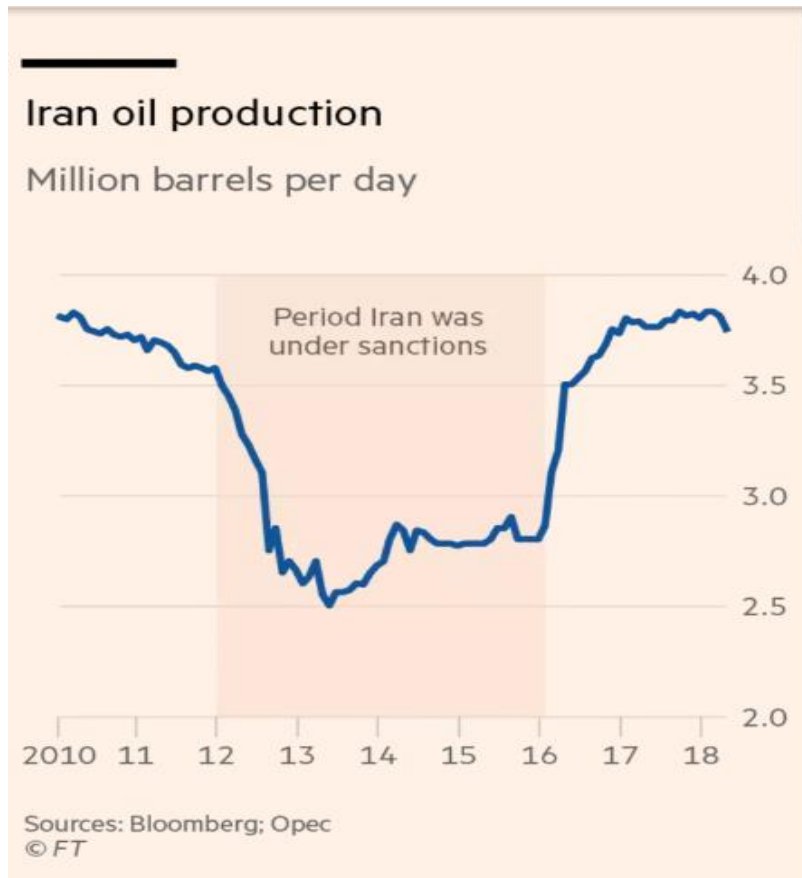
## Iran Sanctions – An Overview

---

- The first US economic sanctions in April 1980 after the hostage crisis of 1979-81.
- The **Iran Libya Sanctions Act (ISLA) in 1996** against new oilfield investments in Iran.
- Renewed in 2001 **Iran Sanctions Act - ISA**
- UN sanctions and the US and EU unilateral sanctions (2010-15)
- Nuclear Deal 2015
- Trump's sanctions again after 2018.



## Iranian Oil and Sanctions





## Iran Sanctions (2010-15) – Impact

---

- Sanctions contributed to ‘stagflation’ in Iranian economy after 2011
- Collapse of currency in late 2012
- Difficulties with exports of oil and payment for essential imports
- Private sector failures and low capacity utilisation
- Escalating inflation and unemployment
- Ironically, sanctions encouraged centralising and enlarging the public sector and the *Bonyads*.



## Iran Sanctions: the latest Round (2018-)

---

- Similar effect: ‘stagflation’
  - Growth collapsing to -6% this year
  - Inflation estimated at about 37%
- Collapse of currency
- Difficulties with exports of oil and payment for essential imports
- Private sector failures and low capacity utilisation



## Impact of Trump's Sanctions

---

- Although the US sanctions are comprehensive from the US side, they lack international support both legally and morally
- Maximum pressure → maximum resistance
- EU official support for JCPOA but little private sector appetite for antagonising USA
- In recent weeks, major military build up and escalating rhetoric
- **Will the two sides get back to negotiations?**
  - Recent softening of rhetoric (The US hinted at dropping its conditions)
  - Internal Iranian political landscape hard to navigate!



## The Qatar Blockade

- Impact
- Response



## Characteristics

---

Fits a classic model to achieve political aims...

### Stated Reasons:

- Stated in a 13-point list of demands by the blockading countries.
- Later revised to 6 principles including: fighting terrorism, rejecting financing and safe havens to terrorist groups, ending provocation of violence, and abstaining from meddling in the internal affairs of other countries.

### Unstated Reasons?

- A reminder that stated reasons cannot always be taken at face value...

### Mechanism:

- Severing diplomatic ties, ordering Qatari expats to leave their countries, banning own citizens from travelling/residing in Qatar (except for Egypt), advising own banks against trading with Qatari banks and in Qatari Riyals and cutting air, sea and land travel.
-

## Bruised but Coping?

### Trade and Trading Routes

---

#### Before

- 40% of Qatar's food supplies came through its only land boarder with Saudi Arabia.
- One of Qatar's primary feeder routes is Jebel Ali Port in UAE, the largest port in the Middle East.
- Qatar provides Dubai with 80% of its power supply and 40% of the UAE's total power supply.
- Most Qatari exports are to East Asian countries including natural gas, oil, and petrochemicals.

#### After

- Diversified towards Turkey, and to a lesser extent Iran, especially for food through air and sea.
  - Qatar has re-routed its supply-chain from Jebel Ali to the Omani ports of Salalah and Sohar.
  - Qatar continues to supply the UAE with natural gas after the blockade while preparing for legal actions with the WTO.
  - Qatar's government has stated that exports to East Asia have remained unchanged.
-



## (Hidden) Social Costs – Often Overlooked

---

- Surge of **nationalism**: what started at the higher political levels has quickly spread to civil society and individuals (seen widely in acrimonious exchanges in social media and popular arts)
  - Setback to **civil rights** (criminalising sympathy for Qatar)
  - Thousands affected by the blockade with **families stranded** on both sides of the border
  - Impact on **immigrant workers** is especially harsh if caught up in the employment dispute
  - Has widened and stretched **identity crisis** along nationality lines within the GCC family.
-



## A Blessing in Disguise in the Long Term?

---

- To argue sanctions are actually beneficial for the receiving country overlooks hinderances and costs, which can be substantial.
- But they also signal the need for diversification: before we used to talk about this in sectoral terms in oil-economies, now we are reminded of the need to diversify away from powerful neighbours!
- The end of GCC in its present format?



## MENA Lessons (1)

Fallacy	Iran	Qatar
1. Alternatives to war	Increasing military build up and rhetoric	There were early signs of possible military intervention
2. If they are hurting they are working	High social and economic costs	High economic and <b>social</b> costs
3. Are sanctions smart?	Collective punishment	Collective punishment

## MENA Lessons (2)

Fallacy	Iran	Qatar
4. Human rights	Worse under sanctions	No deterioration but more sign of adopting best international practices
5. Regime change	No sign	The opposite: rallying around the ruling family
6. Weakened the government?	Hardliners strengthened	Was and remains strong
7. Nuclear no-proliferation	Ongoing US accusations; Iran continues to comply with JCPOA.	N/A