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US SANCTIONS AGAINST IRAN: IMPLICATIONS FOR THE ISLAMIC REPUBLIC AND BEYOND

Abstract

The Iranian nuclear crisis is one of the major issues debated in international politics. The USA and its allies think that a nuclear Iran would be catastrophic for regional and global security. They fear that the nuclear Iran would threaten their interests in the region. The Iranian government denies any kind of its ambition for nuclear weapons. At the same time, the country is not eager to give up its plan for enriching uranium in its nuclear plants. The International Atomic Energy Agency (IAEA) did not yet confirm that Iran bears a plan for nuclearisation, but the organisation finds anomalies in the Iranian nuclear plants. The USA and its allies emphasise that the way Iran is progressing, it has all the potentials for producing nuclear weapons. Hence, they have imposed sanctions against Iran to weaken the country economically as well as politically. The USA says that the objective of sanctions is to prevent Iran from nuclearisation. But, Iran considers it as a conspiracy against the Iranian government and the state. Against this backdrop, the paper attempts to understand the underlying objectives of sanctions by the USA and the West against Iran, and to evaluate the effectiveness and the implications of those sanctions. The paper discusses theoretical debates in International Relations about the success of sanctions. It evaluates the domestic, regional and global implications of sanctions relating to Iran. At the end, the paper tries to depict the future directions of Iranian nuclear crisis and the challenges for the West to deal with the Iranian nuclear issue.

1. Introduction

The Iranian nuclear issue remains a critical debate in international politics for the last one decade. International community has taken up the issue with sincerity and the International Atomic Energy Agency (IAEA) is keen to unearth nuclear capabilities of Iran. The objective is to prevent Iran from producing nuclear weapons. The USA, Israel and the Gulf countries are concerned that if

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Iran acquires the capability to produce nuclear weapons, it would be catastrophic for the security of the region. On the other hand, Iran emphasises that its nuclear programme is only for energy and medicinal purposes. The leadership of Iran also announces that they believe the production of nuclear weapons would not be of any benefit to Iran and it is also against Iranian national interest.¹ However, besides the USA and its military allies² in international politics, China and Russia are also not interested to allow Iran for producing nuclear weapons. Russia and China differ with the USA about the process of dealing with Iran. They emphasise more on negotiations. But the USA thinks that to prevent Iran from producing nuclear weapons, a substantive pressure on Iranian regime by imposing economic sanctions is essential. If sanctions do not work, the USA does not root out the possibility of military attack. However, what does the USA really want from Iran is not clear yet. Does the USA want to prevent Iran from acquiring nuclear weapons only? Does the USA want to reform the Iranian regime? Or, does the USA want to change Iranian regime? On the other hand, Iran also fails to convince international community about its nuclear programme. The report of the IAEA implies that Iran may be eager to obtain nuclear weapons; it finds contrasts between what Iran says and what it does. As a signatory of the Nuclear Non-proliferation Treaty (NPT), Iran has the right to enrich uranium for peaceful purposes, but, it has to be under the surveillance of IAEA.

The IAEA has long expressed concern about Iran's nuclear programme, but its latest report lays out the case in much greater detail than before.³ Drawing on evidence provided by more than ten member states as well as its own information, the IAEA says that Iran had carried out activities "relevant to the development of a nuclear explosive device". It says that some of these activities could only be used to develop nuclear weapons, though it did not say that Iran had mastered the process, nor how long would it take for Iran to make a bomb. There are some allegations that are listed openly for the first time, including the claim that Iran has used computer modelling on the behaviour of nuclear device. The USA and Israel, basing on their intelligence sources, are claiming that Iran is keen to develop nuclear weapons. The Israeli foreign minister Ehud Barak thinks that without military attack, it would not be possible to prevent Iran from nuclearisation. On the other hand, Iran blames the IAEA that the organisation is not showing respect to the sovereignty of Iran and denies the rights of Iran to use nuclear power for peaceful purposes. The country also blames that the IAEA is influenced by the West to propagate against Iran and the organisation is serving the interest of the USA and Israel in the region.

¹ "Nuclear weapons are a sin, says Iran's Ayatollah Ali Khamenei", *The Nation*, UAE, 23 February 2012.

² The member countries of the North Atlantic Treaty Organization (NATO).

³ The report was published in November 2011.

On 31 December 2011, the US President Barack Obama signed *National Defense Authorization Act (NDAA) 2012*, which, among other things, expanded the US sanctions on the Central Bank of Iran⁴. On 5 February 2012, the President issued the Executive Order 13599, implementing some of these provisions, including freezing of the assets of the Central Bank of Iran and the property or interests of all Iranian financial institutions. These new sanctions were the culmination of an intense campaign by a large bipartisan coalition in the US Congress that had been calling for measures to “collapse”⁵ the Central Bank of Iran, an institution involved in a wide range of Iranian energy sector, as well as ‘financial support for terrorism and nuclear proliferation’. However, till now it is the toughest sanction against Iran since the beginning of Iranian nuclear crisis. The sanction is an extension of the existing sanctions already imposed by the UN. The sanction bears a special significance, because, if it fails to contain Iran from the nuclear programme, there would be limited options for international community except military measures.

In this respect, the main objectives of the paper are to understand the implications of the US sanctions against Iran in the internal levels of Iran, and in the regional and global arenas. The paper is divided into six sections including introduction and conclusion. Section two contains theoretical debates about the effectiveness of sanctions in International Relations. Section three elaborates the objectives of the US sanctions against Iran. Section four tries to assess the internal impacts of sanctions in the Iranian energy sector, economy and domestic politics. Section five focuses on the regional and global implications of sanctions against Iran. The conclusion is an assessment about the effectiveness of sanctions against Iran and the dynamics of international politics in this regard.

2. Sanctions in International Politics: A Theoretical Debate

After the end of the Cold War, economic sanctions have emerged as frequent phenomenon in international politics. The increasing influence of the USA in the global affairs enabled the country to impose sanctions against the countries those are not following its directions. Moreover, the USA exploits the United Nations Security Council (UNSC) to legitimise its global activities. The UNSC voted in favour of economic sanctions twelve times in 1990s. Before that, between 1945 and 1990, the UN imposed sanctions only two times.⁶ Article 41 of the Chapter VII of the UN Charter authorises the UNSC to impose sanctions, if the UNSC thinks that a country is threat to global peace. Being a super power, the USA is

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⁵ Josh Rogin, “KIRK: Time to Collapse the Central Bank of Iran”, *The Foreign Policy*, 11 October 2011, available at <http://the.cable.foreignpolicy.com/posts/2011/10/11/kirk-time-to-collapse>, accessed on 26 May 2012.

⁶ David Cortright and George Lopez, *The Sanctions Decade: Assessing UN Strategies in the 1990s*, Boulder: Lynne Rienner Publishers, 2000, p. 4.

alleged for manipulating the UNSC to impose sanctions against Yugoslavia in 1990s.

Nevertheless, sanctions by a powerful country against a weaker one are not new in international politics. The classic history of the Peloponnesian War by Thucydides, for instance, describes a trade boycott imposed by Athens on Sparta's ally Megara in 432 BCE, which was widely believed to have caused the Peloponnesian War. The US President Woodrow Wilson supported sanctions as a "peacefully silent, deadly remedy as an alternative of using military force."⁷ During World War II, the USA sponsored fuel and steel embargo against Japan. It is viewed that the embargo instigated Japan to attack Pearl Harbour in 1941. In the contemporary world, the sanctions against Iraq and Libya are well known. In both cases, international community failed to avoid war. In addition, the violation of human rights and sufferings of the general people disputed the objectivity of sanctions.

Sanctions are based on assumptions that political power is directly proportional to economic condition. If a government fails to manage economic activities, certainly it will fail to run the country. The sanctions will make the regime isolated from international relations compelling the government to negotiate with international community. The greater the economic pain caused by the sanctions, the higher the potentiality of political compliance. Another assumption is that the people of the affected country would raise their voices against their government and force the government to change its policies. Nevertheless, such assumptions have been challenged by many theorists. They opine that the economic affairs do not influence a government, particularly when a government is authoritarian in nature. Moreover, economic hardship forces the government to create fear among its own people for its political and economic stability. Hence, it remains a theoretical debate whether sanctions "work" to change a "policy" of a government. There are three different schools of thoughts on the issue: "Sanctions don't work school", "Sanctions work school" and "Sanctions as symbolic approach school."

Sanctions don't work school

Johan Galtung is the proponent of the "sanctions don't work school." He criticised the assumption that economic sanctions can initiate political impact. He termed such assumptions as "naive political theory." He opined that economic sanctions do not necessarily translate into political impact because there is no direct "transmission mechanism", by which social sufferings can be

⁷ Hamilton Foley, *Woodrow Wilson's Case for the League of Nations*, Princeton: Princeton University, 1923, cited in Joseph J. Collins and Gabrielle D. Bowdoin, *Beyond Unilateral Economic Sanctions: Better Alternatives for U.S. Foreign Policy*, Washington D. C.: Center for Strategic and International Studies (CSIS), 1999, p. 8.

transmitted into political sufferings.⁸ He studied the UN mandated sanctions against Rhodesia in response to that country's 1965 Universal Declaration of Independence from the United Kingdom. He concluded that "the probable effectiveness of the economic sanctions is, generally, negative."⁹ He identified three causes of why sanctions do not work:

- Any type of attack from outside the country is considered as an attack to whole nation, not only to the incumbent regime;
- The countries that impose sanctions are considered as enemies to the whole nation of the targeted country; and,
- The people of the targeted country feel better to join with their government to secure the sovereignty of their country.

Galtung also questioned the universal application of sanctions. Some of the countries may not agree on imposing sanctions on a particular country and it may help the targeted country to diversify its imports and exports. In addition, the sanctions can motivate the country to be "self sufficient", to survive for a long time.

The critics point out that Galtung's assessment was made four decades ago. Within this time, global political and economic order has changed a lot. Doxey¹⁰, Losman¹¹, Pape¹², Hass¹³, and Wood¹⁴ have made new assessments in this regard. According to them, the interests of the leading economies are divergent. Hence, the cooperation among them is not easy. Moreover, the geo-political and geo-strategic interests are divergent in the contemporary world, and the feelings of nationalism often motivate people to take a bit pain to face the impacts of

⁸ David Cortright and George A. Lopez, "Sanctions and Incentives as Tools of Economic Statecraft," in Raimo Vayrynen (ed.), *Globalization and Global Governance*, Maryland: Rowman & Littlefield Publishers Inc., 1999, pp. 114.

⁹ Johan Galtung, "On the Effects of International Sanctions: With Examples from the Case of Rhodesia", *World Politics*, Vol. 9, No. 3, 1967, p. 409.

¹⁰ Margaret Doxey, *Economic Sanctions and International Enforcement*, London: Oxford University Press, 1971.

¹¹ Donal L. Losman, *International Economic Sanctions: The Case of Cuba, Israel and Rhodesia*, Albuquerque: University of New Mexico Press, 1979.

¹² Robert A. Pape, "Why Sanctions Do Not Work", *International Security*, Vol. 22, No. 2, 1997, pp. 90-136.

¹³ Richard N. Hass, "Sanctioning Madness", *Foreign Affairs*, Vol. 76, No. 6, 1997, pp. 74-85.

¹⁴ Reed M. Wood, "A Hand upon the Throat of the Nations: Economic Sanctions and State Repression, 1976-2001", *International Studies Quarterly*, Vol. 52, No. 3, 2008, pp. 489-513.

sanctions. People become more conscious about the sovereignty and integrity of the country. They argue that impacts of sanction fail to create problem, but it creates more suffering for the ordinary people. It also deteriorates the human rights condition of a targeted country.

Sanctions can work school

The school is known as Gary Hafbauer, Jeffrey Schott, and Kimberly Elliot (HSE) approach. HSE has collected the most comprehensive database of economic sanctions.¹⁵ It was broadly used by theorists like George A. Lopez and David Cortright¹⁶, and Joseph J. Collins and Gabrielle D. Bowdoin.¹⁷ They argue that sanctions are effective under some conditions: a) the goals of economic sanctions have to be modest. For example, to pressure a country for changing any specific policy, it would not be a part of the countries' national sovereignty and integrity. Compliance of the conditions of sanction would not be a challenge to the regime in power. However, if sanctions try to change the regime, the school thinks that sanctions would not be effective in that case; b) targets of sanctions would not be for any major change of respective country. In that case sanction would be less effective; c) the targeted country has to be economically weak and dependent; d) the country's domestic political cohesion has to be weak and vulnerable; e) economic sanctions are most effective against erstwhile friends. The economic activities of the targeted country have to be linked with the sanction sponsoring country; f) the targeted country should not have alternative alliances; g) multilateral sanctions are more effective than unilateral sanctions; and, h) the financial costs of sanctions have to be less costly for the sender and the more costly for the targeted country. The school argues that the success of sanction depends mostly on its objectives and power balance between the senders and the targeted country.

Sanctions as symbolic approach school

The school originates from the thoughts of Johan Galtung. He argued that though sanctions are ineffective, it has some "symbolic" and "expressive" functions. As he noted when military action is not possible but something needs to be done on moral ground, sanctions come as symbol against an authoritarian

¹⁵ Gary Clyde Hufbauer *et. al.*, *Economic Sanctions Reconsidered: History and Current Policy*, 3rd ed., Washington D.C.: Institute of International Economics, 2007, pp. 49-115.

¹⁶ George A. Lopez and David Cortright, "Economic Sanctions in Contemporary Global Relations," and Kimberly Ann Elliot, "Factors Affecting the Success of Sanctions," in David Cortright and George A. Lopez (eds.), *Economic Sanctions: Panacea or Peace Building in a Post-Cold War World?*, Colorado: Westview Press, 1995, pp. 9-53.

¹⁷ Joseph J. Collins and Gabrielle D. Bowdoin, *Beyond Unilateral Economic Sanctions*, *op. cit.*, pp. 15-16.

regime.¹⁸ However, Galtung did not mention the level of “symbolic” and “expressive” functions that can be achieved by the sanctions.

Hedley Bull argued that two types of symbolism are achieved by the sanctions: International Symbolism, and Domestic Symbolism.¹⁹ International symbolism focuses on the relations between sender and targeted countries, and domestic symbolism determines the political economy of the targeted country. Symbolic effects are considered as ineffective for different causes: (a) sanctions can create few damages for the targeted countries’ ruling regimes, but they can continue power by exploiting power; (b) sanctions may have a “rally-around-the-flag-effect”. The term is coined by Johan Galtung to argue that leaders in the targeted nation could use the economic sufferings caused by foreign nations to rally their population in opposition to “foreign meddling”; and (c) the leaders of the targeted country may redistribute the effects of sanctions in a manner that the general people become the main victims of sanctions.

On the other hand, the symbolic approach provides two factors to make the sanctions effective: (a) the sanctions may create awareness among the people of the targeted country that the policies of their own government are not correct. Hence, they may revolt against the government. It is known as the *fifth column effect*. If sanctions can motivate the people of targeted country to revolt against their government, it makes sanction successful and, (b) if the *fifth column effect* is not possible, the creation of political instability can be an important objective.

However, public choice analysts argue that sometimes sanctions are imposed as half-heartedly.²⁰ In this case sanctions are symbolic; their effectiveness is of secondary concern. It may hurt some interest groups or even public at large. In this case, the effectiveness of sanctions is less important. It is just a symbolic expression against the target country. The effectiveness of sanctions depends on two questions: (i) under what circumstances will the sanction affect the target government? and, (ii) which private groups are likely to be affected by a given sanction? Does the effectiveness of sanctions assist or hinder the work of opposition groups in the targeted country? In this respect, the paper explains how sanction is affecting Iranian economy, business and its regime. Can the sanctions topple Iranian regime or can it prevent Iran from producing nuclear armaments? At the end, there would be an endeavour to assess the effectiveness of sanctions in the Iranian case.

¹⁸ Johan Galtung, *op. cit.*, pp. 411-412.

¹⁹ Hedley Bull, “The Great Irresponsibles? The United States, the Soviet Union and World Order”, *International Journal*, Vol. 35, No. 3, 1980, pp. 437-447.

²⁰ William H. Kaempfer and Anton D. Lowenberg, “A Public Choice Analysis of the Political Economy of International Sanctions”, in Steve Chan and A. Cooper Drury (eds.), *Sanctions as Economic Statecraft: Theory and Practice*, New York: St. Martin’s, 2000, pp. 159-161.

3. Objectives of the Sanctions against Iran

The conflicting relations between the USA and Iran are rooted in the historical inconsistent relations between Iran and the West. Since World War II, the distrust between Iran and the West has remained unresolved. Iranian people always perceive any western initiative in the region as a conspiracy against Iran's sovereignty and integrity. On the other hand, the western powers are concerned that Iran might challenge the dominance of the West in the Gulf region. In 1941, the British Empire and the former Soviet Union jointly invaded Iran, and occupied erstwhile Independent Kingdom of Persia. The Western forces deposed Iran's ruler, Reza Shah, and installed his son Mohammad Reza Pahlavi, who was loyal to the British Empire. In 1951, Mohammad Mossadegh, a popular Iranian leader who was elected as the Prime Minister of Iran promptly nationalised Iran's British owned oil industries, ordering its profits be used "to lift Iran from poverty rather than enriching Britain." The Shah and his followers fled from Iran. The Western powers did not accept the policies of Mossadegh, and orchestrated a coup against him and restored the Shah to the Peacock Throne. Iran's oil wealth returned to British and American control. The Shah declared himself as "Shah of the Shahs" and "Imperial Light of Aryans". The Shah, his relatives and Iran's tiny ruling elites looted the nation and oil revenues of the country. Savak, the vastly powerful security agency established a "reign of terror".

Iranian revolution of 1979 overthrew the Shah from power. Since the revolution, the USA sought to mount a number of military coups. Rightly or wrongly, the people of Iran blame the West for their sufferings. In recent times, the major debates between Iran and the West revolve around four issues: (a) human rights issues, (b) Iran's nuclear programme, (c) Iran-Israel hostility and (d) the US blaming Iran for sheltering terrorist organisations. But, the nuclear issue remains dominant and the West thinks that if Iran becomes a nuclear power it would be a threat to regional and global security.

Iran's nuclear programme started in the 1950s. The US supplied research reactors in 1960 which started producing power in 1967. The US intelligence sources argue that Iran pursued a nuclear programme ambition in 1970. The Central Intelligence Agency (CIA) report argues that Iran wanted to construct 10-20 nuclear power reactors and produce over 20,000 megawatts of nuclear power in 1994.²¹ It may be mentioned that Iran signed the Nuclear Non-proliferation Treaty (NPT) in 1968 and ratified it in 1970. In 1994, Iran submitted a draft resolution to the UN General Assembly (UNGA) to make the Middle East a nuclear free zone. Iran officially cancelled its nuclear programme in 1979. Nevertheless, since the 1970s, the US intelligence sources are

²¹ William Burr, "A Brief History of U.S.-Iranian Nuclear Negotiations," *Bulletin of the Atomic Scientists*, January/February 2009.

concerned that Iran could pursue a nuclear weapons programme. A CIA report of 1988 argues that Iran has “reinstated” its nuclear programme in 1982.²² In 1985, National Intelligence Council of the USA termed Iran as a potential “proliferation threat”.²³ On the other hand, Iran reiterates that its nuclear programme is exclusively for peaceful purposes.²⁴ On 03 June 2008, Iran’s supreme leader Ayatullah Ali Khamenei declared that Iran is opposed to nuclear weapons “based on religious or Islamic beliefs as well as based on logic and wisdom”.²⁵ He added “nuclear weapons have no benefit but high cost to manufacture and keep them. Nuclear weapons do not bring power to a nation, because they are not be used.” Similarly, Iranian Foreign Ministry spokesperson Hassan Qashqavi stated on 10 November 2008 that “pursuance of nuclear weapons has no place in the country’s defence doctrine.”²⁶ President Mahmoud Ahmadinejad in a speech on 09 April 2009 asserted that “those who accumulate nuclear weapons are backwards in political terms.”²⁷

Within this controversy, Iran and International Atomic Energy Agency (IAEA) agreed in August 2007 on a work plan to clarify the outstanding questions regarding Iran’s nuclear programme. Most of these issues, which had contributed to suspicions that Iran had been pursuing a nuclear weapons programme, have essentially been resolved. But former head of the IAEA, ElBaradei told the board of the organisation on 02 June 2008, that there is “one remaining major [unresolved] issue,” which concerns questions regarding “possible military dimensions to Iran’s nuclear programme.”²⁸ Iran maintains that it has not conducted any work on nuclear weapons. Nevertheless, the IAEA report on 08 November 2011 said, “Under its Safeguards Agreement, Iran has declared to the Agency 15 nuclear facilities and nine locations outside facilities where nuclear material is customarily used.”²⁹ Notwithstanding some of the activities being undertaken by Iran at some of the facilities are contrary to the relevant resolutions of the Board of Governors and the Security Council”. The report also noted that, “The Agency has information provided by a member state

²² *Middle East-South Asia: Nuclear Handbook*, Central Intelligence Agency (CIA), May 1988.

²³ *The Dynamics of Nuclear Proliferation: Balance of Power and Constraints*, US National Intelligence Council, September 1985.

²⁴ Ambassador Ali Asghar Soltanieh, Iran’s Permanent Representative to the International Atomic Energy Agency (IAEA), has explained that nuclear power will only meet “perhaps a small portion” of the projected national electricity demand. “Interview with Iran’s Ambassador to IAEA,” Campaign against Sanctions and Military Intervention in Iran, 29 June 2008.

²⁵ *Mehr News Agency*, 19 October 2008.

²⁶ Weekly Briefing of the Iranian Foreign Ministry Spokesman, 10 November 2008.

²⁷ *Islamic Republic of Iran News Network*, 09 April 2009.

²⁸ IAEA Report in 2007.

²⁹ See Annex-1.

that Iran may have planned and undertaken preparatory experimentation which would be useful to carry out a test of a nuclear explosive device.” However, the report did not mention which country gave such information to the IAEA. The controversy begins that the IAEA may be influenced by the USA to project Iran as a nuclear threat.

On the other hand, according to the evidence of Director of the National Intelligence of the US Senate Intelligence Committee in 2012, Iran’s nuclear programme is one of the major concerns for the USA.³⁰ Nevertheless, there are different types of opinions at the US policy making levels about Iran’s nuclear facility. One group thinks that Iran is very close to nuclear weapon. As Stephen Rademaker of the Bipartisan Policy Center in Washington D.C. said, “it’s clear that Iran could produce a nuclear weapon very quickly should it wish to do so”.³¹ They think that the USA needs to take immediate military action and needs to attack Iranian nuclear facilities. Another group does not foresee that Iran is very close to having nuclear weapons.³² But, they think that Iran has a plan to achieve nuclear weapon capability. Hence, they think, coercive diplomatic effort is essential immediately for preventing Iran from achieving nuclear weapons.

International community acted promptly to contain Iran from achieving nuclear weapons. The US remains the leader of all such initiatives against Iran. The UN imposed four rounds of sanctions against Iran between 2006 and 2010 in reaction to Iranian refusal to stop uranium enrichment and cooperate with International Atomic Energy Agency (IAEA). The sanctions include a ban on the supply of heavy weaponry and nuclear technology to Iran, a block on Iranian arms export, and asset freeze on key individuals and companies. The Resolution 1929, passed in 2010, mandates cargo inspections to detect and stop Iran’s acquisition of illicit materials.³³

Iran has been facing sanctions since the Islamic revolution of 1979. The US sanctions³⁴ prohibit almost all trades with Iran, excluding some of the export of

³⁰ James Clapper, *Unclassified statement for the record on the worldwide threat assessment of the US Intelligence Community for the Senate Committee on intelligence*, Director of National Intelligence, 31 January 2012.

³¹ “Iran producing enriched uranium at faster pace: experts”, *AFP*, 20 June 2012, available at <http://bipartisanpolicy.org/category/projects/national-security-initiative>, accessed on 21 June 2012.

³² See, Gregory S. Jones, “An In-Depth Examination of Iran’s Centrifuge Enrichment Program and Its Efforts to Acquire Nuclear Weapons”, Non-proliferation Policy Center, available at http://www.npolicy.org/article_file/An_InDepth_Examination_of_Iran_Centrifuge_Enrichment_Program_and_Its_Efforts_to_Acquire_Nuclear_Weapons.pdf, accessed on 21 June 2012.

³³ Annex -2 presents a brief summary of UN imposed sanctions against Iran.

³⁴ Annex-3 presents the US sanctions against Iran since Islamic revolution of Iran in 1979.

medical and agricultural equipments, humanitarian assistance and trade in “informational” materials, such as films and publications.³⁵ On 31 December 2011, the USA imposed new sanctions on financial institutions dealing with Iran’s Central Bank. One of the objectives is to prevent Iran from selling oil abroad. The drop of Iranian oil sale has immediate and extensive impact on Iranian economy. The USA wants to use it as an opportunity to isolate Iran. President Obama tightened these sanctions by executive order on 05 February 2012, targeting Iran’s Central Bank and allowing US institutions to freeze Iranian assets.³⁶

On 23 January 2012, the foreign ministers of the European Union (EU), approved a new ban on import of Iranian crude oil, a freeze of assets belonging to the Central Bank of Iran, a ban on all trade in gold and other precious metals with the Bank and other public bodies. The European ban is expected to have a more significant impact on the economy of the Islamic Republic. The EU currently buys about a fifth of Iran’s oil export.³⁷ On 01 December 2011, the Union added 39 people and 141 companies in the new banning list, although it has not yet named them. The EU also imposed sanctions on the export to Iran of key equipment and technology for the refining and production of natural gas in 2011.

At present, the pertinent question is: what do the USA and its allies want to achieve by imposing sanctions on Iran? Overtly, the USA wants to prevent Iran from producing nuclear weapons. But, the US policy towards Iran in the last three decades demonstrates that the USA has longstanding plans regarding Iran. In an interview with National Public Radio on 30 September 2009, former national security adviser of the USA, Zbigniew Brzezinski said,

“I think our ultimate interest is to have Iran as a stabilizing regional power: a power that is not hostile to the United States, a power that can be a friendly partner, a power that can incidentally also return to the status of a friend of Israel. I think that is the long-range interest. The more immediate interest is to avoid either an Iranian nuclear bomb, which contributes to instability in the region, or more generalized hostility between Iran and the United States.”³⁸

Nevertheless, the US concern about Iran is not only limited with the nuclear issue. The geopolitical location of Iran bears special significance for US interests

³⁵ “An overview of O.F.A.C Regulations involving Sanctions against Iran”, The US Department of Treasury.

³⁶ Executive Order 13599.

³⁷ Annex-4.

³⁸ “What Are U. S. Interests When It Comes to Iran”, National Public Radio (USA), 30 September 2009, available at <http://www.npr.org/templates/story/story.php?storyId=113352297>, accessed on 04 July 2012.

in the region. Iran's key location is at the juncture of the Asian continent. Stretching from the Caspian Sea to the Persian Gulf to the Indian Ocean, and from the rivers of Mesopotamia to the fringes of Hindu Kush, Iran is in one sense truly a colossus for US interests. The US interests in the Middle East, Afghanistan and Central Asia, and security of the Israel can be challenged by Iran, if Iran becomes a nuclear power. The USA is concerned about the security of its Gulf allies neighbouring Iran. Moreover, the energy security of US allies in Europe and Asia are dependent on the stability of the Middle East. Furthermore, Iran defies US position in Central Asia. Russia and China can easily contain US influence in Central Asia for the cause of Iranian geographical location. In such a milieu, the USA is not interested to see Iran emerging as a nuclear power.

The Watson Institute of International Studies summarised four alternative options for the USA in Iran: i). Using the military to achieve regime change, ii). Using the military to destroy Iran's nuclear facilities, iii). Engaging multilateral diplomacy to stop Iran's nuclear programme and, iv). Normalisation of relations with Iran and begin trade negotiations.³⁹ On the present context, the USA has two types of options to achieve its goals: coercive diplomacy and military measures. Table 1 shows the options for achieving its goals in Iran and its strategies and, challenges in this regard.

The ultimate objective of the USA regarding Iran is not yet clear to the international community. If its objective remains limited only to prevent Iran from the nuclear weapon, it may help the USA to achieve more international support. But, if it tries to topple Iranian regime, it has to face international dissent. Nevertheless, in any case, the country has to face challenges to deal with Iran issue. The historical hostility and mistrust between the USA and Iran does not show any possibility of peaceful solution of the Iranian nuclear crisis. Moreover, the anti-Western stance of Iranian politics demonstrates that the Iranian people consider any Western initiative as a conspiracy against Iran. On the other hand, if the USA and the West continue coercive measures by using sanctions there is little hope to achieve its ultimate objectives for the cause of anti-Western consensus in Iranian politics. The sanctions may slow down Iran's nuclear programme, but to prevent Iran from nuclear programme would need ultimate pressure. In addition, the use of intelligence forces against Iranian regime may create retaliation to take hard measures against the dissidents of

³⁹ "Policy Options The U.S. and Iran: Confronting Policy Alternatives", Watson Institute of International Studies, Brown University, Choice for the 21st Century Education Program, available at http://www.choices.edu/resources/documents/iran_options_4.pdf, accessed on 04 July 2012.

Iranian regime. On the other hand, the USA and its allies are not sure about the viability of military attack against Iran.⁴⁰

Table 1: US Options to Achieve its Goals in Iran

Options	Objectives	Instruments to achieve the goals	Challenges
Coercive diplomacy	Preventing Iran from nuclear programme	Sanctions and intelligence	Ensuring effective sanctions, engaging China, Russia and India in the process of sanctions, ensuring stability in the global oil market
	Engaging in multilateral diplomacy	Ensuring Sanctions, multilateral engagement	Deficit of trust, divergence of strategic interests, concerns of the gulf countries and Israel, preventing Iran from nuclear programme
	Normalisation of relations with the Iranian regime	Recognising Iran's right to peaceful use of nuclear facility	Ensuring surveillance of Iranian nuclear facilities, cooling of historical hostility
	Isolating Iran from the international community Regime Change	Sanctions Sanctions and intelligence, supporting political dissidents of the Iranian regime	Divergences of strategic interests, stability of global oil market Anti-West consensus in Iranian politics
Military measures	Destroy Iran's nuclear facilities	Military attack in Iran's nuclear installations, military attack by Israel	Uncertainty about the viability of military attack, the uncertainty of consequences of Iranian retaliation, upcoming election for Obama administration, the security of Gulf and Israel
	Changing Iranian regime	Military attack and giving power to political dissidents of Iranian regime	Ensuring effective sanctions, engaging China, Russia and India in the process of sanctions, stability in the global oil market, Anti-West consensus in Iranian politics
	Political control in Iran	Military attack and establishing a pro-US regime in Iran	Anti-West consensus in Iranian politics, international dissent

⁴⁰ Anthony H. Cordesman, "Israeli and US Strikes on Iran: A Speculative Analysis", Washington D. C., Center for Strategic and International Studie(CSIS), 05 March 2007.

Some of the US scholars suggest that a nuclear Iran would make the region more stable by balancing power between Iran and Israel.⁴¹ However, Obama administration never expressed such intention to allow Iran to be nuclear power. Moreover, Israel and the Gulf countries consider that a nuclear Iran would be a catastrophe for them. It means that the USA has to use all measures to prevent Iran from acquiring nuclear weapon. Nevertheless, it is a challenge for the Obama administration, particularly as presidential election is upcoming, to take forward military options against Iran. At the same time, the financial crisis in the USA and Europe also prohibits them to take any proactive decision for military attack. The coercive measures are already challenged by the lack of international consensus and the viability of military measure is in question. It needs to be pointed out that if the intelligence sources of the USA instigate Obama administration that Iran is near to produce nuclear weapons, it would be a challenge for Obama to take immediate effective measures against Iran. But, if the USA is convinced that Iran's nuclear plant is far away from producing nuclear weapon, the administration may find more time to prepare against Iran. However, the ongoing sanctions have multidimensional impacts for Iran.

4. Internal Implications for Iran

The impacts of sanctions on Iranian energy sector, economy, nuclear programme and domestic politics are not yet totally apparent. Hassan Hakimian thinks that after the latest US sanctions Iranian economy seems to be doing better than someone believes.⁴² He thinks that Iranian government was more prepared to face such sanctions and seems they are "better prepared than most people might realise". Referring to IMF data on Iranian economy⁴³, he says that the sanction has limited impacts on Iran's economy. But, he agrees that Iranian economy is facing a lot of challenges for the cause of sanctions. The main challenges are unemployment, especially among the youths, and inflation, because of the depreciation of Iranian currency and partly because of the abolition of the subsidies scheme, which the government put in place about a year ago. He thinks, in short term, sanctions can create pressure on Iranian economy. But, in long term, the sanctions will enable Iran to grow and prosper domestically.

However, Iranian government expressed concerns over sanctions. Iranian President Ahmadinejad declared before Iran's parliament in 2011 that the

⁴¹ Kenneth N. Waltz, "Why Iran should Get the Bomb: Nuclear Balancing would Mean Stability", *Foreign Affairs*, July/August 2012.

⁴² Hassan Hakimian, Director, London Middle East Institute, gave an interview with the Council on Foreign Relations on 23 May 2012. It is available at <http://www.cfr.org/iran/sanctions-affect-irans-economy/p28329>, accessed on 25 May 2012.

⁴³ See Annex-5.

current sanctions against Iran are “the heaviest economic onslaught on a nation in history”, adding “every day all our banking and trade activities and our agreements are being monitored and blocked.”⁴⁴ US Secretary of State, Hillary Clinton said, “the sanctions are working, their [nuclear] program, from our best estimate, has been slowed down”.⁴⁵ The White House has also studied that the sanctions “have enormous bite and enormous scope” and have ground the Iranian economy “to a halt.”⁴⁶ The American Israel Public Affairs Committee (AIPAC) thinks “sanctions having unprecedented impact on Iran.”⁴⁷ Below is an attempt to assess the domestic impacts of sanctions.

Iranian Energy Sector

Energy sector is the lifeblood of the Iranian economy. The reserve of Iranian energy is ranked among the largest in the world, third in the proven conventional oil deposits, second in the natural gas deposit, and fourth in production of crude oil.⁴⁸ Oil export revenue accounts for more than 20 per cent of Iranian GDP, roughly 80 per cent of Iran’s foreign currency earnings, and more than 60 per cent of its budgetary revenue.⁴⁹ On the other hand, Iran is dependent on gasoline for 25 per cent to 35 per cent of its consumption, which costs the government US \$5 -7 billion annually.⁵⁰ The main target of the present Western sanction is to diminish Iranian energy sector. However, the latest sanctions has multi-faceted implications for Iranian energy sector: (1) dropping of export of Iranian oil in the international market, (2) the embargo of gasoline import by Iran, and (3) the embargo on foreign investment in the Iranian energy sector.

⁴⁴ Fareed Zakaria, “Iran’s growing state of desperation”. *The Washington Post*, 05 January 2012.

⁴⁵ Mark Landler, “U.S. Says Sanctions Hurt Iran Nuclear Program”, *The New York Times*, 10 January 2011.

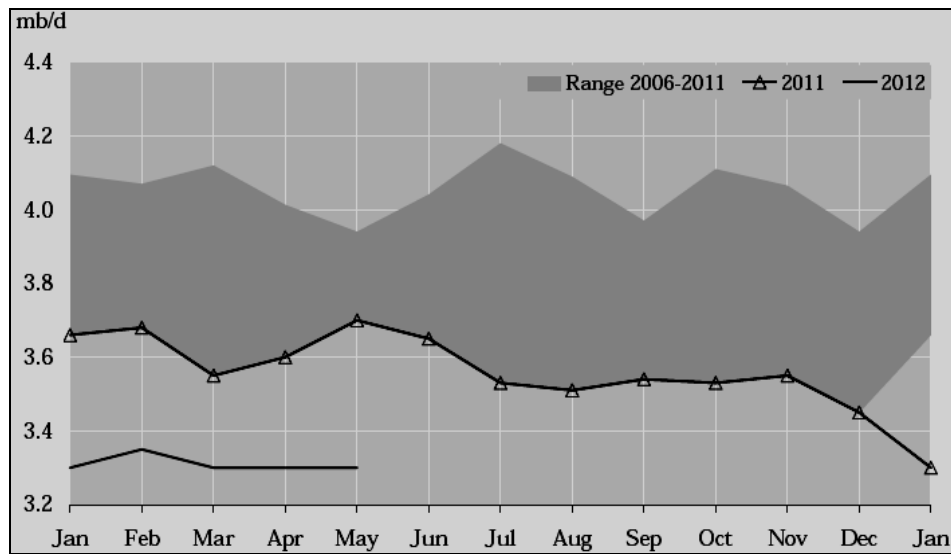
⁴⁶ Ben Feller, “Obama: Iran sanctions have ‘enormous bite’”, *The Bloomberg Business Week*, 14 November 2011.

⁴⁷ “Sanctions having unprecedented impact on Iran”, *Issue Brief*, The American Israel Public Affairs Committee (AIPAC), May 2012.

⁴⁸ “Firms Reported in Open Sources as Having Commercial Activity in Iran’s Oil, Gas, and Petrochemical Sectors”, U. S. Government Accountability Office, available at <http://www.gao.gov/products/GAO-10-515R>, accessed on 04 July 2012.

⁴⁹ *Ibid.*

⁵⁰ Kenneth Katzman, “Iran Sanctions”, Congressional Research Service, 26 April 2012, available at www.fas.org/sgp/crs/mideast/RS20871.pdf, accessed on 04 July 2012.

Figure 1: Iranian Crude Oil Supply⁵¹

Source: International Energy Agency.

A latest survey by *Reuters* shows that in June 2012, the Iranian oil supply in the international market is the lowest since 1989.⁵² According to the data of International Energy Agency, Iranian oil supply dropped to 40 per cent since the beginning of 2012.⁵³ The report says that Iranian oil supply fell to 1.5 million barrels per day in April-May 2012 from 2.5 million at the end of 2011. As Figure 1 shows, in recent years the supply of Iranian crude oil dropped remarkably. It is considered as an implication of the sanctions. In addition, numerous international gasoline suppliers have discontinued supply of gasoline to Iran. Among the top eleven suppliers to Iran, all but three – two owned by China and one by Russia – have ended their gasoline supply to Iran.⁵⁴ Since the sanctions, Iran is facing discontinuity to manage its energy market. But the latest sanctions have covered broader areas, which are affecting the total energy system of Iran. The EU directed SWIFT⁵⁵ “to discontinue its communications services to Iranian financial institutions that are subject to European sanctions.” It affected at least 19 Iranian member banks and 25 financial institutions of

⁵¹ International Energy Agency, Oil Market Report, 13 June 2012, available at http://omrpublic.iea.org/supply/ir_cr_rg.pdf, accessed on 01 July 2012.

⁵² Christopher Johnson, “Oil falls towards \$96 on Asian, EU factory data”, *Reuters*, 02 July 2012, available at <http://in.reuters.com/article/2012/07/02/marketsoildINDEE8610AK20120702?feedType=RSS&feedName=everything&virtualBrandChannel=11709>, accessed on 04 July 2012.

⁵³ Oil Market Report, International Energy Agency (IEA), 13 June 2012.

⁵⁴ Iran has long lacked sufficient refining capacity to meet its own gasoline needs.

⁵⁵ The Society for Worldwide Interbank Financial Telecommunication.

Iran.⁵⁶ Iran has no alternative to use of SWIFT. It affects Iran's trade with any country in the world. Moreover, foreign companies have also not been able to invest in Iran, because the new US law declared to impose embargo against the companies which invest in Iran. It is also affecting Iranian natural gas development. Iran fails to invite foreign investment and advanced technology to properly develop its gas fields. Hence, Iranian energy sector is under threat. The impact on Iranian energy system is affecting all other sectors of Iranian economy.

Macroeconomic Stability

The sanctions are affecting the macroeconomic stability of Iran. The main indicators are facing challenges. According to Iranian Central Bank data, the inflation in Iran has reached 21.8 per cent and food prices have reached 35 per cent in the capital Tehran compared to one year ago.⁵⁷ The statistics also confirm that the price of basic foodstuffs have increased much higher than the official rate for the same period of March 2011 to March 2012. The nationwide foodstuff prices have increased much higher than the official inflation rate. However, the government data have been doubted even by some of the Iranian religious leaders who think that the real economic statistics are worse.

Due to US sanctions targeting the Central Bank of Iran and decision by SWIFT to deny critical financial services to Iran's banks, Tehran has been virtually cut off from the global financial system. Even the banks which are willing to conduct businesses with Iran have no means of doing so. Due to difficulty to receive payments, many companies have stopped export to Iran. A number of German companies failed to receive payment for almost US \$2 billion from Iran as a result of SWIFT's terminating Iranian access.⁵⁸ Billions of dollars in profits are stuck in accounts of South Korea, Japanese and other foreign banks. According to White House, Iran does not have ready access to 70 per cent of its foreign currency reserves.⁵⁹ Many Iranian firms are struggling to purchase wheat from the trade partners abroad for the cause of isolation from the international financial system. The ship owners are not able to reach the major ports of Iran for the hindrance of trade financing and insurance. Under the pressure of sanctions, maritime insurance companies fail to provide insurance coverage to the tankers carrying Iranian oil to Japan and China.

⁵⁶ Anthony H. Cordesman *et. al.*, "US and Iranian Strategic Competition", Center for Strategic and International Studies (CSIS), March 2012.

⁵⁷ Economic Trends, No 64, First Quarter 1390 (2011/2012), Central Bank of Iran, June 2012.

⁵⁸ "Sanctions Having Unprecedented Impact on Iran", *op. cit.*

⁵⁹ *Ibid.*

A remarkable number of international firms have either ended or curtailed their business in Iran due to the unstable financial climate in the country. The lack of foreign direct investment (FDI) coupled with the increasing cost of imports are crippling the Iranian economy especially in highly state-controlled sectors such as the petroleum industry. The fluctuation and decline of Iranian currency in the international market are affecting Iranian economy.⁶⁰ The Rial⁶¹ has fallen 50 per cent against other currencies in the last year as well.⁶² Inflation rate raised 22.4 per cent.⁶³ For increasing rates, Iran fails to ensure sufficient reserve of dollar, it is affecting total trade system of Iran. Iran depends on imports for more than one-third of its food supply and an even larger share of its industrial inputs. Unemployment in Iran is also on the rise, as many small and medium sized businesses struggling with the impact of sanctions are increasing costs of Iran's subsidy reform. According to Iranian Central Bank report, family members of 22.5 per cent of Iranian families are unemployed.⁶⁴ Certainly, it affects Iranian growth rate. Iran has ample payments surplus, an external debt about 6 per cent of GDP, and a record US \$90 billion in foreign exchange reserve.⁶⁵ The oil embargo is believed to be costing Iran about US \$4.5 billion per month in lost revenue.⁶⁶ All such macroeconomic indicators show that sanctions are affecting total economic order of Iran.

Nuclear Programme and Internal Dissents

Sanctions have substantial impact on Iranian nuclear programme. It prevents Iran from importing equipments and getting different technologies. David Albright⁶⁷ stated, "sanctions have taken a toll and driven Iran to do things that are not normally done", such as using low quality local materials for key centrifuge parts.⁶⁸ Sanctions prevent Iran from acquiring necessary technologies

⁶⁰ Abbas Rezazadehkarsalari, Fateme Haghiri and Alireza Behrooznia, "The Effects of Exchange Rate Fluctuations on Real GDP in Iran", *American Journal of Scientific Research*, Issue 26, 2011, pp. 6-18.

⁶¹ Iranian Currency.

⁶² Thomas Erdbrink, "Already Plagued by Inflation, Iran Is Bracing for Worse", *The New York Times*, 01 July 2012.

⁶³ This is official data in June 2012 by Central Bank of Iran. However, the dissidents of Iranian regime say the inflation is near about 35 per cent.

⁶⁴ Economic Trends, *op. cit.*

⁶⁵ *Ibid.*

⁶⁶ Tom Gjelten, "Can Sanctions Force Iran To Change Its Policies?", National Public Radio, USA, 10 July 2012, available at <http://www.npr.org/2012/07/03/156166649/can-sanctions-force-iran-to-change-its-policies>, accessed on 04 July 2012.

⁶⁷ President of Institute of Science and International Security and former IAEA inspector.

⁶⁸ David Albright and Christina Walrond, "Iran's Advanced Centrifuges", ISIS Report, Institute of Science and International Security, Washington D. C., 18 October 2011.

from the international market. However, there is no debate that sanctions are a setback for Iranian nuclear programme. The direct impact of sanctions is that it prevents Iran from getting necessary technologies. Indirectly, Iran's total nuclear policy is facing pressure. Iran's return to negotiation with P5+1⁶⁹ is considered as a success of sanctions. But, the negotiations between Iran and the West are not new and in most of the cases the negotiation process remains futile.

Iran has not changed its position on its nuclear policy. The country is emphasising on its right to continue peaceful nuclear programme. The P5+1 want to limit Iran's nuclear enrichment capacity less than 20 per cent and to close a fortified underground enrichment facility in Fordo.⁷⁰ Iran considers it as an interference in the sovereignty of Iran and "illegal", because, NPT allows Iran to continue its peaceful nuclear programme in any location within its border. Some of the US experts think that international sanctions have indirectly caused turmoil in the Iranian politics. Hence, they believe the more effectiveness of sanctions may create a *fifth column effect*. As an example, they refer to the 2009's post-election turmoil in Iranian politics. They think that more sanctions can increase unrest in Iran and it can topple Iranian regime. Traditionally, Iranians become more united and back the government when it faces any kind of external aggression or western intervention.

5. Regional and Global Implications

Iran is located in one of the vital and strategically important parts of the world. The country has border with seven countries.⁷¹ It connects the Middle East, Central Asia and South East Asia, and is situated in between the oil rich and strategically significant Persian Gulf and the Caspian Sea. However, three events have influenced contemporary Iran's national, regional and global settings: the 1979 Revolution, the collapse of the Soviet Union and the US response to 9/11. The revolution of 1979 changed the international perceptions about Iran. At the same time, the disruption of Iranian relations with the USA and Saddam Hussain's aggression in 1980 were interpreted by Iranians as a conspiracy to destroy Iran. The collapse of the Soviet Union has increased the geopolitical importance of Iran. The USA finds it an impediment to expand influence in the Central Asia. After 9/11, the USA identified Iran as a country sponsoring global terrorism. Hence, the USA and the West want to topple Iranian regime and to establish a government loyal to the West. Most of the Iranians consider it as a threat to their sovereignty. The Iranian government is critical about Western policies towards Iran. Conflicting relations between Iran

⁶⁹ Five Permanent Members of UNSC, the USA, Russia, China, the UK and France, plus Germany.

⁷⁰ David Albright and Christina Walrond, "Iranian Production of 19.75 Percent Enriched Uranium: Beyond Its Realistic Needs", *ISIS Report*, 15 June 2012.

⁷¹ Armenia, Azerbaijan, Afghanistan, Pakistan, Iraq, Turkey and Turkmenistan.

and the West influence total security set up of the region. The West took the nuclear programme as a threat to their interests in the region. The allies of the USA in the region are also eager to take military actions against Iran to prevent it from getting nuclear. It is also affecting global political set up. China and Russia seemed to be sceptical about the consequences of military attack on Iran. However, in the regional level the implications for the Strait of Hormuz and global level the implication for global oil market are focused here.

The Strait of Hormuz

The approval of new sanctions has raised concern about the stability in the Strait of Hormuz. It is the only sea-passage for the export of oil from the Persian Gulf states. The shutdown of the line will disrupt total oil trade of the world. However, Iran declared that if the EU expands more sanctions on Iran, Iran would stop the oil supply through the Hormuz.⁷² The Strait is used to export oil from Iraq, Kuwait, Saudi Arabia, the United Arab Emirates (UAE) and Qatar. According to the US Energy Information Administration, these countries have shipped about 17 million barrels a day of oil through the strait in 2011, which is roughly 20 per cent of the global oil market and 35 per cent of the sea borne trade.⁷³ On average, 14 crude oil tankers leave the Persian Gulf through the Strait each day with more than 85 per cent of the crude oil exports going to Asian countries, including China, Japan, India, and South Korea.⁷⁴ The USA imports 1.8 million barrel per day from Persian Gulf countries, roughly 10 per cent of the total US consumption.⁷⁵ More than a quarter of the world's liquefied natural gas (LNG) trade, equal to about 2.6% of global natural gas consumption, moves through the Strait.⁷⁶ This is primarily exported from Qatar to Europe and Asia. The Persian Gulf is also home to the world's spare oil production capacity.

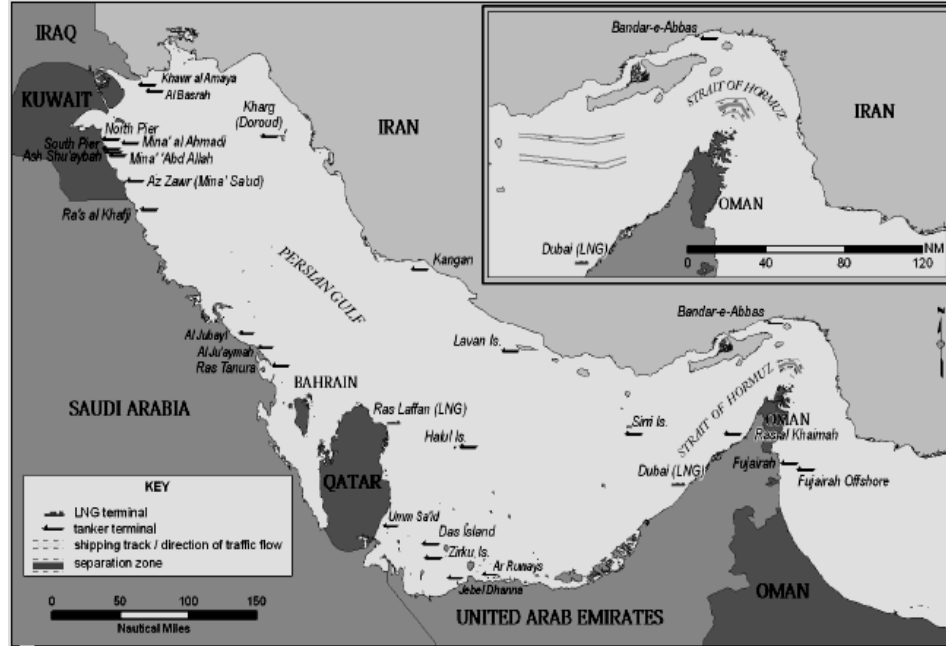
⁷² J. David Goodman. "Iran Warns U.S. Aircraft Carrier Not to Return to Gulf and a Strategic Strait." *New York Times*, 04 January 2012.

⁷³ Kenneth Katzman *et. al.*, "Iran's Threat to the Strait of Hormuz", *Congressional Research Service*, 23 January 2012.

⁷⁴ U.S. Department of Energy, Energy Information Administration, "The Strait of Hormuz is the world's most important oil transit chokepoint", available at <http://www.eia.gov/todayinenergy/detail.cfm?id=4430#>, accessed on 04 January 2012.

⁷⁵ Much of U.S. imports from the region likely to come through the Strait. For more background on U.S. imports, see Neelesh Nerurkar, "U.S. Oil Imports: Context and Considerations", *CRS Report R41765*, 01 April 2011.

⁷⁶The BP Statistical Review of World Energy, available at <http://www.bp.com/statisticalreview>, accessed on 01 April 2011.

Figure 2: Persian Gulf and the Strait of Hormuz

Source: Congressional Research Service, USA.⁷⁷

Any disruption of Strait of Hormuz would also affect Iran. It is also an important oil export route for Iran. A blockade of the Strait is not in the interest of Iran, because it would speed up the loss of stake income and increase its international isolation. Moreover, militarily it is not possible for Iran to ensure its presence in the Strait for a long time.⁷⁸ Maybe considering such realities, Iranian authority did not act further for closing the Strait. But, still it remains a concern. The US and the West want to ensure control over strait to check Iran's oil export. It may create tensions in the international politics. China and Russia may not take it easily for the cause of their energy and strategic interest in the region. An imposing US could be considered by China a threat for its energy security from the gulf region. Russia will consider it as a challenge to its supremacy in the Central Asia region.

⁷⁷ Kenneth Katzman *et al.*, "Iran's Threat to the Strait of Hormuz", *op. cit.*

⁷⁸ Marchin Andrzej Piotrowski and Patryk Toporowski, "The Implications of US and EU Economic Sanctions against Iran", *BULLETIN*, The Polish Institute of International Affairs, No. 7 (340), 23 January 2012.

Global Oil Market

Iran is one of the important oil suppliers in the global oil market. Iran has the fourth largest proven oil reserve.⁷⁹ On the other hand, disruption of Iranian oil supply to its destination also has significant implication. It would affect global energy security. The USA has strengthened its diplomatic channels to convince China and other countries to follow the Western sanctions.⁸⁰ But, it would be a challenge for the countries to find out an alternate source of oil. Saudi Arabia already agreed to produce more oil as an alternative to Iranian oil.⁸¹ Chinese diplomatic channels are trying to get more access to Saudi oil.⁸² The EU agreed to impose embargo on Iranian oil, but the countries like Greece, Italy and Spain have to face challenges to find out alternative oil sources. Although Japan agreed with the USA to reduce purchase from Iran, it later realised that it will not be convenient for them to get alternative sources of oil.⁸³ India announced that it would not stop importing Iranian oil and will only accept sanctions made by the UN. But later, it agreed with the USA to cut import from Iran.⁸⁴ At the same time, India agreed with Iran to use alternative ways instead of using dollar to continue their export and import. However, it is a dilemma for India to maintain its relations with Iran and Gulf countries. India needs to have good relations with both to maintain its energy security. But the Gulf countries and the USA would not like India to continue its relations with Iran. South Korea and Turkey are also looking for alternative sources.⁸⁵ On 11 June 2012, the USA had issued waivers to India, Malaysia, South Korea, South Africa, Sri Lanka, Turkey and Taiwan to import oil from Iran.⁸⁶ The countries have already significantly reduced oil import from Iran. The USA did not exempt China from importing oil from Iran. It seems that the issue would be more complex in the international arena. China may be more realistic to import oil from Iran.

⁷⁹ Annex-6.

⁸⁰ Brandon Fite, "US and Iranian Strategic Competition: The Impact of China and Russia", Center for Strategic and International Studies (CSIS), March 2012.

⁸¹ "Saudi Arabia says it can raise oil production to fill any supply gap", *Al Arabia*, 16 January 2012.

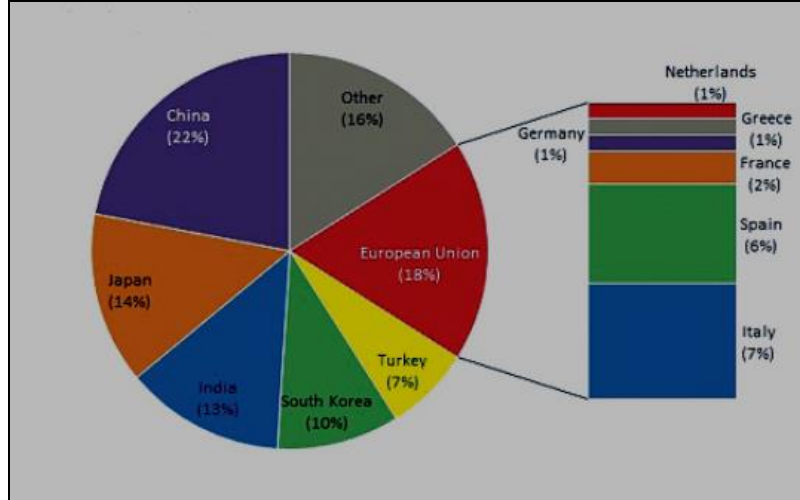
⁸² Minxin Pei, "Viewpoint: China's Iran dilemma", *BBC*, 20 January 2012.

⁸³ Puneet Pal Singh, "Iran oil sanctions divide Asia's four largest economies", *BBC*, 15 January 2012.

⁸⁴ "India will cut oil imports from Iran by 11%", *The Washington Post*, 15 May 2012.

⁸⁵ Daniel Bardsley, "South Korean president on Gulf tour to look for Iran oil alternative", *The Nation*, UAE, 02 February 2012.

⁸⁶ Mark Landler, "China Is Excluded From Waivers for Oil Trade with Iran", *The New York Times*, 11 June 2012.

Figure 3: Iran's Oil Export by Destination, January-June 2011

Source: US Energy Information Agency.

However, total reduction of Iranian oil from the international market would create instability in the oil market. But, the US pressure may influence other countries to look for alternative sources. Saudi Arabia agreed to supply more oil in the international market to reduce the dependency on Iran. How far it would be able to fulfil the global demands are not clear yet. The sanctions against Iran leads oil market to an uncertainty. At the same time, if the US cannot prevent Iranian oil from the international oil market, the sanctions may not affect Iranian economy vigorously as oil supply remains the main strength of the Iranian economy.

Polarisation in International Politics

The sanctions against Iran signify a new polarisation in international politics. China and Russia are not convenient with the USA and EU imposed sanctions against Iran. India, China and Russia emphasise the sanctions should be permitted by the UNSC.⁸⁷ The countries are not supporting the US policies regarding Iran. Moreover, China and Russia raised their voice on the issues of NATO's attack on Libya. Russia gave veto on Syrian issue in the UNSC. On the other hand, India, China and Russia also do not want to see Iran as a nuclear power. Hence, they are eager to find out alternative options to prevent Iran from nuclearisation. If sanctions fail to contain Iran from nuclearisation, or if Iran fails to convince international community that its nuclear programme is only for peaceful purposes, then that may sharpen the polarisation of international

⁸⁷ Brandon Fite, "US and Iranian Strategic Competition: The Impact of China and Russia", *op. cit.*

politics more clearly. If the USA and Israel want to attack Iran militarily, it would increase concern of China and Russia considering their geopolitical and energy interests in the region. However, P5+1 countries are failing to reach a consensus on Iran issue which may lead to further polarisation in international politics. Nevertheless, the relations among the countries like the USA, China and Russia have multidimensional contexts. Hence, polarisation may not be deep, but it can open up new tension in the international politics. India, China and Russia are interested to deal with the Iranian case basing on their critical national interests. The countries are acting to exploit maximum level of national interest from the USA and Iran. The national interests of the countries are not convergent in any way. India needs to consider strengthening its strategic partnership with the USA and its relations with Gulf countries to secure uninterrupted energy import. China has to make a balanced policy between Iran and the Gulf countries. Both sides are important for China to ensure its energy security. Russia is aware about its strategic interest relating Iran to secure its supremacy in Central Asia. Russia would not like any further US influence in the region. At the same time, it is also not strategically prudent for Russia to open any direct conflicting zone with the USA. Hence, the Iranian issue is being more complex and uncertain in international politics.

6. Conclusion

The USA and its allies are keen to prevent Iran from nuclearisation. The observers of the IAEA failed to reach in any conclusion regarding Iran's nuclear capability. The IAEA is concerned that Iran may be strengthening its nuclear facilities in secret areas. Iran's denial to allow the IAEA to observe some of the areas of the country and the anomalies of the Iranian data about its nuclear facilities raised concern in the international arena. Iran is emphasising on its national sovereignty and its rights to use nuclear power for peaceful purposes of energy production and medical use. Moreover, Iranians are sceptical about any western policy considering it as conspiracy against Iran. On the other hand, historical animosity instigates the West to use nuclear issue as an instrument for implementing their agenda with regard to Iran. If the latest sanctions do not work, it would be a challenge for the West to face Iran. However, the effectiveness of sanctions is in debate. Likewise, the ultimate objectives of the US regarding Iran are not clear yet. If the USA wants only to prevent Iran from acquiring nuclear weapons, the sanctions may pressurise Iran to reconsider its nuclear policies. Iran is already continuing negotiations with P5+1. But, if Iran really has a plan for nuclear weapons, it may use negotiations as a time consuming process. However, if the USA wants to topple Iranian regime by using sanctions, there is little hope of success for the USA. It would be difficult to find Iranian dissidents organised against their governments to implement the desire of the USA in Iran.

Nevertheless, sanctions can be used as a “symbol” by the West for legitimising possible military attack on Iran. In that case, the USA may take more time for attacking Iran. The USA has to consider the viability of military attack on Iran. Moreover, the risk assessment of the Obama administration to go in a war before upcoming presidential election and the fear of a new polarisation in international politics with regard to Iran have to be taken into consideration. Obama administration may not find it a best time for attacking Iran. But, if the US intelligence sources come out with any conclusion that Iran is acquiring nuclear weapons, it may push the USA and Israel to demonstrate a military attack on Iran. That can push the Iranian crisis towards more difficulty. Sanctions are affecting Iran substantively in its domestic levels. But, how far it can fulfil the objectives of the USA is not vivid. It has created pressure on the Iranian economy and nuclear programme. Hence, it is now important that how global powers like China and Russia are responding to it. If Saudi Arabia can fulfil the deficits of global oil supply for the cause of sanctions against Iran, it will make the scenario more difficult for Iran. In that case, Russia and China would be concerned about the increasing US presence in the region. The divergence of strategic interests of the USA, China and Russia may dominate the future of Iranian nuclear crisis. At the same time, Iran may exploit such contrasts among the global powers as an opportunity to neutralise the US sanctions against it. On the other hand, the Western interests in Iran are not limited only in the nuclear issue. The US and West have long term interest in relation to Iran. The countries would wait for an opportunity to topple Iranian regime. At the same time, Iran is also radical to secure its nuclear desires. It would not be easy for the USA to topple Iranian regime. It is also difficult for the Iranian regime to face continuous and uninterrupted pressure from the Western countries.

Annex 1: Critical Parts of Iranian Nuclear Infrastructure



Source: Geostrategic Forecasting.

Annex 2: The UN Sanctions against Iran

Year	Sanction	Content
2006	Resolution 1737	Halted nuclear cooperation with Iran, demanded Tehran's compliance with the IAEA, and froze the assets of persons and organisations linked with Iran's nuclear and missile programmes. It also established a committee to ensure that sanctions were implemented correctly.
2007	Resolution 1747	Banned Iranian arms exports.
2008	Resolution 1803	Strengthened travel and financial restrictions on designated Iranian individuals and companies.
2010	Resolution 1929	Imposed a complete arms embargo on Iran, banned Iran from any activities related to ballistic missiles, authorised the inspection and seizure of shipments violating these restrictions, and specifically targeted the assets of the Iranian Revolutionary Guard Corps (IRGC) and the Islamic Republic of Iran Shipping Lines (IRISL).

Source: Center for Strategic and International Studies, Washington D. C., USA.

Annex 3: The US Sanctions against Iran

Year	Sanctions	Content
1979	Executive Order 12170	Blocked all property owned by the Central Bank and the government of Iran within U.S. jurisdiction.
1980	Executive Order 12205 Executive Order 12211	Created an embargo on US exports to Iran. Imposed a ban on all imports from Iran and prohibited US citizens from travelling to Iran or conducting financial transactions there.
1986	US Arms Export Control Act	Prohibited the sale of U.S. arms to Iran.
1987	Executive Order 12613	Banned all Iranian imports to the US.
1992	Iran-Iraq Arms Non-Proliferation Act	Imposed sanctions on any entity that helped Iran develop or acquire weapons of mass destruction or “destabilizing numbers” of advanced conventional weapons.
1995	Executive Order 12957 Executive Order 12959	Banned any American firm or individual from investing in or developing Iranian petroleum products, not including natural gas. Banned all American trade and investment in Iran.
1996	Iran and Libya Sanctions Act	Sanctioned foreign firms that conducted business with Iran.
2005	Executive Order 13382	Froze the assets of proliferators of WMD and their supporters and isolated them financially. Eight Iranian entities and external organisations believed to be supporting Iranian WMD programs were designated under the executive order and sanctioned.
2006	Iran, North Korea, and Syria Non-proliferation Act	Penalised entities and individuals for the transfer to or acquisition from Iran since 1 January 1999, of equipment and technology controlled under multilateral control lists (the Missile Technology Control Regime, Australia Group, Chemical Weapons Convention, Nuclear Suppliers Group, Wassenaar Arrangement).
2010	Comprehensive	Imposes sanctions on any person that makes an

	Iran Sanctions, Accountability, and Divestment Act of 2010	investment of \$20 million or more in Iran's petroleum industry, any person that provides Iran with goods, services, technology or information with a fair market value of US \$1 million or more for the maintenance or expansion of Iran's production of refined petroleum products, and/or any person that exports more than \$1 million worth of gasoline to Iran or provides US \$1 million worth of goods or services that could contribute to Iran's ability to import gasoline.
2011	FY 2012 National Defense Authorization Act	The FY 2012 National Defense Authorization Act, signed by the President in January, includes language that sanctions any international bank or financial institution that does business with the Iranian Central Bank (ICB), including purchases of crude oil.

Source: Center for Strategic and International Studies, USA.

Annex 4: The Destinations of Iranian Oil Supply

	% of Iran's Exports	Total Volume of Crude Imported from Iran ('000 b/d)	Iran as a % of Total Crude Imported
European Union	18%	452	—
Italy	7%	183	13%
Spain	6%	137	13%
France	2%	49	4%
Germany	1%	17	1%
UK	<1%	11	1%
Netherlands	1%	33	2%
Others	1%	22	1%
Japan	14%	341	10%
India	13%	328	11%
South Korea	10%	244	10%
Turkey	7%	182	51%
South Africa	4%	98	25%
Sri Lanka	2%	39	100%
Taiwan	1%	33	4%
China	22%	543	11%

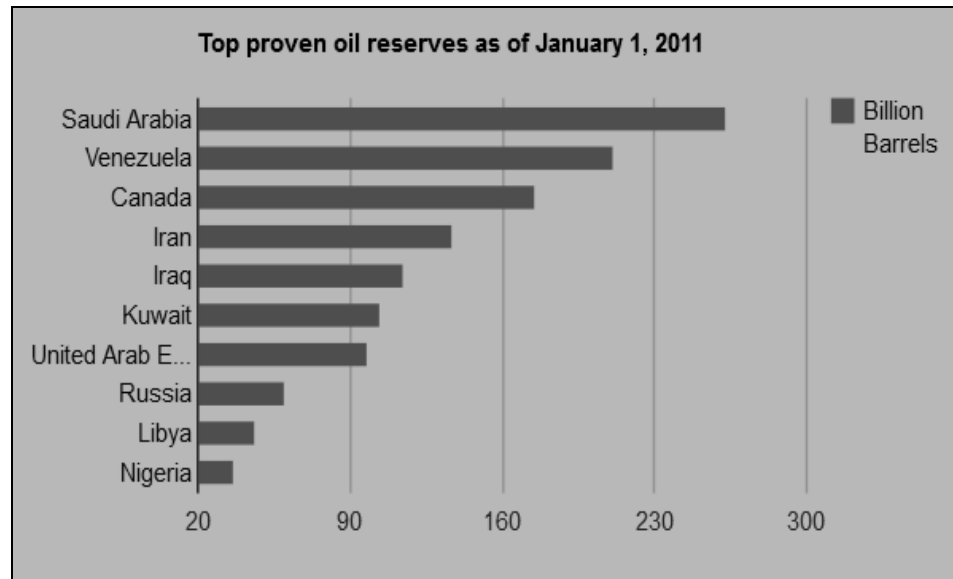
Source: Energy Information Administration, USA.

Annex 5: Macroeconomic Indicators of Iran

	2008/09	2009/10	2010/11 1/
Real GDP growth (factor cost; percentage change)	0.6	3.5	3.2
CPI inflation (period average; percentage change)	25.4	10.8	12.4
CPI inflation (end of period; percentage change)	17.8	10.4	19.9
Unemployment rate (in percent)	10.4	11.9	14.6 2/
Central government balance (in percent of GDP)	0.7	1.0	1.7
Broad money growth (percentage change)	15.2	23.5	26.7
Current account balance (in percent of GDP)	6.5	3.0	6.0
Gross international reserves (in billions of U.S. dollars)	79.6	78.0	78.9
Public and publicly guaranteed external debt (in percent of GDP)	6.1	5.9	5.4
Exchange rate (period average; rials per U.S. dollar)	9,574	9,920	10,339

1/ Estimate.
2/ Data for the first quarter.

Source: International Monetary Fund.

Annex 6: Proven Global Oil Reserves

Source: Energy Information Administration, USA.