

## **INTERNATIONAL ECONOMIC SANCTIONS ARE NOT ZERO-SUM GAMES: THERE ARE ONLY LOSERS**

Kamran Dadkhah  
Northeastern University  
and  
Hamid Zangeneh  
Widener University

### **Introduction**

There are good laws and there are bad laws. The "Iran and Libya Sanctions Act of 1996," also known as D'Amato Act after its sponsor Senator Alfonse D'Amato, is a bad one. It is bad because it hurts American businesses and international standing of the United States government without delivering its stated objectives. One cannot deny that the law has and will continue to inflict economic costs on Iran. But the cost to Iran, while significant, has not been of the magnitude to cause a significant change in that country's posture or rhetoric. On the other hand, the costs to American companies and to America's international prestige are substantial.

Ostensibly, the US sanctions have been enacted to bring pressure on Iran to abandon her support of terrorism and subversion of the region, efforts to produce weapons of mass destruction, and opposition to the Arab-Israeli peace process. But it is said that domestic politics, particularly, the 1996 presidential elections and the power struggle over foreign policy between the Congress and the President may have resulted in adopting the harsh measures. In what follows we will argue that embargoes and sanctions outlined above are detrimental to the United State's leadership and harm American economic interests, and in all likelihood, they will not change Iran's behavior.

### **International Sanctions and the United State's Leadership**

With the fall of the former Soviet Union, the United States has attained the status of the sole superpower in the world. She holds this position militarily, economically, and politically. Since the 19th century when the Great Britain ruled the waves and sun did not

set on her empire, no nation has been in this position. To state the obvious, the time has changed and the condition of the United States as the world leader is quite different from that of Britain a century ago. The United States position rests, in addition to its economic and military power, on morality of its positions and her defense of certain principles. In particular, the United States advocates human rights, liberal democracy, free trade, independence and integrity of sovereign nations, and denunciation of the use of force in international affairs. The law in question is in conflict with these basic principles.

The only time the United States can legitimately and effectively exercise its power is when she has built an international consensus on the necessity and morality of her cause. Here lies the difference between the two centuries, the United States is the first among equals, by far the first. Consensus building has to precede any action by the United States government. The necessity and viability of this course of action was shown in the crisis over the invasion of Kuwait by Iraq. On the other hand, until President Clinton reversed the direction of the U.S. policy in Bosnia Herzegovina, the noninvolvement policy of his predecessor had brought worldwide criticism. Morality is not divisible and cannot be selective.

The United States cannot follow policies that ignore other countries' sovereignty and interests which leads to the perception of US arrogance. Neither can she be oblivious to the growing strain and annoyance of other countries whose interest and sovereignty are being undermined by American foreign policies. James Schlesinger has succinctly expressed this sentiment:

It is essential for us [the United States], if we wish to continue to lead in the way we have, to avoid gratuitously antagonizing other nations. The tendency for others to bond together to cut the leader down to size is, of course, a variable. Clearly, if a leader fails to refrain from exasperating other nations, that process will inevitably be speeded up. Pride goeth before a fall.

Perhaps the most damaging part of the sanctions to American prestige is in the international trade arena. The United States has consistently and forcefully advocated free trade. Sanctions are impediments to the free flow of goods, services, and capital. The main argument behind free trade is that it is beneficial to countries that adopt it regardless of other nations' action. Imposing sanctions on other countries in order to punish them contradicts the argument for free trade. If the idea behind the free trade is correct, then the country that adopts the sanctions is reducing her own people's welfare. Still a country may be on a firmer ground when restricting her own nationals from dealing with others. When sanctions take an extraterritorial character they are quite indefensible. Such unilateral actions violate the spirit if not the letter of the World Trade Organization. The idea behind GATT and WTO is to replace unilateral and bilateral ad hoc actions with rules and procedures accepted and followed by the community of nations. Unilateral sanctions on companies of other nations who deal with a third country can only be interpreted as the United States' belief that she is above and exempt from international rules and procedures.

Nevertheless, the cost of sanctions to the United States is not restricted to intangibles of moral leadership and prestige. It can be measured in tangible commercial opportunity costs.

### **The Economic Costs of Sanctions to the United States**

Potential trade and investment in Iran have been recognized by American companies. As mentioned above, before 1995 American companies continued trading with Iran through their subsidiaries. In 1995, the U.S. firm Conoco, Inc. had initialed and finalized a contract with Iran to develop oil fields in the Persian Gulf. President Clinton invoked the National Emergency Economic Powers Act, and Conoco had to withdraw from the deal. Conoco's loss was the French company Total's gain. The same could be said about the more recent deal worth two billion dollars that involves French, Russian, and Malaysian companies. *Newsweek* (November 24, 1997) reported that "at a recent World Petroleum Congress in Beijing, Fereydoun Barkeshli of the Institute for International Oil studies in Tehran, found unanimous US oil-firm support for an Iranian pipeline route for Caspian Sea oil."

In general, given America's technological superiority and its financial might, there is no question that American firms would fare very well, should they be allowed to bid on Iranian projects. The embargo and D'Amato Act are robbing American companies of the opportunity. Thus, the only tangible consequence of sanctions has been the loss of business and investment opportunities for American firms. They have been shut out of investment in Iranian gas projects, and are in a disadvantage regarding the exploitation of the Caspian Sea oil resources. While U.S. companies have to watch from sidelines, European defiance and resentment of American sanctions with its extraterritorial and big brother overtone are understandable. Iran is commercially important to Europe. America's unilateral measures requiring Europeans to give up a lucrative market and investment opportunities meets resistance. Perhaps the recent return of European ambassadors to Tehran best illustrates the importance of Iran for Europe. Some time ago a Berlin court found Iran's high government officials guilty of complicity in terrorist attacks on German soil. In the diplomatic struggle that ensued, European ambassadors left Iran. Their return to Tehran and their expressed enthusiasm for renewed economic ties with that country while a boon for the newly elected government of President Khatami, underlines the isolation of the United States in the sanctions game against Iran.

### **The Effectiveness of Sanctions**

The arguments in favor and against sanctions can be summarized as follows. Those in favor of sanctions believe that the economic cost inflicted on the target country mobilizes the affected groups and force a change in the behavior of that nation. Those who oppose sanctions believe that by severing economic ties be it dis-investment, denial of credit, or exports and imports embargo the imposing countries would not have any leverage on the sanctioned country, simply because the latter has nothing left to lose. By keeping economic ties, the trading partner will have the leverage to affect the behavior of the target country. This is the essence of the so-called critical dialogue which Europeans have adopted with regard to Iran.

In general, the success of sanctions in altering a nation's behavior is doubtful. However, they do inflict economic costs on the sanctioned country. The magnitude of damage to the sanctioned country depends on the extent and severity with which the international community implements the sanctions. In addition, their effectiveness depends on the importance of the sanctioned sector(s) in the overall economy of the affected country, the availability of substitute markets for her exports and imports, duration of sanctions, dependence of the sanctioned country on the international capital, her ability to hoard and stockpile commodities before sanctions are in place, and the flexibility of her consumption and production structure.

Sanctions are more likely to be successful if they are imposed collectively by a group of nations rather than one country alone. Commitments by a reasonably large group of countries to engage in a collective action requires clear evidence that an important international norm of conduct has been violated by the offending nation. There has to be a villain before punishment can be meted out. It is not unusual, therefore, that in order to maximize the cost to the sanctioned country, the importance of the violated norm may be exaggerated and the extent of villainy of the target country magnified.

Proponents of sanctions argue that they need time to work themselves into the international business psyche and calculus. David Welsh, Assistant Secretary of State for Near East Affairs reported that, "many of the allies have been reluctant to grant Iran extensive credit and guarantees ... We have succeeded in raising the cost to Iran." On the other hand, it is argued that sanctions are not without cost to imposing countries. Therefore, the question is, on balance, which side is hurt more. That is, cost and benefits of sanctions do not represent a zero-sum game even in the sanctioning country. There is always a negative welfare loss associated with sanctions in both sanctioned and sanctioning countries.

In order to exact maximum economic cost on a country, at least two conditions must be present. First, the sanctioning countries must be able to control international trade of the sanctioned country. Second, other trading countries must not be capable of replacing the lost markets for sanctioned country's exports or become suppliers for her imports. If these conditions are obtained the sanctioned country is forced into autarky and she is denied all of the benefits of division of labor and international trade; her cost is maximized. However, if the sanctioning countries do not control the sanctioned country's international trade they can force the target country to trade at higher costs. Thus, less favorable terms of trade are forced on the sanctioned country which means, she will export more in exchange for lesser amount of imports.

Despite their dismal record of success, the frequency of imposing international economic sanctions has increased. It may be that they are the best substitute for military intervention and war. Sanctions are somewhere between diplomatic effort and outright war. They portray of decisiveness on the part of the leadership and since they do not require military force and bloodshed, they are less objectionable by the world community as well by the domestic interest groups. Outcomes of public policies depend on the relative influences of interest groups in generating political pressures and by exerting these pressures, they help determine "the extent and types of sanctions selected." According to the public choice theory, "Political efficiency prevails when the marginal utility to the groups benefiting from

a given regulation or policy, weighted by the group's political influence, is equal to the influences-weighted marginal disutility to the loser group ... [but], in general, the losers will lose more than the beneficiaries gain."

### **The Effects of Sanctions on Iran**

In the case of Iran, the sanctions are not universally applied. Thus, while Iran has undergone economic costs, the damage is not substantial. It is true that Iran needs American market, capital, and technology. As Conoco deal showed Iranians' first choice would have been an American company. But both Western and Eastern European countries, as well as Japan and Southeast Asian countries have been too happy to oblige. Iran earns close to 20 billion dollars annually from its exports and it is difficult for many countries to give up on such a market.

If the purpose of the sanctions is to force Iran to drop her quest for weapons of mass destruction and support for terrorism, then a critical dialogue would be a more effective tool. Iran, unlike Iraq, has never used chemical or biological weapons and its nuclear facilities have been open to international inspection. Her support for terrorist acts has waned over the years and, to be sure, trading partners have a much greater leverage in persuading Iran to seek her goals through diplomatic channels.

It may be that the objective is to force Iran to publicly denounce its past policies and make a pledge not to seek biological weapons and other weapons of mass destruction. And to make such statements in a way that leaves no doubt she is seeking reprieve from economic sanctions. In other words, the purpose may be to avenge her hostage taking and the defeat of President Carter in the 1980 elections. Such statements would not be forthcoming regardless of economic costs.

First, the government of Iran is founded on ideological principles that prohibits submission regardless of the cost. This point was well illustrated during the eight-year war brought by the Iraqi invasion of Iran. Second, it should be noted that despite the well-known and well-documented human rights infractions of the regime, particularly in the early years of the Islamic Republic, Iran's political system is the closest to a democracy of any country in the Middle East, with the exception of Israel. Political differences are freely aired in the Majles (Parliament) and in the media. If the faction that controls the executive branch makes a move in the direction of an apology, it will be exploited by the opposition as giving in to the enemies of the revolution.

### **Conclusions**

The election of Mohammad Khatami to presidency, if he succeeds in controlling all organs of the government, heralds a new era in the political life of Iran. Khatami campaigned on a platform of tolerance, human rights, particularly for women, rule of law, civil society, peaceful coexistence, and dialogue rather than confrontation. He won by a landslide of two thirds majority. The intransigence of the United States in imposing economic sanction weakens Khatami's position vis a vis his opponents. Removal of the sanctions would strengthen him against his rivals without giving the appearance that somehow he is playing

the American game.

Perhaps sometimes governments and nations behave like individuals; that is, they decide on the basis of emotions rather than cool mathematical logic. Imposing sanctions on a "rogue" state would make everyone feel good. But if economic benefits of the United States and her international standing are considered, and the objective is to bring about a change in policies and international conduct of the Iranian government, removal of sanctions and repeal of D'Amato law are clearly indicated.

#### Notes

1. James Schlesinger, "Fragmentation of Hubris," *The National Interest*, Fall 1997, pp. 3-10.
2. Iran has just announced its intentions to accept bids for 13 new oil projects on land to foreign companies as soon as these projects are approved by the Iranian Majles. Another lost opportunity for American oil companies. See *Iran Times*, November 28, 1997, page 1.
3. In a recent statement, French President and Malaysian Prime Minister, rejected the D'Amato law as extraterritorial and expressed their support for investment in Iranian oil industries again. See *Iran Times*, November 28, 1997, page 1.
4. For a more detailed discussion of these point see chapter five of William H Laempfer and Anton D. Lowenberg, *International Economic Sanctions: A Public Choice Perspective*, Westview Press, Boulder, Colorado, 1992; or see Gary Clyde Hufbauer and Jeffrey J. Schott, *Economic Sanctions Reconsidered: History and Current Policy*, Institute for International Economics, Washington, DC, 1985, appendix A.
5. *Ibid.*, page 42.
6. Iran just became a signatory to the international chemical weapons treaty, which prohibits production and stockpiling of this class of weaponry. This means that Iran's facilities are open to legitimate international inspections.
7. This is not to imply that Iran has a democracy comparable to that of the United States or Western Europe. As recent clashes over the absolute powers of the Supreme Guide (Rahbar) showed, certain subjects are not to be questioned. Nevertheless, in an area of the world where some countries have never elected the mayor of their village, Iranians enjoy freedom of choice, albeit restricted, in determining their President.