

Efficiency and Impact of Economic Sanctions

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Abstract

The purpose of this paper is to examine economic sanctions as a foreign policy instrument and to give judgment to their efficiency and impact. Since WWI economic sanctions have been used as a tool for preventing conflicts and signaling instrument of foreign policy. Their efficiency and impact have been the main topics for many discussions. Since the War in Yugoslavia in 1991, economic sanctions gained on their importance and usage. Two classical examples of economic sanctions will be discussed in this paper: War in Yugoslavia and sanctions against Iran. Economic sanctions appear to be unsuccessful in most cases and their usual victims are innocent inhabitants.

Keywords: Economic sanctions, efficiency of economic sanctions, Yugoslavia, *Iran*.

1.INTRODUCTION

Since the beginning of human kind, people and nations have been fighting among themselves. Wars have become part of daily life because of reasons such as pretensions of some countries for territory of other countries, their economic and cultural wealth etc; or even to impose their own beliefs on others. One of the means used in achieving those goals are economic sanctions. Although, Economic Sanctions are ideated to be means for preventing conflicts, they often do not serve the purpose.

This paper will provide basic information about economic sanctions as well as their analysis and effectiveness, their importance in the foreign policy of countries, and also their role in war and pre-war preparations. The main idea of this paper is that economic sanctions are usually not effective and they almost always harm civilians.

The structure of the paper is as follows: Section 2 is the literature review. In Section 3, economic sanctions will be discussed as a phenomenon. Answers for many questions regarding economic sanctions and their role as foreign policy tool can be found in this part. Section 4 provides information about economic sanctions imposed on Serbia during 1990s and current sanctions against Iran. Finally, Section 5 concludes.

2.Literature review

Radcliffe (2010) states that economic sanctions are penalties imposed against another country in order to force that country to change its policies, by inflicting economic losses. Debating on efficiency of economic sanctions, Radcliffe (2010) says that success of sanctions depends on how many parties are involved in imposing sanctions. He states that bilateral sanctions are more effective than those imposed unilaterally (the USA sanctions are often unilateral), but overall success of economic sanctions is very low. As he says, sanctions usually affect ordinary people without achieving targeted goal.

Lektzian and Souva (2007) claim that effects of economic sanctions are “conditional” meaning that economic sanctions imposed on non-democratic society are less effective than those imposed on democratic society. They also argue that economic sanctions that are imposed on poor countries by powerful states are often effective, due to the fact that poor countries are highly dependent on economic aid from strong economies.

Economic sanctions are not efficient and they are often imposed to show that sender country (country which sends sanctions) does not agree with political situation in receiving country (country that receives sanctions). Sometimes, country imposes unilateral sanctions when they are helpless in exercising their influence upon others, says Wallenstein (1968). Andreas (2005) states that economic sanctions should be used, but only those which will not have criminalizing effects, such as smuggling of banned goods and other illegal acts. For him, targeted sanctions such as freezing foreign assets of leaders, and diplomatic embargo are likely to have very few criminalizing consequences, and are therefore better for achieving the goal.

Davis and Engerman (2003) argue that increased usage of economic sanctions is good because it is always better to make changes in the world through peaceful acts than through military acts. This reason is very strong, but Davis and Engerman (2003) also conclude that states with higher economic power and better political situation are able to impose more effective sanctions than poor countries. This implies that economic sanctions always serve only the rich countries and they are anti-poor oriented.

On the other hand, some authors argue that economic sanctions are successful. In their research, these authors ignore sanctions whose goal is only to send signals. According to Hufbauer, Jeffrey and Elliot (2008) those sanctions should not be evaluated because they do not have clear definition and clear target. They are imposed only as opinion of one country towards policy of others. Roger (1996) advocates economic sanctions more than others. She argues that if the sanctions are to be successful, it is important that imposer is very familiar with the roots of wars, be better predictor of those conflicts, and at the end, is able to impose proper sanctions.

Henderson (1998) agrees with authors who think that economic sanctions harm only innocent and ordinary inhabitants of countries. It is natural that heads of the states affected by sanctions do not share pain with their vassals. Knowing this, we can say that economic sanctions are really inefficient. They affect those people that are not real target of economic sanctions. But imposer countries do not care about innocent people. They are only concerned with achieving their goals, even though their experience tells them differently – the sanctions will not be efficient.

Rarick (2007) agrees with most authors when it comes to ineffectiveness, and even concludes that economic sanctions are wrong tools of foreign affairs. He states that even though many

powerful countries know sanctions odds for achieving goals are small, they still use them whenever they can.

One of the most cited authors regarding this topic is Robert Pape. Robe (1997) indicates that only in 5% of all cases economic sanctions could be recognized as the reasons for political changes. Blanchard and Ripsman (2000) claim that economic sanctions' effects are "unquestionably negative" compared to expectations of those who impose them. They also say that neither economic sanctions nor the threat of imposing economic sanctions can bring true changes in political sense of one country.

3.Economic Sanctions

3.1.What are the Economic Sanctions?

Economic sanctions are tools for international policy, tools for showing countries' opinions regarding some situations and instruments for international political changes. They also serve as a tool for punishing countries that are violating human rights of their inhabitants, or they represent some source of threat to the rest of the world. Their most important function is probably to work on preventing all of the sources of human conflicts. Elliot, Hufbauer and Oegg (2008) note that economic sanctions have three main functions: to punish, to prevent, and to make changes in political sense. Economic sanctions as punishments are used very often; sometimes as a punishment for disordering international law and order; sometimes as punishment for country's oppression and disrespecting of human rights. Second function, as crucial function, is to deter conflicts between countries (ex countries of ex Yugoslavia) and civil wars. In order to prevent high costs of war and to avoid all other costs that are sometimes more important than human lives, economic sanctions are used as very powerful tools for resolving disputes.

By forbidding international aid or putting embargo on imports of weapon, imposers could affect (slow down) further progress of the conflicts. Third function is used frequently nowadays. This function of economic sanctions is used in order to influence political changes in some countries (Libya, Syria, etc), or to decrease security threat from other countries (Iran, North Korea). By imposing sanctions, powerful countries (imposer) can manifest their disagreement regarding political situation in the country that receives sanction. Usage of economic sanctions is in constant trend of enlargement. It is obvious that economic sanctions are becoming one of the main international policy tools. The United States of America is the leading country in imposing economic sanctions and its portion of all sanctions imposed in the world since WWII is very large.

Table 1: Trends in Use of Economic sanctions

	Number of new cases of economic sanctions imposed until 1999.					
Period	1914-1949	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999

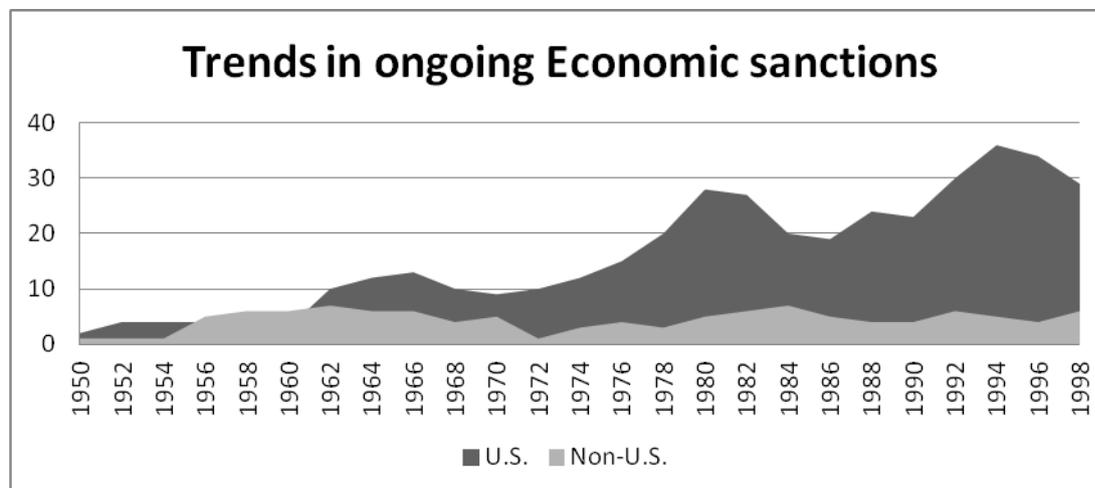
Type						
Non-U.S.	11	6	7	9	7	18
Other & U.S.	4	4	4	3	8	30
Unilateral U.S.	4	3	10	26	13	14
Total	19	13	21	38	28	62

Source: Institute for International economics and center for global development, Washington, 2006

Table 1 shows the increase in usage of economic sanctions since WWI until the last year of the 20th century. It also shows portions of Non-USA sanctions, bilateral sanctions of the USA and other countries, and unilateral sanctions imposed by the USA. During the 1970s, unilateral sanctions imposed by the USA increased a lot due to Cold War era. It can be concluded that usage of all types of Economic sanctions boosted during the 1990s.

Figure 1 shows the ongoing economic sanction trends and comparison of the USA sanctions and all other sanctions in the world. It can be concluded that increase in usage of economic sanctions as foreign policy tool, by the USA, is much higher than usage of all other countries in the world.

Figure 1. Trends in ongoing Economic sanctions



Source: Institute for International economics and center for global development, Washington, 2006

3.2. Efficiency of economic sanctions

Since the emergence of economic sanctions there is a debate about their efficiency. Although there are some people who argue that economic sanctions are efficient in reaching their goals as foreign policy tool, majority concludes that economic sanctions are mostly inefficient. If that is so, why are they still in use and why they stayed first option in resolving the international disputes? All sanctions that are imposed have some goals (to send signal; to punish, etc.) and if those goals are reached, we can say that economic sanctions are successful. Based on empirical evidence, it can be concluded that economic sanctions are generally inefficient.

To determine the real success of sanctions it is important to look at their real objective and purposes. It is natural to expect inefficient sanctions, if objectives are mixed or too complex. Sometimes, sanctions are meant to be inefficient and their only goal is to declare opinion or to send a signal. Although some scholars see much more success in imposition of sanctions than others, economic sanctions often end with military operation within target country. For example, Hufbauer et al. (1985) argue that economic sanctions show success in 34% of all examined cases, from 1914 until 1990.

Table 2: HSE Research on Economic sanctions cases

Summary of Hufbauer, Schott, and Elliot's Findings.			
Policy Goal	Successes	Failures	Success Ratio (percentage of total)
Modest policy change	17	34	33%
Destabilization	11	10	52%
Disrupt military adventures	6	12	33%
Impair military in war	2	8	20%
Other major policy changes	5	15	25%
All cases	41	79	34%

Source: Pape (1998)

According to Table 2, 41 case of all considered in HSE research was successful, while 79 were failures. Highest success was recorded when goal was to destabilize country, which is natural because it is easy to destabilize one country using Economic sanctions as weapon.

In his response to this result, Robert Pape (1998) concludes that much of these “successful” cases ended in war. In his examination of these cases he came to result in which only 5% of all cases could be called successful. Pape (1998) considered 8 cases in which economic sanctions influenced loss in the GNP of one country more than 4.6%, and he called them “High Punishment and Sanction Outcomes”.

Table 3: Sanctions Outcomes in HSE cases

High Punishment and Sanctions Outcomes.				
Year	Coercer	Target	GNP Loss	Outcome
1967	Nigeria	Biafra	15.2	failure
1951	U.K./U.S.	Iran	14.3	failure
1965	U.K./UN	Rhodesia	13.0	failure
1982	U.S./Netherlands	Suriname	7.8	failure
1975	U.S.	Cambodia	6.8	failure
1987	U.S.	Panama	6.0	failure
1982	South Africa	Lesotho	5.1	overdetermined
1989	India	Nepal	4.6	success

Source: Pape (1998)

Of all these cases, only one was complete success (India's imposition of sanctions against Nepal) according to Pape (1998). It is really ironic that some economic sanctions hit one country's economy, almost destroy it, and at the end they show failure.

Even with all of these conditions fulfilled, Pape (1997) thinks that economic sanctions will not be completely efficient, and that military action is always better solution in terms of reaching the goals of foreign policy. Rudy and Ventheicer (2006) argue that efficiency of economic sanctions depends on characteristics of sanction itself. If sanctions are imposed bilaterally, they have better odds to be partially successful. Another characteristic that influence success of economic sanctions is duration of imposed sanctions. If sanctions are meant to last over long period of time, it is more likely that they are going to be less successful or completely unsuccessful. Also, there is the question of cost of the imposed sanctions. If sanctions impose high costs to target country, and if they do not impose high costs to country sender of sanction, they will be more successful (Rudy and Ventheicer, 2006). Those authors that argue conditional effect of economic sanctions (Lektzian and Souva, 2007) base their conditionality on the fact that democratic societies will be affected by economic sanctions more than non-democratic societies.

Lektzian and Souva (2007) identify three categories that influence success of economic sanctions: sanctions that express interest, punishment and institutions. Sanctions for expressing interest are not concentrated on making changes in policy of other countries, but rather to make inhabitants and voters pleased with the actions of their government.

Second category is sanctions that are used as tool for punishment. Those sanctions follow simple policy of imposition of economic sanctions against countries whose policy is about to be changed. Third category are institutional sanctions that are combination of those two mentioned above. Elliot et al. (2008) also argue some sort of conditionality. When deciding whether sanctions are effective, they sort them by their goals, their political and economic impact on country affected by sanction, their characteristics in given occasion. When governments impose sanctions that have conflicted goals, sanctions will most probably be ineffective and unsuccessful. When it comes to sanctions whose goal is to change government of other country, they must be all-inclusive and quickly imposed.

“A strategy of “turning the screws” (increase pressure and extend the duration) gives the target leaders time to adjust by finding alternative suppliers or markets, by building new alliances, and by mobilizing domestic opinion in support of its policies.” (Elliot et al. 2008) Those three authors recommend 4 assumptions according to which economic sanctions will be the most successful: Sender of sanctions should avoid high costs, both political and economic (when sanctions with higher cost of imposition fail, country sender can have severe

problems); multilateral sanctions together with modest goal (not too big bite) are more efficient than others (when sanctions have small goal to achieve and when they are imposed multilaterally, they have better odds for success); imposed sanctions should be quick and comprehensive (successful sanctions lasted about three years, while unsuccessful sanctions lasted about eight years); target country should be weaker in political and economic sense, than country imposer (it is natural that stronger countries are able to impose stronger sanctions and that sanctions imposed against poor countries are more successful).

Economic sanctions were very effective during the 1940s and 1950s. But after developments in world economy and increase in usage of unilateral sanction (especially the USA), efficiency of those sanctions is enormously decreased. Today's economies are very connected and they heavily depend on international trade. Although this dependence means various sources of supply, it also means that imposition of economic sanctions is easier than ever.

In his speech, Patterson (1994) derived few important conclusions regarding economic sanction imposition: It is important to know the right time and place for imposition of sanctions; harshness of sanctions should be proportionally divided and those who are not guilty for bad policy should not be harmed by sanctions; countries that impose sanctions should monitor their effects very closely; only legitimate authority should impose sanctions (e.g. the UN); sanctions should be imposed according to their popularity amongst people of targeted country (if there is a strong opposition, there is higher chance that people will follow that opposition against leading party or leader); it is very important to protect basic human rights guaranteed by international authorities and conventions while imposing sanctions; sanctions need some time in order to start working. This last conclusion is in conflict with opinions of majority authors who concluded that sanctions are more efficient if they last shorter.

3.3 Impact of economic sanctions on innocent people

Harming innocent people is probably the most adverse impact of economic sanctions. Primary goal of economic sanctions is to harm leaders of target country in order to change their views and policy. Although harming is unintentional in most cases, it is also possible that countries senders impose sanctions intentionally. Economic sanctions mostly affect ordinary people of target countries, because imposer countries know that the easiest way to make changes is to turn people against their leaders. Iraq in 1990s is a clear proof that sanctions can kill more people than true military sanctions and irony lies in the fact that almost all dead people were civilians.

According to Gordon (1999), imposition of economic sanctions can be compared to siege in old history wars. In those wars, civil casualties are mass and same like those in countries that receive economic sanctions. Prohibition of imports of goods was done in those wars in same way as it is done in today's imposition of economic sanctions, which creates the biggest problem to those not included in political incidents. When attacking a country with economic sanctions, imposers should avoid innocent casualties in order to make economic sanctions successful and clean. It is very interesting how leaders of powerful countries do not characterize economic sanctions as war crime, even though they have the same impact on innocent people like wars and other types of crimes. Other types of problems that civilians faced with under economic sanctions are increased cost of goods, criminalization (smuggling

inelastic goods, etc.) and one very dangerous psychological problem which is the increase in radicalism and extremism.

Although target sanctions (also called “smart sanctions”) have only certain group that surrounds political head of receiver country for target, they did not show success in avoiding undesirable casualties, such as harming innocent people. Countries that impose sanctions often have hidden intentions and under the policy of removing the dictators they also hurt people they do not like or people considered to be dangerous (murders of Iran’s nuclear scientists). Gavin (1989) argues that discriminating consequences of economic sanctions have key influence on success of those sanctions. Those sanctions could also cause lack of medicines, even though those medicines are rarely under the sanctions.

The case of Iraqi sanctions from 1990s proves that economic sanctions exhausted people so much that their incomes decreased to that level, where they were unable to buy medicines. This shows how sanctions harm people, even when medicines and other essential things are out of sanctions. There is an interesting question after all these facts: Do imposer countries think that dictators like Saddam Hussein, Kim Jong Il, and others suffer when sanctions on food and other goods are imposed? Of course not. This situation is even good for dictators, because it can consolidate their position. They control those goods that exist beside sanctions and with them they can control people. As it is mentioned, one of the serious impacts of economic sanctions is emergence of criminalization connected to economic sanction, such as smuggling and other types of crime acts. “The imposition of comprehensive sanctions by the international community unintentionally encouraged much closer state-criminal ties and large-scale smuggling” (Andreas, 2005).

4. Classical Cases of Economic Sanctions

4.1. Serbia in 1990s

Some of the most comprehensive sanctions were imposed against Yugoslavia (today Serbia) in 1990s. Their politics caused the breakdown of Socialistic Republic of Yugoslavia. The politics of Serbs was different than opinion of other nations within Yugoslavia, and because of that, they wanted to separate from the country. Serbia, as “protector of Yugoslavia”, did not allow other republics to separate, and then the first war since WWII in Europe started. When Europe and the UN saw how severe those conflicts are, they tried to stop them, or at least to decrease their quantity. First action was the imposition of sanctions.

Since 1990s and emergence of war conflicts in many parts of world, especially on Balkans, world’s most powerful countries began with massive usage of economic sanctions as tool of foreign policy. In May 1992 Serbia faced with sanctions. Although Serbian authors argue that Milosevic, the president of Yugoslavia, accepted sanctions and they declare sanctions as successful, sanctions did not have so strong impact on suspension of war conflicts. However, sanctions had impact on creation of peace treaty. Sanctions, such as embargo on weapons, directly influenced war in Bosnia, because it was directed only against Bosnian Muslims. First round of economic sanctions was imposed after disobedience to resolution for cease of all conflicts on May 30.

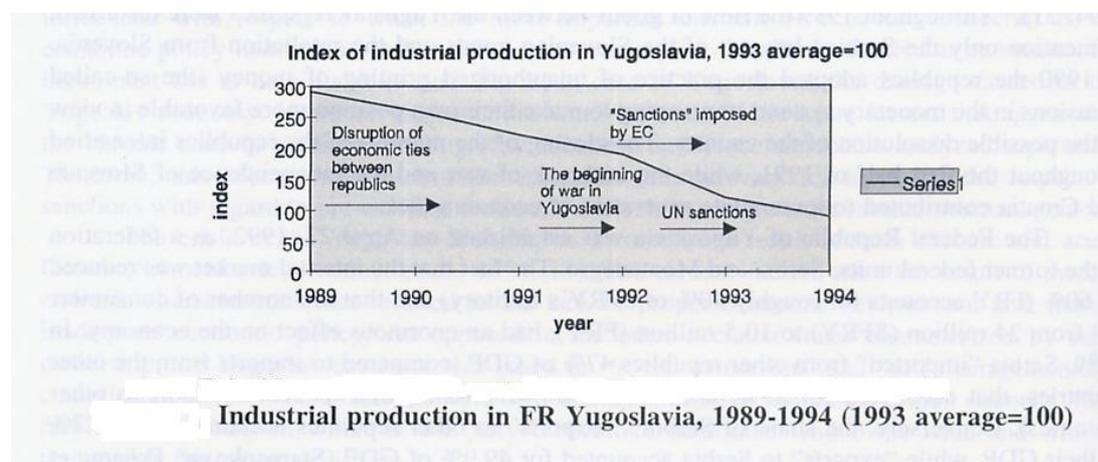
Security Council of the United Nations requested embargo on imports of all products produced in Yugoslavia, ban on supply of all goods and commodities to Yugoslavia, except medical supplies and food for hungry people and social cases. All technical and scientific

exchange as well as visits and cultural exchange, was suspended. Diplomatic visits were reduced to the lowest level.

“It also decided that all states should not make available to the authorities in FRY, or to any commercial, industrial or publicly utility undertaking in FRY, any funds or any other financial or economic resources. Air-traffic was also prohibited, as well as participation of persons and groups representing FRY in sporting events” (Delevic, 1998). Original idea for imposition of economic sanctions was to stop conflict and to save people from violation of their basic human rights, but like in almost all of the cases of economic sanctions, the biggest burden of those sanctions was on ordinary people of all republics in Yugoslavia. The impact of sanctions on Serbia’s economy was strong. Data says that income per capita decreased by 50%, from \$3240 to \$1390. Yugoslavia’s old suppliers suspended all activities in that country and it was hard to find new ones. It was hard and expensive to find other materials that will replace missing one, and furthermore it led to decrease in living standards.

Three months after the imposition of economic sanctions, Yugoslavian industrial production fell down by 40%.

Figure 2: Index of Industrial production in Yugoslavia



Source: Federal Bureau for Statistics, Yugoslavia, 1998

Figure 2 shows the decrease in Yugoslavia’s Industrial Production from 1989 until 1994. First signs of fall were in 1989 with rocky confidence between republics in Yugoslavia and continued with the start of war conflicts in 1991. The sharpest fall started with the imposition of economic sanctions that stroke all aspects of Yugoslavia’s economy. Impact of sanctions on GDP and public spending was enormous.

Table 4: Changes in Public spending and revenues

% of GDP	1990	1991	1992	1993
Public spending	49	63	65	70
Revenues	46	46	24	11

Source: Author`s own calculations, data from “Economic sanctions as a foreign policy tool”, 2002, pp. 30

According to Table 4, public spending as a percentage of GDP increased during the period of economic sanctions in Yugoslavia, while revenues decreased significantly. Monthly rate of inflation in Yugoslavia in 1993 was 4667%. When it comes to unemployment in Yugoslavia during the imposition of economic sanctions, it is important to mention that unemployment increased enormously in the period of three years (1991-1993), from 14% to 39%. In year 1992, 1.3 million of workers in Yugoslavia were out of work, so called paid leave, and around 750 000 people were unemployed. In terms of employment, sanctions stroke women the most. In 1998, there were 56% of unemployed women. One major fact shaped so high volume of budget deficit in Yugoslavia during the sanction period.

Serbs that lived in Croatia and Bosnia, asked for humanitarian help from their mother land Serbia, and every year big amount of government spending went to those people in other countries. According to Jovanovic and Sukovic (2002) percentage of Serbian citizens that lived with less than 2\$ per day increased to 39% in 1992, comparing to 14% in 1990. “The percent of income used to purchase food varied between 30 and 40% during 1980-91. In 1993, it rose to a 50%, signaling nutrition emergency. For low income people the rate was even higher - around 60%. In 1991, the average salary bought one food basket for a family of four. In 1993, it bought only 1/5 of the food basket” (Jovanovic, Sukovic, 2002).

When it comes to criminalizing consequence of economic sanctions, the best example is Yugoslavia in 1990s. Like in every nondemocratic society, imposition of economic sanctions and other types of sanctions is good opportunity for emergence of criminal actions or even development of existing criminal groups and their actions. Smuggling was the most used criminalizing action during the period of economic sanctions, and while smuggling is illegal act, it was considered as patriotic act during the period of economic sanctions in Yugoslavia (Andreas, 2005). Economic sanctions had positive effects on only one kind of people in Yugoslavia, criminals. Although one goal of economic sanctions was to eliminate Milosevic, the president of Yugoslavia, they did opposite.

As it is argued before, economic sanctions are extremely favorable for nondemocratic leaders. The same situation was with Milosevic. He controlled the most important goods (oil, flour, sugar etc.) and all humanitarian help, and he blamed foreign forces for bad economic situation in country. He persuaded his inhabitants that he is able to pull out his country from economic and political darkness and he also supplied groups that supported him with goods that were in shortage. The best example of legal smuggling in Yugoslavia was oil smuggling. Milosevic smuggled oil from Russia through port in Montenegro (another republic of Yugoslavia that was not independent at that time). The distribution of oil was in hands of Milosevic and to him loyal people also.

Many authors say that economic sanctions imposed against Yugoslavia were effective because they stop the war. This statement is worthy to discuss. War in Bosnia stopped after the progress that Muslim army made in 1995. Richard Holbrook, American diplomat that created Dayton agreement, admitted that he made mistake when he stop progression of Muslim army in Bosnia, because today`s Bosnia is “Barrel of gunpowder”. Another reason for ending the war in Bosnia was severity of the conflict. Europe and the USA could not allow further extensions of this war that took more than 200 000 human casualties by 1995. This is why, the opinion that economic sanctions ended war in Yugoslavia is funny. Only impacts

that economic sanctions had are partial obedience of Serbia to the UN, and humanitarian crisis they have created.

4.2.Iran in 2000s

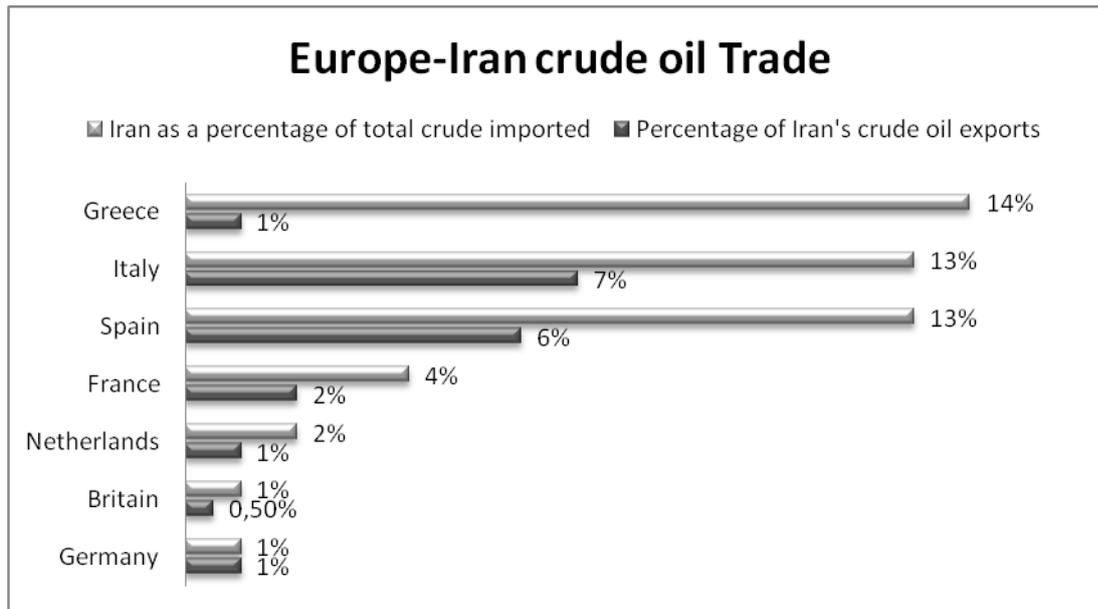
Although Iran faced the International rage and economic sanctions after Islamic revolution in 1979, today's situation is even worse for Iran's reputation on international scene and especially its economy. During 1990s international community was informed that Iran tries to develop nuclear program for civilian usage. However, in years 2002 and 2003 information about Iran's hidden enrichment of fuel, leaked. Iran claimed that they do not have hidden intentions and their only purpose of fuel enrichment is to obtain high power from nuclear resources. The USA and Israel have major concerns because of Iran's "nuclear program" and they threatened Iran with war. According to the USA and Israel, Iran has plans to produce an atomic bomb.

Iran declared its full support to Palestinians in their fight for liberty. This is why Israel is afraid of Iran and their nuclear program. Nuclear problem forced the UN to impose many rounds of economic sanctions against Iran. Four rounds of economic and other sanctions are imposed against Iran by the UN since 2006. Also there is huge number of national sanctions imposed by the USA, Japan, Canada, Israel, Australia, South Korea, Switzerland, India, EU, etc. The UN imposed sanctions because of Iran's refusal to cooperate with International Atomic Energy Agency (IAEA) as well as to suspend all uranium-enrichment activities. The UN sanctions were imposed as follows: first round in 2006, second in 2007, third in 2008 and fourth in 2010. Those sanctions were massive and they hit all parts of Iran's economy and its population. The UN sanctions included: a ban on exports to Iran of all materials, goods and technology that could be of help for further enrichment of uranium and further development of Iran's Nuclear Program (INP); a prohibition of any assistance to any person that could manage or help in exports of prohibited goods (mentioned above) to Iran; a ban on exports of all arms and war technology as well as a ban on all financial assistance that could be helpful for Iran's Nuclear program; asset freeze to all persons that could be involved into development of INP; a travel ban to all persons involved into development of INP and others.

Non-UN sanctions also included prohibition of investing into Iran's gas or oil sector, prohibition of providing Iran's shipping industry with materials for making ships and their maintenance, etc. EU and the USA, and many other countries focused their sanctions on travel bans for persons that are involved in INP as well as sanctions against major banks in Iran. The latest sanctions imposed against Iran are EU sanctions (23 January, 2012) that targeted Iran's main industry oil. EU prohibited imports of crude oil from Iran and other petroleum products; all assets of Iran's Central bank within EU are frozen; trade in precious materials, gold and diamonds is banned. Imposition of those sanctions could cost EU very much. According to World Bank almost 40% of Iran's oil is bought by EU countries, and even though Europe thinks these sanctions will hit Iran the most, it does not have to be the case.

Three biggest buyers of Iran's oil in EU are Italy, Spain and Greece. Those three countries are endangered by a huge deficit and they are the weakest parts of EU. If they face oil shortage, they could fall into even worse situation than they are in today, and that could be disastrous for Euro zone and common currency.

Figure 3: Europe-Iran crude oil Trade



Source: U.S. Energy information administration, 2011, www.eia.gov

Figure 3 shows how huge the dependence of some European countries on Iran is, when it comes to the imports of crude oil. Greece, the EU country with the strongest economic problems within the Europe at the moment is the biggest importer of crude oil from Iran. Economic sanctions imposed by many countries of the world, made Iran's payments harder for execute, and therefore Iran's imports from many countries is endangered, even imports from those that did not impose sanctions. Lack of hard currency is also a problem for Iran.

This is why Iranians have troubles while traveling abroad. Although, International Monetary Fund (IMF) estimated in July last year that percentage of oil in total Iran's exports will be around 78 %, oil and other energy exports for 2011/2012 is much smaller and its portion within GDP is only 21 %. Hufbauer estimates that latest economic sanctions imposed against Iran could decrease its GDP by 10% (Torchia, 2012).

Table 5: Iran's Average Annual Real GDP Growth

Table Iran's Average Annual Real GDP Growth: 2000-2010

Fiscal Year	Average Annual Growth (%)
2000	5.1
2001	3.7
2002	7.5
2003	7.1
2004	5.1
2005	4.7
2006	5.8
2007	7.8
2008 (estimate)	6.5
2009 (forecast)	0.5
2010 (forecast)	2.9

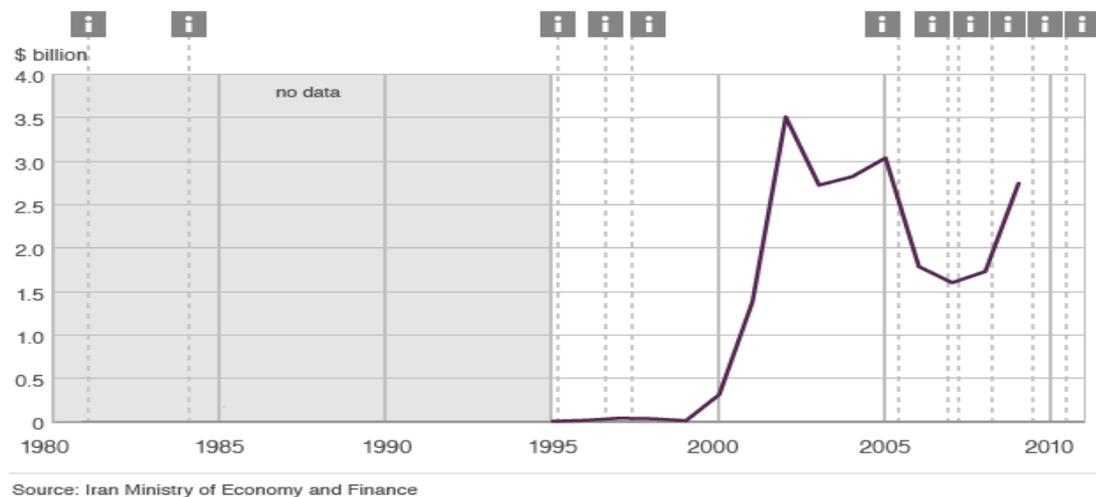
Source: Economic Intelligence Unit (derived from World Bank, World Development Indicators).

Source: Economic Intelligence Unit (World Bank)

According to Table 5, Iran's real GDP growth had difficulties during the period of sanctions. Before sanctions, growth was 7.1 in year 2003 and even 7.5 in 2002. But in 2005 it was 4.7. It was estimated that growth in 2010 was 2.9, which is huge difference compared to 2002. Iran had problems with inflation even before economic sanctions, and when they were imposed situation became worse. According to Torchia (2012) inflation rate went to 20% in the last 18 months and analysts assume that the real rate of inflation is even higher. One of the reasons is because sanctions made imports more expensive. As it always happens in economy, higher inflation makes national currency less valuable.

One of the areas that were stricken very much is Foreign Direct Investment. Many foreign investors gave up on investing in Iran because of bad political situation. Others gave up because of the USA and the UN pressure. All these things forced foreign investors as well as foreign suppliers out of Iran. Without FDI, Iran's economy must go down.

Figure 4: Foreign Direct Investment in Iran during the sanctions period



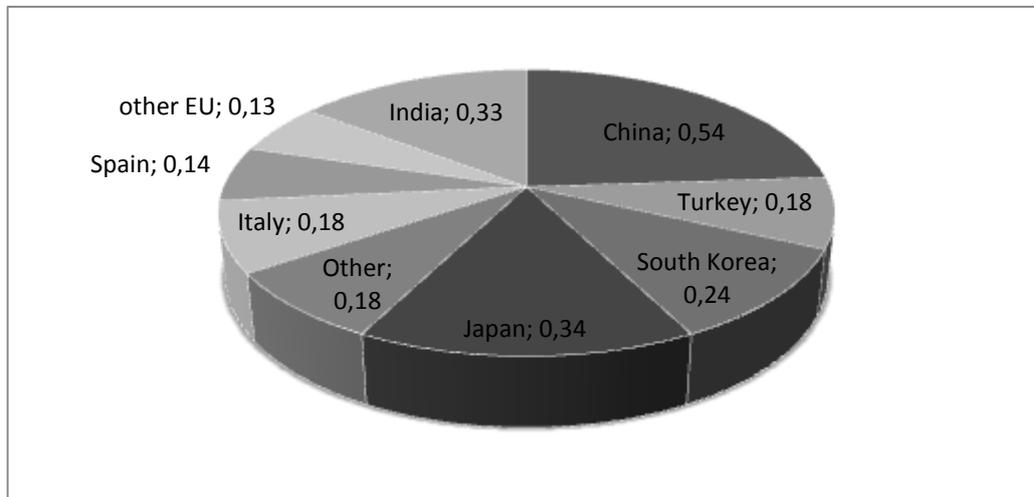
Source: Iran Ministry of Economy and Finance

Figure 4 shows that since imposition of economic sanctions in 2006, Foreign Direct Investment decreased a lot. Although before 2010 there is a small increase, after latest EU sanctions in 2012, FDI will probably decrease a lot. When it comes to efficiency of those economic sanctions imposed against Iran, officials disagree. John Bolton, a senior fellow at the American Enterprise Institute, doubts their efficiency, but admits that sanctions are brutal. Shmuel Bar, Director of Studies at the Institute of Policy and Strategy in Herzliya, says that new stricter economic sanctions will be counterproductive and that they will even improve Iran's nuclear program (Press TV).

Opposite to these opinions, most of European and American politicians and scientists consider economic sanctions efficient and until now successful. Hillary Clinton, Secretary of State, says that sanctions "had slowed Iran's nuclear program" and that sanctions disturbed Iran's economy, especially in the two sectors: Exports and banking (NY Times). The USA Congress is preparing new set of sanctions against Iran and they targeted all companies and persons linked to Iranian Revolutionary Guards. Barak Obama imposed sanctions against Iran's Central bank in order to block financing Iran's nuclear program (Fox news).

This announcement came few weeks after Iran threatened to close the Strait of Hormuz through which around 20% of world's oil passes and that Iran will suspend all oil shipment to Europe (Financial Times). Economic sanctions against Iran had some success indeed, but it is questionable will they reach their final goal. After all these sanctions, Iran must work harder than ever in order to find suitable technologies (and even scientists because many of them are murdered by Mossad and CIA) that will be helpful for development of nuclear program.

Figure 5: Iran's crude oil exports, millions of barrels per day

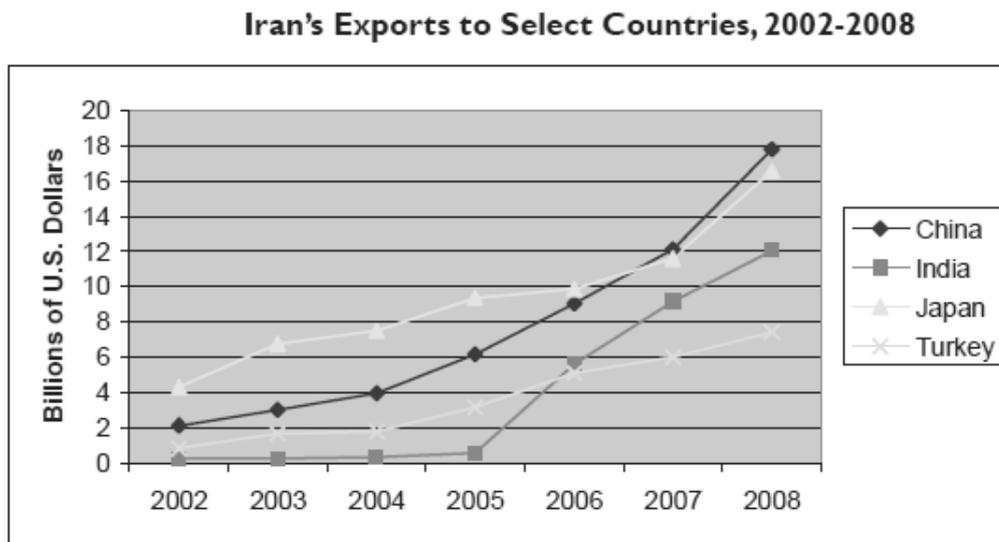


Source: U.S. Energy Information Administration, 2011

Figure 5 shows Iran's crude oil exports in first six months of 2011. Total exports were 2.26 millions of barrels per one day. As we can see, countries that already declared opposition to oil embargo (India, China, South Korea, Turkey) are importing 1.29 millions of barrels per day from Iran, which is 57% of all Iran's exports per day. Japan only imposed sanctions on goods that could help Iran's nuclear program and also hesitate to impose sanctions on oil. EU imposed oil embargo against Iran in January 2012, but its true implementation will start in July. This gives plenty of time to Iran to find other buyers to fulfill the gap that will appear after the EU countries stop importing the oil.

China and India (huge markets) already rejected sanctions against Iran and they have announced that they will even increase their imports of oil from Iran. Iran will probably offer their oil at discount prices in order to attract countries to buy excess of oil that will appear after Europe stops buying it (Wall Street Journal). In that situation nothing new will happen. Iran will sell all of its oil and only problem will be the loss of 20-30 billion dollars because of discount. Almost same situation is with other goods that Iran exports.

Figure 6: Iran's Exports to Selected countries



Source: IMF, *Direction of Trade Statistics*

Source: International Monetary Fund

According to Figure 6, Iran's exports with selected countries increased even in the period of sanctions imposed by UN (2006, 2007, and 2008). China, India and Turkey will continue and even increase the import of Iran's oil (Japan imposed sanctions only against persons involved in nuclear program). All economic sanctions imposed against Iran could be a part of pre-war preparations, as history already showed many times. The idea is to make Iran retarded by imposing arm embargo and to create many collaborators that will cooperate with the USA and Israel in the case of military action, as well as to turn people against their government. When it comes to sanctions itself, Iran's economy could survive despite them as long as they can find buyers for their oil, which is the major source of Iran's exports and significant portion of Iran's GDP.

5. Conclusions

Economic sanctions gained on importance nowadays. By using economic tools for achieving political and diplomatic goals, countries around the world try to keep peace or to fulfill their interests. Economic sanctions have been used since WWII as tools for preventing conflicts and for changing political systems of other countries. Since 1990, countries increased usage of these types of sanctions. The most famous sanctions were against Iraq, Yugoslavia, Iran, and Zimbabwe. According to many relevant sources, economic sanctions are generally inefficient.

In many studies that examined more than 150 economic sanctions throughout the history, some signs of success are noticeable in small number of cases. Complete success was found in less than 5% of all cases studied. So, it can be concluded that economic sanctions are unsuccessful in achieving their goals. In order to impose successful economic sanctions, countries need sanctions that will have following characteristics: it is better when sanctions are multilateral (countries that receive sanctions are unable to find substitution for missing goods and commodities); sanctions must be imposed by powerful economy and they are more efficient if imposed against poorer economy; sanctions imposed against democratic country have higher chances to be efficient than those imposed against nondemocratic society (if imposed against nondemocratic, they can even be counterproductive, meaning they can

strengthen the position of the dictator); quick and comprehensive (hit all aspects of economy) sanctions are better than slow (long lasting) and those that are not comprehensive.

In addition to this, it is important to say that sanctions are almost always successful when one country that imposes sanctions, controls all trade of country that receives sanctions. Targeted or smart sanctions are those which are planned carefully and which have very narrow part of economy to attack. In order to influence political situation in one country, imposers attack assets (freezing them) of certain persons, companies and groups that are closest and mostly involved in that political situation (for example, to freeze abroad assets of persons involved in political situation of one country). By doing so, imposer countries of sanctions avoid negative side effects and unintentional harming of innocent people. When it comes to the impact of economic sanctions, harming innocent people is negative side effect that everyone emphasizes.

It is expected that imposition of sanctions on oil and commodities will harm innocents the most. Real economic consequence of oil embargo is the rise of prices of all goods and services. This increase in prices will affect living expenses of ordinary citizens of a country. All sanctions should be planned in order to avoid harming civilians. This study reveals that almost all sanctions harmed innocent people in every country where they were imposed. Two examples of economic sanctions are taken to be analyzed in this study: economic sanctions imposed against Yugoslavia during the war in 1990s, and economic sanctions imposed against Iran. Many authors emphasize the case of Yugoslavia when they speak about successful sanctions, but severity and number of casualties accelerated the end of the war in that country. These sanctions had many good aspects (imposed multilaterally, against nondemocratic country, very comprehensive) and because of that they were partially efficient in case of forcing Yugoslavia's president to obedience. To conclude, economic sanctions imposed against Yugoslavia were one of the most comprehensive in human history and partially successful.

Iran's current nuclear sanctions are the most comprehensive ongoing sanctions. The UN imposed four rounds of sanctions against Iran with many unilateral sanctions imposed by other countries, led by the USA sanctions. After examination of Iran's sanctions in this study it can be concluded that sanctions imposed against Iran are partially efficient because they slowed down Iran's nuclear program, but inefficient in a way that they could not stop it totally. It might be argued that the real purpose of sanctions against Iran is to exhaust that country in order to attack it and to finish its nuclear program with military action. That would not be first time in history that sanctions ended with military action. To summarize, although sanctions proved to be unsuccessful in most cases they are still in use because every peaceful action is better than military conflict and unnecessary casualties.

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