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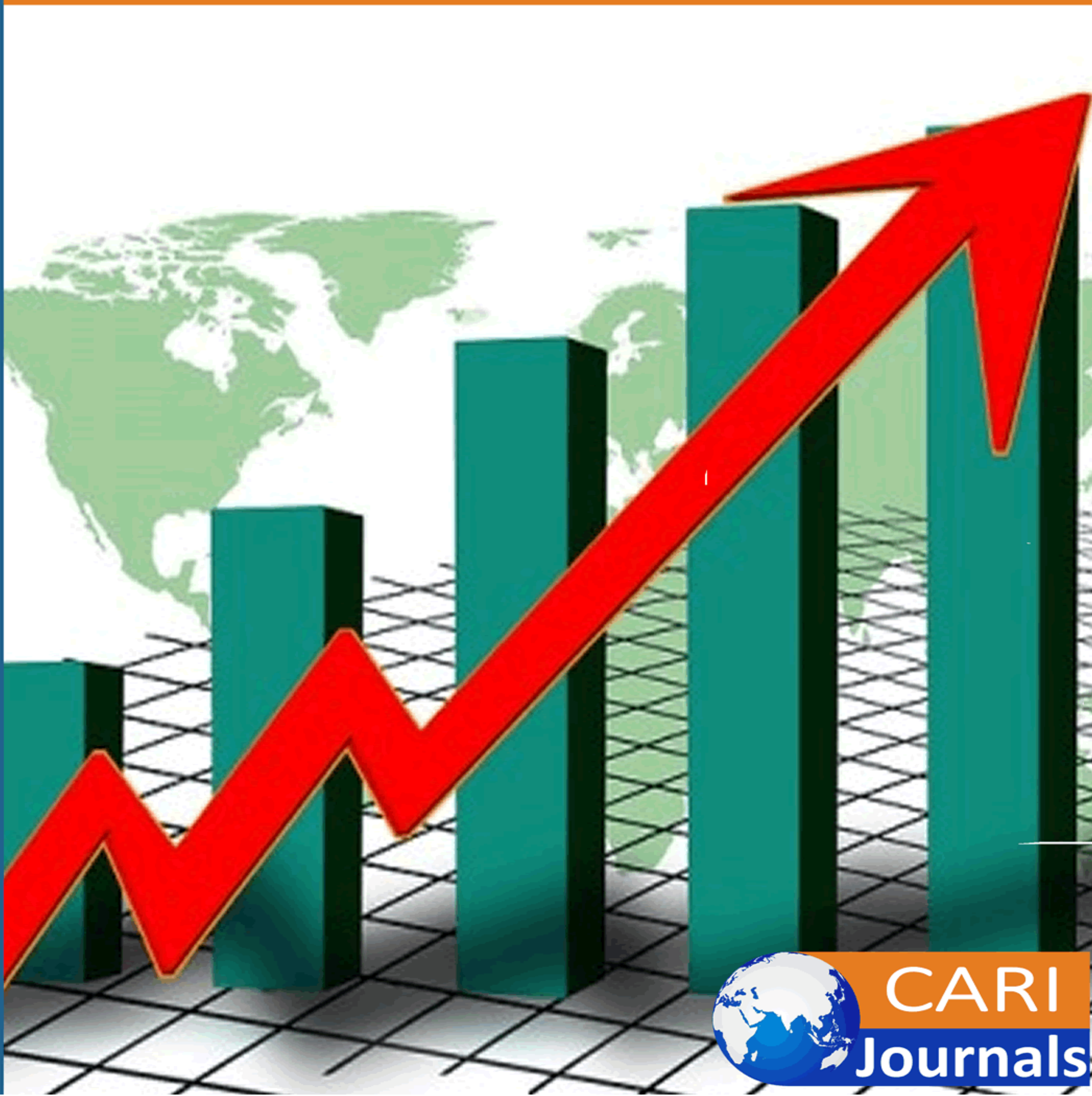

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Economic Statecraft in the Crosshairs: The Effectiveness of Sanctions in the US-Iran Conflict

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Abstract

Purpose: This article critically examines the effectiveness of economic sanctions imposed by the United States on Iran, especially in light of recent geopolitical developments between 2018 and 2026.

Methodology: Drawing on empirical evidence from global institutions such as the International Monetary Fund (IMF), World Bank, and United Nations reports, the study interrogates whether sanctions have achieved their intended objectives or produced unintended consequences that reshape global economic and political alignments.

Findings: The analysis reveals that while sanctions have significantly weakened Iran's economy, reducing oil exports, devaluing currency, and increasing inflation, they have not fully achieved strategic compliance in terms of nuclear disarmament or regional behavior modification. Instead, Iran has demonstrated resilience through economic adaptation, regional alliances, and alternative financial mechanisms. The article further explores how sanctions have accelerated the emergence of a multipolar economic order, with countries such as China and Russia providing alternative pathways for sanctioned states. The findings suggest that economic sanctions, though powerful, are increasingly contested as tools of international governance, raising critical questions about their sustainability, legitimacy, and long-term effectiveness.

Unique Contribution to Theory, Practice and Policy: Theoretically, the study extends coercion theory by demonstrating how target-state adaptation and the emergence of a multipolar economic order constrain the effectiveness of unilateral sanctions. In terms of practice and policy, it offers a re-evaluated framework that urges policymakers to move beyond traditional sanctions design and integrate economic, diplomatic, and strategic considerations, accounting for target resilience and shifting global power alignments.

Keywords: *Economic Statecraft, Sanctions, US-Iran Conflict, Geopolitics, Economic Resilience*

JEL Codes: *F51, F53, N40*

1. INTRODUCTION

Economic statecraft refers to the strategic use of economic instruments to achieve foreign policy objectives. These instruments include trade restrictions, financial sanctions, investment controls, and access limitations to global financial systems. In contemporary international relations, sanctions have become one of the most widely used tools, particularly by powerful states such as the United States.

The US-Iran conflict represents a classic and evolving case of economic statecraft. Since the 1979 Iranian Revolution, relations between the two nations have been characterized by hostility, ideological divergence, and strategic rivalry. However, the nature of this conflict has shifted significantly in recent years, particularly following the withdrawal of the United States from the Joint Comprehensive Plan of Action (JCPOA) in 2018 under the Trump administration.

The re-imposition of sanctions under the "maximum pressure" campaign marked a turning point in economic warfare. According to the International Monetary Fund (IMF, 2022), Iran's GDP contracted by approximately 6 percent in 2018 and continued to decline in subsequent years due to restricted oil exports and financial isolation. The Iranian rial also experienced severe depreciation, losing over 60 percent of its value between 2018 and 2020.

Despite these economic shocks, Iran has not fully capitulated to US demands. Instead, it has adopted a strategy of resistance and adaptation, including expanding regional alliances, strengthening ties with China and Russia, and developing alternative economic mechanisms. This raises a fundamental question: Are economic sanctions effective in achieving strategic political objectives, or do they merely inflict economic hardship without altering state behavior?

This article addresses this question by examining the effectiveness of US sanctions against Iran within a contemporary global context. It integrates empirical evidence, theoretical perspectives, and recent geopolitical developments to provide a comprehensive analysis suitable for international academic discourse.

2. CONCEPTUAL FRAMEWORK: ECONOMIC STATECRAFT AND SANCTIONS

Economic statecraft is grounded in the broader theory of power in international relations. Traditionally, power has been understood in military terms. However, scholars such as Baldwin (1985) and Drezner (2011) argue that economic tools have become equally significant in shaping global outcomes.

Sanctions, as a component of economic statecraft, are intended to coerce a target state into changing its behavior without resorting to military force. They can take various forms, including:

- Trade sanctions - restricting imports and exports
- Financial sanctions - limiting access to banking systems such as SWIFT
- Asset freezes - targeting individuals or institutions

- Secondary sanctions - penalizing third parties dealing with the target state

The United States has been particularly effective in deploying financial sanctions due to its dominance over the global financial system. As noted by the US Treasury (2022), over 80 percent of global transactions are conducted in US dollars, giving the US unparalleled leverage.

However, the effectiveness of sanctions remains contested. Pape (1997) argues that sanctions rarely achieve their intended goals, while Hufbauer et al. (2007) suggest that success depends on factors such as international cooperation, economic vulnerability, and political context.

In the case of Iran, these theoretical debates are particularly relevant, as the country presents a unique combination of resilience, ideological commitment, and strategic alliances.

3. EMPIRICAL ANALYSIS: THE ECONOMIC IMPACT OF SANCTIONS ON IRAN

3.1 Decline in Oil Revenues

Iran's economy is heavily dependent on oil exports, which account for a significant portion of government revenue. Following the re-imposition of US sanctions in 2018, Iran's oil exports dropped dramatically.

According to the US Energy Information Administration (EIA, 2021), Iran's oil exports fell from approximately 2.5 million barrels per day in 2017 to less than 500,000 barrels per day by 2020. This decline resulted in substantial revenue losses, estimated at over $50 billion annually. Econometric research isolating the causal impact of sanctions confirms that this contraction is directly attributable to sanctions pressure rather than other macroeconomic factors (Rodríguez, 2023; Laudati & Pesaran, 2023). This pressure has continued in more recent years, with the United States imposing further restrictions on Iran's oil exports (Reuters, 2024, April 16).

3.2 Currency Depreciation and Inflation

Sanctions have also had a profound impact on Iran's currency and inflation rates. The Iranian rial experienced severe depreciation, leading to hyperinflation in certain sectors.

World Bank data (2022) indicates that inflation in Iran exceeded 40 percent between 2019 and 2022, significantly eroding purchasing power and increasing the cost of living. Essential goods such as food and medicine became increasingly expensive, disproportionately affecting low-income populations. Subsequent World Bank assessments confirm that these inflationary pressures persisted, with elevated price levels and constrained growth continuing through the following years (World Bank, 2023, 2024).

3.3 Financial Isolation

One of the most significant aspects of US sanctions is the restriction of Iran's access to the global financial system. The exclusion of Iranian banks from the SWIFT network limited the country's ability to conduct international transactions.

This financial isolation disrupted trade, investment, and economic planning. Businesses faced difficulties in importing raw materials, while foreign investors withdrew due to compliance risks associated with US secondary sanctions.

3.4 Impact on Human Development

Beyond macroeconomic indicators, sanctions have had significant human consequences. Studies by the United Nations (2021) highlight shortages of essential medicines and medical equipment, despite formal exemptions for humanitarian goods.

This paradox underscores a key criticism of sanctions: while designed to target governments, they often disproportionately affect ordinary citizens, undermining the substantive freedoms and capabilities central to human development and well-being (Sen, 1999).

4. STRATEGIC OUTCOMES: HAVE SANCTIONS ACHIEVED THEIR OBJECTIVES?

4.1 Nuclear Policy and Compliance

One of the primary objectives of US sanctions has been to curb Iran's nuclear ambitions. However, empirical evidence suggests limited success.

Following the US withdrawal from the JCPOA, Iran gradually reduced its compliance with the agreement. Reports by the International Atomic Energy Agency (IAEA, 2023) indicate that Iran has increased uranium enrichment levels beyond previously agreed limits.

This suggests that sanctions may have had the opposite effect, incentivizing Iran to accelerate its nuclear program as a bargaining tool.

4.2 Regional Influence

Another objective of sanctions has been to limit Iran's influence in the Middle East. However, Iran continues to maintain strong ties with regional actors, including groups in Iraq, Syria, Lebanon, and Yemen.

Analysts argue that sanctions have not significantly reduced Iran's regional footprint. Instead, they have reinforced a strategy of asymmetric influence, where Iran leverages non-state actors to project power.

4.3 Political Stability

Sanctions are often intended to create internal pressure on governments by generating economic hardship. In Iran, there have been periodic protests linked to economic conditions.

However, these protests have not led to regime change. Instead, the Iranian government has maintained control, suggesting that sanctions alone are insufficient to achieve political transformation.

5. ADAPTATION AND RESILIENCE: IRAN'S RESPONSE TO SANCTIONS

5.1 Economic Diversification

Iran has sought to reduce its dependence on oil by investing in non-oil sectors such as agriculture, manufacturing, and technology. While progress has been uneven, these efforts demonstrate a strategic response to sanctions.

5.2 Strategic Alliances

One of the most significant developments in recent years is Iran's strengthening relationship with China and Russia. The 25-year cooperation agreement between Iran and China, signed in 2021, includes investments in infrastructure, energy, and telecommunications.

This partnership provides Iran with alternative economic channels, reducing the effectiveness of US sanctions.

5.3 Alternative Financial Systems

Iran has also explored alternative financial mechanisms, including barter trade and cryptocurrency transactions. While these systems are not yet fully developed, they represent attempts to bypass traditional financial restrictions.

6. GLOBAL IMPLICATIONS: THE EVOLUTION OF ECONOMIC STATECRAFT

The US–Iran case highlights broader shifts in the global economic order. Sanctions, once considered a dominant tool of Western influence, are increasingly being challenged by emerging powers.

Countries such as China and Russia are developing alternative financial systems that reduce reliance on the US dollar. This trend raises questions about the future effectiveness of sanctions as a tool of economic statecraft.

Furthermore, the widespread use of sanctions has led to concerns about their legitimacy and humanitarian impact. Critics argue that sanctions often violate principles of international law and disproportionately affect vulnerable populations.

7. THEORETICAL DEBATES AND CRITIQUES OF SANCTIONS

The use of sanctions as a tool of economic statecraft has generated extensive scholarly debate. While some scholars view sanctions as an effective non-military instrument of coercion, others question their overall success and ethical implications.

7.1 The Coercion Theory Perspective

From a coercive standpoint, sanctions are designed to alter the cost-benefit calculations of target states. The expectation is that economic pain will compel political leaders to change their behavior.

Hufbauer, Schott, and Elliott (2007), in their seminal work on sanctions, argue that sanctions have a success rate of approximately 34 percent, particularly when they are multilateral and targeted.

In the US-Iran context, the "maximum pressure" campaign aligns with this theory. By restricting Iran's access to global markets, reducing oil revenues, and isolating its financial system, the United States sought to increase economic pressure to a level that would force policy concessions.

However, the Iranian case reveals a limitation of coercion theory. Political leaders in Iran have demonstrated a willingness to absorb economic pain in pursuit of strategic and ideological goals. This suggests that sanctions may be less effective against states with strong nationalist or ideological motivations.

7.2 The Resistance and Adaptation Theory

An alternative perspective emphasizes the capacity of targeted states to adapt to sanctions. According to Drezner (2011), states develop coping mechanisms that reduce the impact of sanctions over time. These mechanisms include economic diversification, smuggling networks, and strategic alliances.

Iran exemplifies this theory. Despite severe economic constraints, the country has maintained its political system and strategic posture. The expansion of informal trade networks, particularly through neighboring countries, has mitigated some of the economic losses caused by sanctions. Reporting on Iran's growing shadow oil trade corroborates this pattern of sanctions evasion through informal channels (Reuters, 2024, December 18).

Furthermore, Iran's engagement with China under the Belt and Road Initiative has provided alternative sources of investment and trade. This adaptation reduces the effectiveness of sanctions and highlights the dynamic nature of economic statecraft.

7.3 Humanitarian Critique of Sanctions

A growing body of literature critiques sanctions from a humanitarian perspective. Scholars argue that sanctions often fail to distinguish between governments and citizens, leading to widespread suffering among ordinary populations.

The United Nations Special Rapporteur (2022) has highlighted the adverse humanitarian effects of unilateral sanctions, particularly in relation to access to healthcare, food security, and basic services. In Iran, sanctions have contributed to shortages of essential medicines, despite official exemptions.

This critique raises ethical questions about the legitimacy of sanctions as a policy tool. While intended to influence government behavior, sanctions often impose disproportionate costs on vulnerable populations, undermining their moral justification.

7.4 Sanctions in a Multipolar World

The effectiveness of sanctions is also being challenged by the evolving global order. The rise of multipolarity, characterized by the increasing influence of China, Russia, and other emerging powers, has created alternative economic systems that reduce reliance on Western institutions.

This shift is particularly significant in the US-Iran conflict. As Iran strengthens its economic ties with non-Western partners, the leverage of US sanctions diminishes. This development suggests that the future effectiveness of sanctions will depend on the ability of sanctioning states to maintain global economic dominance.

8. COMPARATIVE ANALYSIS: LESSONS FROM OTHER SANCTION REGIMES

To fully understand the effectiveness of sanctions in the US-Iran conflict, it is useful to compare this case with other major sanction regimes, particularly Russia and North Korea.

8.1 Russia: Sanctions and Strategic Resilience

Following the annexation of Crimea in 2014 and the invasion of Ukraine in 2022, Russia became one of the most heavily sanctioned countries in the world. Western sanctions targeted key sectors, including energy, finance, and technology.

Despite these measures, Russia has demonstrated significant economic resilience. According to the IMF (2024), Russia's economy contracted initially but later stabilized due to increased trade with China, India, and other non-Western countries.

This case parallels Iran in several ways, a parallel corroborated by comparative research on sanctioned economies (Kozhanov, 2022). Both countries have leveraged alternative alliances to mitigate the impact of sanctions. However, Russia's larger economy and global influence provide it with greater capacity to withstand external pressure.

8.2 North Korea: Sanctions and Limited Impact

North Korea represents another case where sanctions have had limited success in achieving strategic objectives. Despite decades of sanctions, the country has continued to develop its nuclear program.

This case highlights a critical limitation of sanctions: their effectiveness depends on the internal dynamics of the target state. In highly centralized and authoritarian systems, governments can insulate themselves from economic pressure while maintaining control over the population.

8.3 Key Lessons for the US-Iran Conflict

The comparative analysis reveals several key lessons:

- Sanctions are more effective when they are multilateral and globally enforced
- Economic resilience and alternative alliances reduce the impact of sanctions

- Political and ideological factors play a crucial role in determining outcomes
- Sanctions alone are insufficient to achieve complex strategic objectives

These insights reinforce the argument that sanctions, while powerful, are not a universal solution.

9. POLICY IMPLICATIONS FOR GLOBAL ECONOMIC GOVERNANCE

The findings of this study have significant implications for policymakers, particularly in the context of evolving global dynamics.

9.1 Rethinking Sanctions as a Primary Tool

Policymakers must recognize the limitations of sanctions as a standalone strategy. While sanctions can impose economic costs, they do not guarantee behavioral change. This calls for a more integrated approach that combines economic measures with diplomacy and negotiation.

9.2 The Need for Multilateral Cooperation

The effectiveness of sanctions depends heavily on international cooperation. Unilateral sanctions are less effective in a multipolar world where alternative economic partnerships exist.

Strengthening multilateral institutions such as the United Nations and fostering cooperation among major economies is essential for maintaining the relevance of sanctions.

9.3 Addressing Humanitarian Concerns

There is a growing need to design sanctions that minimize humanitarian impacts. This includes improving mechanisms for humanitarian exemptions and ensuring that essential goods such as food and medicine are not affected.

9.4 Preparing for a Changing Global Economy

The rise of alternative financial systems, including digital currencies and regional payment networks, poses a challenge to the dominance of the US dollar. Policymakers must adapt to these changes to maintain the effectiveness of economic statecraft. Recent analysis suggests that the ongoing Iran conflict is already contributing to broader uncertainty in the global economic outlook, underscoring the stakes of this adaptation (Reuters, 2026, March 30).

10. CONCLUSION

The US-Iran conflict provides a compelling case study for evaluating the effectiveness of economic statecraft in the modern era. The evidence presented in this article demonstrates that while sanctions have significantly weakened Iran's economy, they have not fully achieved their strategic objectives.

Iran's ability to adapt, coupled with the emergence of a multipolar global order, has limited the effectiveness of US sanctions. This highlights the need for a more nuanced understanding of economic statecraft, one that recognizes both its strengths and limitations.

Sanctions remain a powerful tool, but their effectiveness is contingent on a range of factors, including international cooperation, economic vulnerability, and political context. As the global economy continues to evolve, the role of sanctions will likely undergo significant transformation.

Ultimately, the future of economic statecraft lies in its ability to adapt to changing geopolitical realities. For policymakers, this means moving beyond traditional approaches and embracing more comprehensive strategies that integrate economic, diplomatic, and strategic considerations.

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