AN INADEQUATE SOLUTION:

Effectiveness of Economics Sanctions as an Instrument of Foreign Policy

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Introduction 1

History 1

Sanctions as a Foreign Policy Instrument 3

Challenges and Consequences of Sanctions ... 5

Case Study: Iran 6

Case Study: Russia 14

Case Study: Venezuela 22

Recommendations 28

References 29

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Introduction

Economic sanctions are an instrument commonly used by the U.S. to further foreign policy and national security objectives. As a mechanism that acts as a medium between military action and diplomacy, sanctions have become a primary tool for intervention against targets due to the low-risk and low-cost convenience of creating a sanctions program.

From an overarching perspective, sanctions are an assemblage of various laws and authorities exercised through existing legislation or an executive order issued by the president to invoke pressure on the designated target. Similarly, a sanctions program intends to utilize several sanctions on a specific target that constrain and isolate them enough to compel them to comply with international norms regarding the rule of law (Nephew, 2018).

The economic and financial influence of the U.S. grants policymakers the unique ability to leverage sanctions as a coercive measure to bring change against individuals, criminal and terrorist organizations, and states that'll eventually, in theory, alter any behavior that contradicts U.S. interests. This position allows the U.S. to place restrictions on financial flows involving U.S. persons or institutions, global trade, blocking of U.S. assets, and investments that aim to create enough hardship on the target to stop the activity that led to their sanctioning in the first place.

When viewing the foreign policy landscape of the U.S., it becomes evident that sanctions have become a pivotal tool when engaging with foreign countries and organizations. The Office of Foreign Assets Control, the bureau within the Department of Treasury that oversees economic and financial sanctions, currently has 38 sanctions programs in effect (OFAC, 2023). Due to the ease of creating a sanctions program and the unattractive reality of military action, this number will likely increase.

However, several studies highlight the need for more effectiveness in achieving political success when using economic and financial sanctions as the primary tool of intervention in engagement, particularly when narrowing the focus to authoritarian and corrupt countries.

The complexities of sanctions make it difficult to pinpoint a specific underlying reason that explains the paradox between the increase in usage and the lack of satisfactory results for policymakers. However, several case studies help pinpoint factors that complicate sanctions strategy for the U.S. in shifting behavior in dictatorial countries. These reasons include strong commitment to their authoritarian campaigns, minimal integration between societal and political communities, little connectivity with Western allies in economic trade, development of anti-U.S. sentiment within the population, and an increase in third-party states that assist target countries with sanctions circumvention.

This paper will conduct a case study on three separate countries to examine the effectiveness of sanctions as they relate to the political and economic spheres. The countries include Iran, Russia, and Venezuela. It is based on the proceedings of a panel discussion sponsored by the Steven J. Green School of International & Public Affairs on October 20, 2023. The panel included **Carrie Filipetti**, Executive Director, Vandenberg Coalition; **Eduardo Gamarra**, Professor, FIU Department of Politics & International Relations; **David J. Kramer**, Executive Director, George W. Bush Institute; **Eric Lob**, Associate Professor, FIU Department of Politics & International Relations; and **Albert Torres**, Program Manager, Global Policy, George W. Bush Institute.

Furthermore, this study will elaborate on the history of U.S. sanctions, how sanctions operate in foreign policy, and some of the factors that challenge the success of sanctions. By viewing these factors holistically, this paper will aim to provide proper recommendations on how to cater sanctions as a more productive policy instrument for the U.S.

History

Sanctions have been a method of influence for policymakers since the 19th century. President Woodrow Wilson stated in 1919 that sanctions have always been used to bring "an absolute isolation... that brings a nation to its senses just as suffocation removes from the individual all inclinations to fight" (Mulder, 2022). Despite the aim remaining consistent, the method in which the U.S. uses sanctions in policy strategy has dramatically changed.

Broad trade embargoes were introduced into U.S. policy in 1807 with the passing of the Embargo Act. Under President Thomas Jefferson, the act prohibited American ships from doing business with foreign ports and limited imports into the United States (Irwin, 2001). The purpose of the act was to discourage Great Britain from seizing goods on U.S. ships and imprisoning American sailors. However, during World War I, countries began to see the expansion of economic sanctions against targets (Kessler, 2022).

Towards the end of the First World War, President Wilson introduced the Trading with the Enemy Act (TWEA) of 1917. The objective was to prevent Germany from using U.S. resources for its military and to recruit and seize German assets for American war efforts. Despite opposing claims that the TWEA would violate sovereign property rights, the legislation enforced trade restrictions and froze assets belonging to the Central Powers (Coates, 2018).

However, assets frozen under TWEA were never returned to Germany. Instead, they were used to repay loss claims that were a consequence of military action by the defeated nations, thus resulting in permanent confiscation of foreign assets.

Shortly after the end of World War I, victor nations created the League of Nations to discourage warfare through negotiation. Part of the strategy was to coordinate efforts between members of the organization to invoke economic and financial measures against aggressors, ratifying the use of sanctions as a deterrent against military campaigns (Mulder, 2022).

The pattern of using sanctions as an instrument to counter military force continued into World War II against the Axis powers (Coates, 2018). Though the use of TWEA in both world wars introduced forms of sanctions that the U.S. currently uses, they were applied in a way different from today. Instead, the world war examples display how sanctions can be leveraged as a tool of economic warfare to coerce U.S. military adversaries in a time of conflict rather than being used as a coercive policy tool against targets during periods of peace, as we currently see.

The Cold War created a shift in the dynamic between the U.S. and its use of sanctions, resorting more to the paramount position and influence of its economy to influence designated parties outside of war. Through the powers listed under the TWEA, U.S. presidents were able to regulate the global economy by blocking financial transactions linked to its institutions, confiscating foreign assets in the U.S., and imposing trade measures against the Soviet Union (Kessler, 2022). Though TWEA was created as an instrument for wartime purposes, the Cold War saw sanctions as an opportunity to influence targets against committing activity deemed threatening to U.S. interests.

Powers provided under TWEA left presidential powers virtually unchecked. Through the simple declaration of a national emergency, presidents could exert economic restrictions through authorities granted under the act throughout the 1940s and 1970s, leading TWEA to become a standard and ready instrument in U.S. foreign policy. Consequently, U.S. reliance on these economic restrictions led to division in Congress, with some arguing that it granted unilateral executive decision-making ability to the president.

Divorcing some of the powers granted under TWEA became difficult due to how prominent it became to U.S. foreign and monetary policy. However, after committee investigations, Congress passed the National Emergencies Act (NEA) of 1976 and the International Emergencies Economic Powers Act (IEEPA) of 1977 to decentralize decision-making abilities and the use of sanctions to different government bodies (Case, Fergusson, Rennack, & Elsea, 2019). The introduction of the NEA and IEEPA also amended the authority under TWEA to impose sanctions strictly to periods of conflict with other countries, reverting it to its original purpose.

Despite committee investigations stating that TWEA granted the president too much authority, their findings also revealed how economic and financial limitations were essential to U.S. strategy when interacting with other governments. The solution to their investigation was an introduction of the same economic measures used in TWEA into the NEA and IEEPA. Through this addition, Congress and the executive branch can summon sanctions on targets by declaring a national emergency that threatens U.S. national security or interests during peacetime, formally legalizing the use of sanctions whenever a president deems them appropriate.

The United States continued to use sanctions throughout the Cold War, albeit in a more reluctant manner. Concerns over how sanctions might undermine U.S. interests increased as economic superpowers emerged, namely Europe and Japan (Hufbauer, Schott, Elliott, & Oegg, 2009). The rise of new markets gave the Soviet Union and other sanctioned countries alternative economic and financial partnership sources. The consequence of formidable new economies in global trade was the likelihood that the effectiveness of sanctions would diminish due to a lack of international cooperation.

Following the end of the Cold War, globalization began to create more coordination and interdependency between economies. Standing as the global superpower, the U.S. continued to use sanctions as an instrument of diplomacy, though more in concert with allies. Likewise, the 90s saw a rapid expansion of unilateral and multilateral sanctions, with more restrictions applied in a "targeted" fashion.

Targeted, or smart, sanctions were a pivotal shift for the United States and how it designed its programs. Rather than having a macro focus, smart sanctions narrowed the scope of measures to the financial holdings and operations of targets (Kessler, 2022). The use of economic and financial measures by the United States, often with cooperation with political allies, caused an expansion of international sanctions led by the U.S. (Morgan, Syropoulos, & Yotov, 2023).

Following the attack of September 11, 2001, the use of sanctions became unparalleled to any other foreign policy tool of the United States. The war against terrorist financing led the Bush administration to target all nodes linked to terrorist threats, including businesses, individuals, and entities that were connected to the U.S. economy. American financial institutions have since become the primary line of defense for sanctions enforcement, performing investigations and screenings on any individual or entity doing business with U.S. firms. In tandem with the mobilization of the financial sector, the role of OFAC has since dramatically increased by enforcing penalties on sanctioned parties and engineering sanctions based on executive orders.

As a result, economic diplomacy has dramatically shifted for U.S. foreign policy. Originally intended to be used solely during times of war, sanctions are now exercised when intending to confine the financial ability of authoritarian regimes and human rights abusers internationally. Though some broad embargoes are still used, sanctions are now applied more precisely towards inflection points that are critical for the economies of state targets, including financial accounts of key figures, foreign currency holdings, prominent companies, and key industries.

Sanctions as a Foreign Policy Instrument

The United States uses sanctions to change the calculus of foreign actors that threaten U.S. interests or violate international law for their benefit. The authorities under IEEPA and TWEA give policymakers the legal ability to exercise Article 1 of the U.S. Constitution, which is the permission for the U.S. government to regulate commercial activity with foreign actors. Under the Constitution, sanctioning authority is exclusive to Congress, making sanctions law federal. Statutes within larger pieces of legislation, such as IEEPA and TWEA, also grant the president the authority to call for sanctions.

The role of the U.S. dollar in the global economy is what makes sanctions such a popular and effective instrument. The easy access and trust that foreign governments have in the currency makes it the most powerful denomination in the world. As such, countries, foreign businesses, and investors look to the dollar because of its accessibility and stability. The result is a pre-eminent currency that has become indispensable for the global community. According to Daniel McDowell, an Associate Professor of Political Science at the Maxwell School of Citizenship and Public Affairs at Syracuse, the dollar has been able to fulfill responsibilities critical for money to receive international recognition. These include the ability to safely be used as a store of value and a medium of exchange in global transactions. McDowell states that because of its widespread use, the dollar is "the world's most popular currency in which financial assets are held, as well as the most used currency for cross-border payments, like settling trade or repaying debts" (McDowell, 2023).

The way transactions move internationally is through a system that is fragmented into two main components. First, financial institutions must relay messages between one another that contain the details of the transaction. Second, they must send the money through a separate system to reach the desired destination.

The first process is the communications aspect, where financial institutions send the details of the transaction to the bank where funds are being sent to. The Society for Worldwide Interbank Financial Telecommunication, or SWIFT for short, is a Belgian organization that is responsible for providing the messaging services to member institutions (Cipriani, Goldberg, & La Spada, 2023). Though there are several other platforms that are able to facilitate the easy flow of information between jurisdictions, SWIFT is recognized as the gold standard and thus, is responsible for sending most communications. On a daily basis, SWIFT sends over 40 million daily payment orders that total over $5 trillion dollars (McDowell, 2023). Considering that it is the most used communications platform, all financial institutions use SWIFT to access the world economy.

The U.S. dollar is the most used currency in the SWIFT system. Between 2014 and 2020, between 40% and 45% of all transactions were completed using the dollar as the medium of exchange. Only the euro can compete with the currency, making up between 27% and 38% of the transactions on the platform. Approximately half of all global trade uses the dollar, including transactions that do not involve a U.S. person or entity (McDowell, 2023). The heavy usage of the dollar grants the U.S. leverage over the organization to exert influence over barring countries or institutions from accessing the platform.

However, SWIFT only represents one half of the global financial infrastructure. It does not transfer the funds from one destination to another. The purpose of the messaging platform is solely to send transaction details between banks. Since foreign financial institutions do not have to abide by U.S. regulations and supervision, central banks typically do not grant them direct access to U.S. banks. Rather, foreign institutions must go through a "correspondent bank" — institutions that are responsible for acting as the "middlemen" in cross-border transactions (Cipriani, Goldberg, & La Spada, 2023). In other words, foreign institutions that hope to send money to the U.S. have to send it to the correspondent bank, which then sends it to the appropriate destination. International institutions that want to act as a correspondent bank must have a subsidiary in the U.S. to do so, making them subject to U.S. law.

The international financial system operates in a hierarchical structure, where the U.S. sits at the top. Foreign countries use its currency and correspondent banks subject to U.S. law to access its markets. Washington's central position in the global economy allows it to exert its influence through sanctions. By imposing sanctions on countries, individuals, and businesses, targets lose access to the U.S. dollar or correspondent banks, excluding them from the international market. The U.S. can also use its leverage to coordinate with SWIFT and prevent financial institutions from messaging other banks when attempting to send money internationally. Similarly, since the U.S. dollar is the most used store of value, many countries rely on the currency as a foreign exchange reserve, which is held in the central bank. Sanctions administered by OFAC can freeze these assets, leaving them unattainable until requirements are met.

Freezing foreign currency reserves can have severe consequences for a target. Countries carry reserves as a safeguard against financial constraint. The additional liquidity can provide a country the ability to manage capital flight, pay debt obligations, bail out institutions that are in a crisis, or stabilize their currency (Vermeiren, 2022). In essence, losing access to foreign reserves can strip the ability of a country to manage a state of emergency.

Sanctions involving the U.S. dollar and banks are generally viewed as financial sanctions and are used when applying smart sanctions. Similar restrictions include prohibiting foreign investment into a country and sectoral sanctions that target critical or developing industries. The U.S. government uses financial sanctions in tandem with broader economic sanctions such as restrictions on imports and exports, prohibition on all trade activity, and broad embargoes.

U.S. sanctions can have extraterritorial applications as well. The U.S. can impose and enforce sanctions on third-party companies, individuals, and countries that do not comply with restrictions. These measures, known as secondary sanctions, can force countries to align with U.S. policy on targets. Actors that violate sanctions policy risk becoming targets themselves, forcing the international community to choose between complying with U.S. measures or falling subject to the same restrictions (Bartlett & Ophel, 2021). Therefore, secondary sanctions influence the actions of foreign actors and can have implications on targets by limiting the number of alternatives they have at their disposal.

Challenges and Consequences of Sanctions

As demonstrated in the history section of this paper, the role of sanctions has expanded significantly since the end of World War II. As a foreign policy instrument, sanctions have evolved from deterring major conflicts to several objectives ranging from encouraging policy changes in foreign governments, undermining authoritarian and totalitarian governments, and promoting democracy. However, its widespread use has brought several criticisms that question the efficacy of sanctions. This paper will demonstrate that sanctions undoubtedly impact a country's economy and financial standing. Yet, that does not necessarily correlate with success in achieving political goals. It is important to differentiate economic impact from political achievement to understand the effectiveness of sanctions.

When analyzing the economic consequences of sanctions on target countries, it becomes evident that they inhibit a country's ability to manage its economy. Necessary activities, such as trade, investment, economic development, and debt repayment, become challenges under sanctions and chip away at a country's foundation (Morgan, Syropoulos, & Yotov, 2023). But when discussing sanctions that target the government directly and push for regime change, it is challenging to make sanctions a valuable instrument. The reason is that for authoritarian countries, the price of sanctions relief is giving up their position of power, which generally is a non-negotiable cost. Therefore, regimes facing sanctions resort to strengthening their resolve to consolidate their control and finding alternative sources of revenue that compromise the effectiveness of sanctions.

Research suggests that when targeting regimes, sanctions are successful less than 20% of the time (Rogov, 2022). Authoritarian governments have shown an adept ability to manipulate hardship from sanctions to centralize their control over supportive actors in the country, which inevitably strengthens the regime. Consequently, what we tend to see from regimes under sanctions is a tightening of their control and aggravation of activity that initially led to their sanctioning. Likewise, human rights abuses grow rampant, and democratic rights get stripped away (Rogov, 2022). Findings indicate that even though sanctions do inflict economic duress and damage on a country, they are less productive in coercing the government to alter behavior. For this reason, sanctions have shown to be more productive against democratic societies since there are more trigger points to target, including opposing political parties, civil society, the private sector, and more open interdependence on economic alliances.

Furthermore, a regime's commitment to its campaign is difficult to determine and can be critical in assessing effectiveness when discussing sanctions (Nephew, 2018). To subvert sanctions, countries often reestablish economic and investment ties to third countries that are not aligned to any country or have adverse relationships with the U.S. In this scenario, sanctions can strengthen alliances between countries that conflict with U.S. and Western politics. Likewise, countries increase their illicit and shadow practices to discretely maintain access to banned goods or participate in the global market.

According to McDowell (McDowell, 2023), the role of sanctions in Washington's foreign policy strategy increases the political risk associated with using the U.S. dollar. Reliance on the currency can result in consequences for countries that expect to be subject to sanctions, leading them to adopt anti-dollar policies. Such retaliatory measures include resorting to other currencies to conduct trade, establishing alternative relationships with correspondent banks in other countries, and using other currencies or gold as their foreign reserves. There are short-term consequences for such policies, such as decreasing the chances of sanctions to work. However, over the long run, the implications can diminish the impact of sanctions as an instrument of engagement as more countries adopt similar strategies.

As long as the U.S. maintains its economic influence and position, sanctions will likely remain fixed in Washington's foreign policy, since they offer a satisfactory middle-ground for policymakers that falls in between rhetoric and warfare. However, as the following case studies will show, there are challenges that can undermine the effectiveness of sanctions in the future.

CASE STUDY IRAN

Background

The use of sanctions against Iran dates back to 1979, shortly after the Islamic revolution that deposed the Shah of Iran and the hostage crisis where Iranian students captured American diplomats. Consequently, the year turned into the beginning of an animus relationship between the U.S. and Iran, where sanctions have become the diplomatic tool of choice for the United States to strain the Islamic regime.

President Jimmy Carter invoked the first sanctions on Iran after signing Executive Order 12170, which froze Iranian assets held in the United States. The directive was issued to negotiate for the release of the American diplomats seized in the hostage crisis and was the first time a president called on the authorities granted by IEEPA since its codification (Hewitt & Nephew, 2019). In 1984, tension between the two countries continued to intensify after President Ronald Reagan designated Tehran as an international sponsor of terrorism following the Iran-linked attacks on a U.S. embassy and Marine barracks (Thomas, 2023).

The two decades following the 1984 designation saw the U.S. introduce 11 new government authorities calling for sanctions against Iran that all invoked new economic and financial restrictions. The use of sanctions shifted the United States from its original intention of negotiating for the release of U.S. diplomats to an instrument that would hopefully lead to regional stability and deter Iran from its international support for terrorism, the proliferation of advanced and nuclear weaponry, and human rights abuses. Measures under the orders also expanded the scope of sanctions, with the new actions calling for the blocking of Iranian property, prohibiting trade relationships, and restrictions on U.S. investment in Iran's oil sector (Samore, 2015), a critical vulnerability for Washington to target, considering it holds the world's third-largest oil reserves (Thomas, 2023).

U.S. Congress also passed legislation that granted OFAC the authority to impose secondary sanctions on foreign entities that contributed to the development of Iran's oil sector. The use of secondary sanctions was vital since the U.S. did not have a robust economic relationship with Tehran at that point. However, through secondary sanctions, the U.S. could still press the regime by forcing third-country entities to comply with U.S. restrictions (Hewitt & Nephew, 2019). Fourteen more executive orders calling for sanctions were passed between 2005 and 2015, ranging from comprehensive measures to targeted sanctions against key individuals and entities (Nada, Bradbury, Starr, Ighani, & Yacoubian, 2023). During those ten years, Iran began to broaden its nuclear capabilities, generating international concern.

The expansion of economic sanctions became a key leverage point for the U.S. entering 2015 when the Obama Administration introduced the Joint Comprehensive Plan of Action (JCPOA) negotiations. The goal of the JCPOA was to stem Iran's nuclear activities in exchange for sanctions alleviation. Experts credit the effectiveness of sanctions to Iran's decision to enter the agreement. The U.S. commitment to the JCPOA led to the removal of nuclear-related sanctions on Iran. However, all measures connected to human rights abuses, terrorism, and missile weaponry development remained in place. The U.S. ceased participation in the agreement in 2018 under the Trump administration and introduced a "maximum approach" strategy (Thomas, 2023). Though the Biden administration sought a revival of the JCPOA, the U.S. continues to expand its scope of sanctions due to the regime's human rights abuses, weaponry support to Russia for its war in Ukraine, and sanctions circumvention.

Current sanctions and embargoes target Iran's energy and financial sector. The measures include restricted access to oil revenues, prohibiting investment in Iran's oil industry, limitations on oil transportability, disconnection from SWIFT, and sanctions on Iran's ten major financial institutions (Samore, 2015).

Impact

The economic impact of sanctions was noticeable from the onset. Following the application of Executive Order 12170, trade between the United States and Iran plummeted from $3.7 billion to $23 million. Oil exports to the U.S. also dropped significantly, decreasing by approximately $2.5 billion. Other evaluations estimate that sanctions in 1980 cost Iran around $3.3 billion in one year (Hewitt & Nephew, 2019).

The policy objective of sanctions during this period was more direct and focused on releasing the American hostages. The controls under the executive order froze $12 billion of Iran's assets and discontinued its trade relationship with the U.S. The years following the Iranian Revolution and the Iran-Iraq wars left the Islamic Republic hard-pressed for cash, making the financial sanctions a timely measure (Carter, 1987). In dire need of financing, the sanctions were able to successfully force Iran to agree with U.S. terms that negotiated the release of the hostages.

Tension between both countries continued to increase throughout the 1980s. The external stress from sanctions on Iran introduced the political risks associated with an interdependent relationship

with Washington. Trade between the U.S. and Iran continued to sever, forcing Iran to look for new economic partners to mitigate the risks that stem from sanctions. Tehran's economic realignment bolstered partnerships with countries that had similar political ideologies, smaller European nations, and countries that were not aligned with U.S. interests (Estelami, 1999).

Comparing the share of imports from before the Iranian Revolution to the following decade exemplifies the regime's modifications of trade routes. Before 1979, 80% of Iranian imports came from the U.S., Western Europe, and Japan. However, following the fallout between the United States and Iran that introduced Tehran to U.S. sanctions, imports from Western economies and Japan dropped to 63%. At the same time, goods from new trade sources doubled (Estelami, 1999). Sanctions continued to isolate both countries from one another, with imports from the United States falling to zero by 1996 when the U.S. introduced the Iran and Libya Sanctions Act. Similarly, though at a less severe pace, exports to Western Europe and Japan dropped to only half of Tehran's import costs.

Long-term security in the Middle East and the Persian Gulf was a working objective for the U.S. during the 80s and 90s. As a result, the Clinton administration implemented the "dual containment" policy of Iran and Iraq. To achieve desired levels of stability in the region, President Clinton sought to isolate both countries in support of the Gulf Cooperation Council member states. Part of the strategy was the use of unilateral sanctions. However, the U.S. had unsuccessfully tried to prompt Japan and European and Gulf allies to join in imposing economic controls of their own.

During the dual containment policy period, analysts predicted that Iran's budding economic relationships with France, Germany, Italy, Japan, Russia, and China would create new markets for Tehran to do business with (Myers, 1997). Allies of the U.S. were also eager for the opportunity for the United States to withdraw from Iran's oil market due to the economic opportunity it would create. Regional countries, such as Turkey, Morocco, and Oman, were also eager to fill the vacuum left by the U.S., participating in oil deals or negotiations with Iran shortly after the announcement of the embargo (Myers, 1997).

Presenting further challenges for the U.S. was Iran's national debt, which was mainly owed to Europe and Japan. Therefore, seeing economic development in Tehran was an issue of mutual interest between these parties in hopes that Iran would eventually be able to repay its outstanding debts (Myers, 1997). With all factors in consideration, U.S. analysts determined that sanctions were an incomplete instrument for engaging with Iran. However, despite their awareness, Washington imposed comprehensive sanctions on the regime, damaging the relationship between both countries and creating significant isolation that would challenge future engagement. Similarly, the attempt by the U.S. to convince ally countries to impose their own sanctions was a failure and created friction.

While sanctions began to roll out, Iran prioritized the development of its regional economic presence. The dissolution of the Soviet Union accelerated Iran's economic expansion with neighboring countries that were mutually interested in developing their own economies. Former Soviet countries in Central Asia became a regional transit point for oil to flow through freely. Iranian pipelines became the shipping vessel for oil and gas, which became the foundation for the newfound economic relationship between Iran and the region (Estelami, 1999). Contracts were signed between the countries in Central Asia and Tehran to have Iranian pipes transport natural gas to Turkey. Similar agreements were made with India and Pakistan to transport Iranian gas and oil in those countries.

U.S. sanctions also brought more concern to policymakers than they had initially anticipated. Russia became a significant partner for Iran following the initiation of the dual containment strategy.

Table 1: Share of Iranian Imports by Source Traditional Suppliers

Time Period	United States	Western Europe	Japan	Other
Pre-revolution (1975-1978)	18.5	48.7	15.8	17.0
Revolution and Iraq War (1979-1988)	1.8	47.8	13.0	37.4
Postwar Reconstruction (1989-1992)	2.1	52.1	11.4	34.4
Dual Containment (1993-1996)	3.3	45.8	8.3	42.6
Iran-Libya Sanctions (1996-present)	0.0	44.9	6.4	48.6

Source: (Estelami, 1999)

Several economic and military agreements were signed between Tehran and Moscow. The agreements facilitated the movement of military goods, including Russian aircraft and submarines for Tehran's military, the construction of a nuclear power reactor in Iran, and joint oil production ventures in the Caspian Sea (Estelami, 1999).

The new relationships also proved fruitful for Iran in obtaining sanctioned goods through parallel imports. Surrounding countries that had established economic partnerships with Iran became re-export centers critical to skirting U.S. sanctions (Estelami, 1999). As an example, trade with the United Arab Emirates had inflated to five times its trade volume prior to 1979, with most of the goods being either original exports from the U.S. or U.S.-sanctioned products.

Towards the end of the 1990s, it became evident that Iran's economy was more resilient to sanctions than U.S. policymakers had predicted. Though sanctions did successfully ostracize Iran, the effect failed to meet the political objective of the strategy outside of negotiating the release of the U.S. hostages. Furthermore, analysts stated that Tehran had created a more stable economy than many developing nations and a more capable military than it had in 1989 (Amuzegar, 1997).

Though sanctions were not achieving the desired outcome, Iranian officials were public about the economic challenges they introduced. Members of the regime began to support the creation of a more autarkic and self-reliant economy that could handle the asphyxiation from sanctions (Amuzegar, 1997).

The Iraq-Iran war had severely inhibited the regime's oil and petrochemical industries. As a result, expanding its economy into non-oil goods became a policy priority for Tehran to strengthen long-term prospects for economic stability (Estelami, 1999). During this period, manufacturers began producing alternative goods to trade with newly established economic partnerships in Africa, Asia, and Latin America. Likewise, Iran had shifted to several vital countries offering attractive economic integration prospects, including Brazil, China, India, and Indonesia. Through these new relationships, Iran expanded its shadow economy to obtain sanctioned items through unauthorized channels, while prohibited goods that became too difficult to obtain were replaced with cheaper alternatives (Amuzegar, 1997).

Seeing the lapses in its Iran strategy, the U.S. began to ratchet up sanctions through the Iran-Libya Sanctions Act (ILSA) of 1997. The act prohibited any significant investment in Iran's oil industry and authorized secondary sanctions on third-country companies that did not comply with the order. Though Iran was diversifying its economic portfolio into non-oil exports, the oil industry was still a pillar of Iran's economy. Up until then, Iran had been one of the largest producers in the Organization of the Petroleum Exporting Countries (OPEC), consistently meeting its monthly quota despite sanctions (Amuzegar, 1997).

The table below demonstrates the impact of sanctions under the Iran-Libya Sanctions Act. Regions with countries politically aligned with the U.S. witnessed a significant drop in Iranian crude oil imports following 1997. Furthermore, regions containing non-aligned or adversarial countries to U.S. interests increased, such as Africa, Far East Asia, and Latin America. Italy and Japan also witnessed an increase in Iranian oil imports, signaling its interest in maintaining economic relations with Tehran due to the debt owed to them by the regime.

Table 2: Iran Crude Oil Exports by Destination, 1995-1999 (1,000 barrels per day)

	1995	1996	1997	1998	1999
North America	1.7	39.5	32.5	-	-
Latin America	40	60	35	50	50
Eastern Europe	175	155	145	120	100
Western Europe	1,250	1,145.5	1,065	1,033.9	949.2
Middle East	20	20	25	25	25
Africa	120	190	200	190	200
Asia and Far East	1,013.1	1,020	1,084.5	1,090.5	1,205
Japan	380.3	429.6	465.2	460.3	496.6
Italy	228.6	264.8	259.9	292.9	286.4

Source: (Organization of the Petroleum Exporting Countries, 1999)

As shown in Table 2, Iran's strategy to shift its economy to alternative markets made the impact of sanctions less significant in terms of trade. Cooperation from Europe in enforcing sanctions was minimal to the point where 85% of Tehran's foreign exchange originated from its oil industry until 1997, when secondary sanctions were authorized (Maloney, 2001). Despite being able to trade in other currencies, Iran's limited access to the U.S. dollar forced it to default on several of its debts. The use of extraterritorial sanctions on third-country companies also led Iran to announce its intent to replace the U.S. dollar with the euro in future oil trade (Torbat, 2005). The cost of economic sanctions focusing on exports was between 1.4 and 4.7 percent of Iran's GDP.

The use of secondary sanctions also strained Washington's relationship with ally economies. European states were eager to fill the void left by the U.S. following its withdraw from Iran's oil and gas industry (Torbat, 2005). Until then, the European Union's model with Tehran was engagement and diplomacy, believing it was a more effective strategy to pull Iran away from its pariah status. Likewise, several allied nations, namely Germany, Italy, and Japan, were fearful that sanctions would prevent the facilitation of debt repayments owed by Iran. To offset some of the concerns, the U.S. granted waivers to certain ally countries to invest in Iran's oil and gas industry (Torbat, 2005), as seen in the cases of Italy and Japan in Table 2.

In 1999, the Clinton administration began to ease restrictions on Iran in support of President Khatami, who was seen as a more moderate member of the regime. President Clinton lifted sanctions on food and medicine exports to Iran in 1999 and non-oil exports to the United States in 2000 (Torbat, 2005). During his campaign, President Bush sought to continue Clinton's act of rapprochement, alluding to lifting sanctions on the regime. However, the ILSA was extended for an additional five years in 2001, a month before the September 11 attacks (Torbat, 2005).

Neither the Bush nor the Clinton administrations were clear on what constitutes a violation of sanctions under ILSA, leaving ambiguity and flexibility that allowed the U.S. to cater to the needs of allies. However, the construction of or investment in trade routes involving energy products were considered a breach of sanctions policy due to such developments strengthening Iran's ability to transport its energy resources. The Clinton administration clarified this to encourage the construction of certain pipelines that avoided involving Iran in the transactions, such as the establishment of trade routes from Azerbaijan directly to Turkey. However, these sanctions strengthened Tehran's relationship with other countries (Katzman, 2006). In 2004, Iran negotiated a deal with China and India to develop oil fields in Iran in exchange for a 25-year commitment to purchase 10 million tons of liquified nitrogen gas annually (Katzman, 2006). Several other similar deals have been signed between the countries since the original agreement.

Iran continued expanding its trade with the European Union throughout the two Bush administrations. According to a 2009 report by the Centre for International Governance and Innovation, "between 1999 and 2005, EU exports to Iran doubled and, by 2005, it was Iran's main trading partner with 35.1 percent of total market share" (Jahanbegloo, 2009). Despite its integration into the EU economy, policy measures continued to stifle Iran's economy.

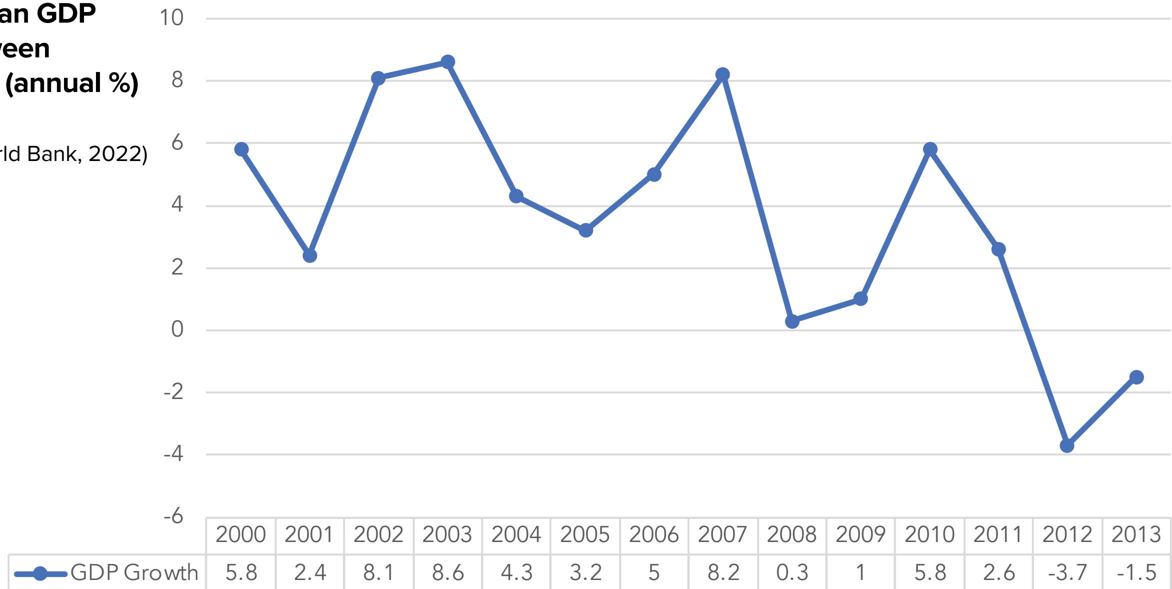
The U.S. proceeded to tighten sanctions following the 2003 discovery by the International Atomic Energy Agency of the Islamic Republic's expansion of nuclear technology and uranium enrichment. Despite international calls to scale back its nuclear advancement, Iran refused to halt its operations. In 2006, the U.S. reacted by imposing financial sanctions supported by the United Nations (Zweire & Abusharar, 2022). The regimes refusal to cooperate with international demand led to multilateral coordination on sanctions by the U.S. and several UN member countries.

A 2008 report by the International Monetary Fund (IMF, 2008) stated that sanctions had instilled several complications into Iran's economy, including the ability to finance trade, prevent foreign direct investment, and hamper profit in sanctioned financial institutions. Furthermore, Iranian officials were on the record stating that sanctions were a significant force in driving inflation, which was at 25% at the time of the report (World Bank, 2022), preventing foreign interests from engaging with its oil sector and challenging its ability to manage its economy. However, Iranian officials also mentioned signs of resiliency, including 6% growth of its real GDP, moderate growth in its oil sector despite a lack of foreign investment, a decline in unemployment, and 7.3% growth in non-oil sectors.

Despite the impact that U.S. and multilateral sanctions were having on its economy, Iran refused to slow down its uranium advancement. Countries throughout Asia and Africa slowly began to sever their trade relationships with Iran. 2012 saw the installation of new financial sanctions on Iranian financial institutions, with the EU taking steps to further isolate the regime by banning oil imports from Iran, erasing 20% of Tehran's export portfolio (Zweire & Abusharar, 2022). In other words, Iran's nuclear and uranium enrichment resulted in the international community following the United States in imposing sanctions that the U.S. had imposed decades earlier.

Table 3: Iranian GDP Growth Between 2000 – 2013 (annual %)

Source: (The World Bank, 2022)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Growth	5.8	2.4	8.1	8.6	4.3	3.2	5	8.2	0.3	1	5.8	2.6	-3.7	-1.5

The impact of the 2012 sanctions shows a clear correlation between isolation and economic impact. The EU ban on Iranian products removed a valuable market for the Iranian economy. At the same time, the Obama administration authorized primary and secondary sanctions on entities that participated in transactions that were for the purchase or acquisition of Iranian oil. President Obama also imposed additional sanctions on Iran's energy industry, prohibiting transactions that acquire Iranian petrochemical items. Furthermore, individuals and entities that completed transactions with the National Iranian Oil Company, Naftiran Intertrade Company, or Central Bank of Iran, or assisted the Iranian government in purchasing U.S. bank notes or precious metals, were liable to punishment (The White House Office of the Press Secretary, 2012). As seen in Table 3, the results of the EU and U.S. sanctions showed a near 5% contraction in Iran's GDP growth from 2011 to 2012.

The international and economic pressure following Iran's decision to move forward with its nuclear program was a driving influence in its decision to enter the JCPOA deal in 2015. The agreement between China, France, Germany, Russia, the U.S., and the U.K. set out the conditions for sanctions relief in exchange for Iranian compliance on its uranium development.

Though the JCPOA agreement provided significant sanctions relief, roadblocks still prevented full global integration for Iran's economy. Many secondary sanctions were eradicated, which granted European financial institutions flexibility in doing business with U.S.-sanctioned Iranian individuals and entities (IMF, 2017). Transactions involving Iranian entities and foreign financial institutions were permitted if such transactions were done without accessing the U.S. financial system at any point. European banks were also able to participate in transactions involving Iran's oil and natural gas industries (IMF, 2017). However, primary sanctions were still intact, which limited the interaction between U.S. financial institutions, companies, and their foreign subsidiaries with Iran.

The possibility of the U.S. reinstating sanctions also challenged Iran's integration into the global economy. Foreign branches of unsanctioned Iranian banks were reconnected to the international financial system and could conduct cross-border payments for foreign trade and oil transactions. However, non-U.S. financial institutions had to assume additional risks associated with doing business in Iran if the regime was unable to fulfill its commitment to the JCPOA (IMF, 2017). In some cases, ensuring that banks were following and able to safeguard against reinstated sanctions became burdensome, forcing financial institutions to disengage with Iran to avoid onboarding additional unnecessary risk that would lead to violations in the future.

Trade increased significantly for Iran following the formalization of the JCPOA. In 2015, trade only represented 39% of Iran's total GDP, the lowest since 1998, when it was only 29%. Following the launch of the JCPOA, trade saw a year-over-year increase in trade production up until 2018, when it represented 59% of its GDP makeup (World Bank and OECD, 2022).

The extent of Iran's economic relationships also increased significantly during this period. Before the JCPOA, economic analysis conducted by the IMF (IMF, 2023) determined minimal activity between Iran and Europe. At the same time, China was and

remains the most significant exporting destination for Iranian goods. However, following the liberalization of sanctions, several European nations saw a considerable increase in trade from Tehran, namely Italy, France, Spain, Greece, and the Netherlands. Imports from the same countries also increased or remained consistent with pre-JCPOA levels.

Oil and energy output also rose significantly. Between 2015 and 2017, Iranian liquid production increased by 1.2 million barrels per day, or BPD. Similarly, in 2017, crude oil exports hiked to 3.8 million BDP, reflecting an increase of slightly over a million barrels from 2013 (U.S. Energy Information Administration, 2021).

The Trump administration withdrew from the JCPOA in 2018 after stating that Iran was not living up to its end of the agreement (Thomas, 2023). The U.S. ceasing its participation meant reinstating all sanctions lifted in the agreement under the Obama administration. Former Secretary of State Mike Pompeo implemented new conditions, which included Iran ceasing its support for armed groups and proxies in the region (Thomas, 2023). After Iranian officials rejected U.S. demands, the Trump administration tightened sanctions with a “maximum pressure” approach, adding several other executive orders and authorities that constrained the regime further.

Following the U.S. withdrawal, the total trade percentage of Iran’s GDP fell every year until 2021. In 2020, the trade percentage dropped by 7%, falling to levels lower than Iran had seen in 2014 (World Bank and OECD, 2022). More notable than Iran’s lower trade output was the hike in its inflation, which increased by nearly 22% (World Bank, 2022). Though Iran’s inflation dropped in 2020 by a significant 9.3%, it was still 12 percentage points higher than the 18% it had been in 2018.

Perhaps more significant was the sanctions’ impact on Iran’s oil and energy sectors. According to the U.S. Energy Information Administration (U.S. Energy Information Administration, 2021), Iran’s crude oil production was consistent with JCPOA levels due to waivers granted by the Trump administration to oil-importing countries dependent on Iranian oil. However, once waivers expired, production fell by approximately 500,000 barrels per day. The following year, crude oil production levels fell below 2 million barrels per day, an almost 40-year low for Iran.

Crude oil exports also fell significantly, dropping from 2.5 million barrels per day in 2017 to 400,000 in 2020. It is important to note that it is unlikely that sanctions alone were the reason for the drop. The timeline meets with the period when international demand for energy and oil resources had dropped significantly due to the COVID-19 pandemic.

Following the expansion of sanctions, Iran realigned its export strategy. Supply chains were again redirected to countries that were neutral or adverse to U.S. interests. By 2021, no U.S. ally, except for Taiwan, was in the top 11 shipping destinations for Iran. European markets were replaced with Asian and Middle Eastern ones. Lastly, countries with tense relationships with Washington, such as China, Afghanistan, and the Russian Federation, became more prominent trade partners for Iran (IMF, 2023).

Though the Biden administration initially sought a reentrance into the JCPOA, Iran’s repression against protestors in 2022, attacks on shipping vessels in the Persian Gulf, and support for Hamas in the Israel-Hamas war have forced the U.S. to rethink its strategy of diplomacy.

Political Effect

The objective of U.S. sanctions changed several times since the introduction of U.S. sanctions over 40 years ago. Despite policymakers employing comprehensive economic and targeted financial sanctions, little has changed in instilling the desired change in Iran. Although they were successful during the hostage negotiation of 1981, many other goals remain with minimal progress towards finding a solution, such as Iran’s support for terrorism, human rights abuses, destabilizing regional affairs, nuclear advancement, and alignment with U.S. interests. Rather, evidence and Iran’s current strategy suggest that Iran has adjusted to U.S. sanctions and is resorting to unconventional methods of engagement for access to global markets.

Terrorism & Regional Instability

The goal of obstructing Iran’s support for international terrorism remains an issue today. The beginning of terrorism-related sanctions saw a series of international attacks coordinated or supported by Iran. Throughout the 90’s, the Iranian regime was involved in multiple attacks targeting political rivals and ethnic groups. Strikes such as the 1992 car bomb targeting the Israeli Embassy in Argentina, the 1996 assault on U.S. military personnel in Saudi Arabia, and assassinations of Iranian opposition leaders in Europe throughout the 1990s all illustrate how sanctions were ineffective in achieving political success from the beginning (Torbat, 2005).

At present, Iran continues to support international terrorism through a network of proxies, allies, and its military, the Iranian Revolutionary Guard Corps (IRGC). The Lebanese Hizballah and Hamas continue to fuel regional instability, as seen in the ongoing Israel-Hamas war. Iran also has operations reaching Latin America

through its relationship with proxy terrorist groups (Ottolenghi & Citrinowicz, 2023). Iran's role in assisting radical extremists in Iraq and the Houthis in Yemen, the latter of which it currently provides with weapons to continue attacking shipping vessels in the Red Sea (Gambrell & Baldor, 2024), further demonstrates its penchant for levying proxies to spread its influence throughout the region.

Iran's support for Hamas, Hizballah, and Houthis has also been severely detrimental to promoting peace and stability in the region. Iran-backed militants represent Tehran's strategy to increase its influence by leveraging their network and boosting their reach in the region. Rather than being used as a vessel to promote ideological support that aligns with the regime, the Islamic emirate has shifted to using its proxies to reinforce its diplomatic ambition in the Middle East.

The case of Iran's backing of Syrian President Bashar al-Assad represents the regime's partiality in assembling relationships with other ostracized states. Tehran's support for Syria varies across the military and intelligence sectors in exchange for the ability to use Syrian territory for unconventional operations that project regional influence. Security efforts have also included training provided by the IRGC, Quds force, and law enforcement, with other assets, including backing from its proxies (Fulton, Holliday, & Wyer, 2013). The Islamic regime blueprint in Syria also demonstrates its support for terrorist organizations in Yemen, Palestine, and Lebanon.

Human Rights Abuses

U.S. sanctions relating to human rights abuses and Iran have only been in place since 2002, making them more recent than other sanctions. However, human rights violations have continued to be an issue since then, with reports indicating the persecution of political dissidents, opposition members, women, and religious minorities (Human Rights Watch, 2021).

Iran also uses transnational repression methods to silence critics and regime opposition. In 2021, four Iranian nationals were indicted for the attempted kidnapping of Masih Alinejad, a critic of the Iranian regime. The indictment names an Iranian intelligence official as the primary operative responsible for the attempted kidnapping of Alinejad in New York (France24, 2021).

A 2023 press release by the Office of the United Nations High Commissioner for Human Rights concerning the deteriorating state of civil liberties in Iran stated that "the overall human rights situation in the country risks deteriorating further if no response is made to the concerns raised to date of alleged human rights violations, and if new legislation, which proposes harsher punishments on women and girls found in breach of forced veiling provisions, becomes law" (OHCHR, 2023). The statement follows a series of crackdowns on protesters criticizing the regime for the death of Jina Mahsa Amini, who died in Iranian custody. The regime responded by sentencing several protestors to death and banning female students from studying further if they came in violation of veiling laws.

Nuclear Advancement

Nuclear-related sanctions have been ineffective in preventing the advancement of Iran's nuclear program. After the U.S. withdrew from the JCPOA deal, Iran continued to expand its uranium enrichment, including the advancement of its uranium metal, which was strictly prevented in the agreement. In 2021, Iran began to enrich its uranium up to 60%, tripling the quality from just a year prior (Azodi, 2023). Though 60% purity is not near the 90% that is necessary to be considered weapons-grade level, it does express its intent to pursue nuclear advancement, a looming threat that the U.S. tried to prevent through economic and financial sanctions. According to a recent report by the International Atomic Energy Agency (Liechtenstein, 2023), Iran is increasing its production rate and is only a few technical steps away from reaching 90% purity.

Political Alignment

The U.S.'s attempt to sway Iran's alignment has only spurred Iranian resentment and aversion to U.S. politics. Following broad embargoes in the 1980s, the Iranian clergy instituted policies to de-risk its economic profile from dependency on U.S. goods. Iran's diversification policy lasted throughout the 80s and into the early 90s, making the impact of economic sanctions negligible and politically ineffective while successfully aggravating tension between the Islamic Republic and Washington. In response to unilateral sanctions, Iran pivoted to central and far east Asia to establish new trade partnerships, some of which it stills holds today. Iran continues to rely on the Asia market, with significant dependency on China for its exports and imports.

Sanctions led Iranian officials to use unconventional ways to build support for the regime. For example, Mahmoud Ahmadinejad, president of Iran from 2005 to 2013, directed several initiatives to strengthen support for the nuclear program and labeled sanctions as an attempt by the U.S. to prevent industrial development. Under Ahmadinejad, Iranian currency was printed acknowledging its nuclear program on the face of the rial and nuclear technology was labeled a

birthright for Iranians (Nephew, 2018). By the time that the JCPOA was formalized in 2015, 75% of Iran supported its nuclear development.

In some instances, Iran was able to strengthen its economic independence. According to Richard Nephew (Nephew, 2018), one of the architects behind the U.S. sanctions program on Iran, economic controls on Iran's oil industry were a driver in Tehran's development of non-oil exports, particularly with cement. Though the development of other industries did not equate to the potential of Iran's oil industry, it did create pathways for Iran to manage the short- and medium-term effects of sanctions. Likewise, it created a new market for Iran to partner with other countries, leaving Iran with less incentive to agree to U.S. terms for sanctions relief.

Iran's announcement that it would start looking for ways to trade outside of the U.S. dollar following the Clinton administration's dual containment strategy demonstrates its willingness to hedge against future sanctions. According to McDowell (McDowell, 2023), Iran has since instituted several ways to avoid using the dollar in cross-border trade, including accepting gold as payment for oil transactions and using local currencies when trading with nearby regions. In 2019, the Islamic Republic announced that Iranian banks under sanctions had joined China's Cross-Border Interbank Payment System (CIPS). This system allows for global trade in renminbi with member institutions.

On January 17, 2024, Iran formally joined the China-led BRICS organization, a group of emerging economies looking to strengthen trade in a common currency outside the U.S. dollar (Monteiro, 2023). Though the group will not likely threaten Western economies in the near future, it does provide Iran with more legitimacy and opportunities that will hamper any revival of U.S.-Iranian relations.

Conclusion

The U.S. sanctions program on Iran presents itself as one of the most comprehensive and thorough sanctions programs that the United States has in place. Despite its exhaustiveness, U.S. sanctions policy on the Iranian regime has failed to successfully coerce Tehran to align with U.S. objectives. It was unlikely from the beginning that unilateral sanctions would be able to achieve political success in Iran. When beginning to assess how sanctions can play into the U.S.'s policy strategy in the relationship, evaluation by U.S. analysts determined that external factors and relationships would allow Tehran to continue with its operations.

Economic effectiveness varies depending on the type of sanctions. Torbat's analysis (Torbat, 2005) finds that financial sanctions, restrictions that target Iran's financial institutions, foreign currency reserves, and access to the international market, are much more effective than broad economic controls. The regime's campaign shortly after the Iranian revolution was intent on strengthening Iran's economic self-reliance and reducing dependency on the U.S. for goods. Items that became too difficult to access were simply replaced with alternatives, and Tehran's shadow economy granted a pathway for prohibited goods to enter Iran through third-party countries.

Driving the economic impact of sanctions further is the mismanagement of the economy by the regime. Along with strengthening their partnerships with other countries, economic independence has been a consistent priority for the Iranian government. The severance of economic relationships with many developed economies also prevented Iran from benefitting from internationalization that would have strengthened trade partnerships and productivity. The regime's inability to integrate with the world economy also hampered the development of technologies and industry knowledge, leading to cases of brain drain that prevented the development of industries necessary for economic growth.

Although data suggests that economic and financial sanctions were effective in straining the Iranian regime, they failed to achieve Washington's political objectives. Early intentions to curb Iran's support for international terrorism, strengthen civil liberties, and slow its nuclear advancement continue to worry Washington, with the possibility of conflict emerging as conditions in the Middle East continue to deteriorate (The Economist, 2024). Furthermore, sanctions have complicated relations between the two countries, leading Iran to seek opportunities with countries that are politically aligned with the regime.

Iran has found ways to successfully circumvent sanctions through several means. Its entrance into BRICS and CIPS signal Tehran's intent to focus on developing their relationship with other currencies void of U.S. influence. Likewise, it has resorted to conducting transactions outside of the U.S. dollar to avoid the political risks associated with the currency. As these relations continue to develop, it is likely that sanctions will fail to achieve their main objective of disassociating the regime from activity that the U.S. considers threatening.

CASE STUDY RUSSIA

Background

Despite being just a decade old, the U.S. sanctions program on Russia is arguably the most comprehensive and complex list of restrictions overseen by OFAC. Sanctions on Russia mainly stem from its aggression in Ukraine following the illegal annexation of Crimea and aim to deter further military aggression against other states. Since then, sanctions on Russia have only expanded in retaliation for activities that threaten U.S. interests, including its cyber activities, influence operations, use of chemical weapons, human rights abuses, weapons proliferation, sanctions evasion, and support for the North Korean, Syrian, and Venezuelan governments (Welt, Archick, Nelson, & Rennack, 2022).

Shortly following Russia's illegal annexation of Crimea, the White House Office of the Press Secretary released a public statement announcing the imposition of economic and financial sanctions due to Russian policies and actions that "undermine democratic processes and institutions in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the misappropriation of its assets" (Office of the Press Secretary, 2014). The sanctions, which invoked IEEPA under Executive Order 13660 by President Obama, targeted Russian government officials, entities in the arms industry, and any individual or entity operating on behalf of a senior government official or energy sector.

Several other executive orders were issued in the following months that included broad economic and smart sanctions on Russian-occupied Crimea. The sanctions prevented U.S. business dealings, trade, or regional investment. Other sanctions were implemented targeting Russian individuals and businesses that operate directly in Russian sectors vital to its economy.

Under President Obama, several other sanctions were invoked for additional activities that threatened U.S. interests, including election interference, misinformation campaigns, and weapons proliferation. The sanctions include economic and financial sanctions that target individuals and entities. Likewise, the U.S. sanctioned large financial institutions, such as Sberbank (U.S. Dept of Treasury, 2014) and the Russian National Commercial Bank, oil fields, and political associates and entities affiliated with construction and logistics in Crimea (Gutterman & Grojec, 2018).

The Trump administration tightened sanctions on the Kremlin, building on the foundation established by President Obama. While new sanctions mostly enhanced pre-existing measures from the previous administration, additional prohibitions were placed on several new activities that the U.S. deemed a threat to international security and violations of existing policies. Under guidance from the Trump administration, OFAC sanctioned several Russian financial institutions due to connections to financial support to Venezuela and Syria, the use of chemical nerve agent weapons, and its military support for Syria. The U.S. also leveraged the Countering America's Adversaries Through Sanctions Act (CAATSA) to target Russian political figures, proxies, and oligarchs that Russia uses to discreetly access Western economies (U.S. Dept of Treasury, 2018). By 2019, the Trump administration had taken 52 total policy measures targeting Russia (Polyakova & Letsas, 2019).

Russia's continuous use of "harmful foreign activities" has led to several more measures under President Biden. Moscow's cyber activity remains a target for sanctions, with the most recent action taken in December 2023 (Miller, 2023). Additional sanctions aim to deter Russia's "transnational corruption; unlawful killing or harming of U.S. persons or U.S. ally or partner nationals; activities that undermine the peace, security, political stability, or territorial integrity of the United States, its allies, or its partners; and the circumvention of U.S. sanctions" (Welt, Archick, Nelson, & Rennack, 2022).

However, the most notable comes following the 2022 Russian invasion of Ukraine, which consists of comprehensive and targeted financial policy actions in coordination with U.S. allies. The sanctions package includes removing vital Russian banks from SWIFT, which ousts several of Russia's larger financial institutions from the primary global market. Russian foreign reserves have also been blocked, preventing Russia from accessing around $300 billion of its assets. There has also been an expansion of restrictions on Russia's energy sector, including a price cap on Russian oil exports that prevents sales prices from exceeding $60 per barrel rather than the typical price range of $70-$75 (Business Insider, 2024). Currently, the U.S. has sanctions on over 300 Russian targets that hinder Moscow's ability to evade restrictions, access military and industrial equipment, and develop its energy industry in the future (U.S. Dept of Treasury, 2023). Following the second anniversary of Russia's invasion of Ukraine and the death of opposition leader Alexei Navalny, OFAC sanctioned over 300 Russian businesses used to finance its war (OFAC, 2024).

It is important to note that the first sanctions imposed on Russian officials were instituted in 2013 under the Sergei Magnitsky Rule of Law Accountability Act of 2012. However, due to the narrow

focus of the act and use of individual sanctions rather than ones targeting the regime, it is outside the scope of the research.

Impact

Economic sanctions led to several challenges for Russia's economy following the initial phase of policy responses from the U.S. and its allies. According to an analysis conducted by the Congressional Research Service for the U.S. Congress (Nelson, 2017), between 2014 and 2015, Russia witnessed a depreciation of its currency, more capital fleeing the country, high inflation, and less access to global markets.

During this period, Russia's economy was also experiencing a period of weak performance due to the price of crude oil declining by nearly 50% between June 2014 and the beginning of 2015, deteriorating the value of the Russian ruble along the way. Since energy exports at the time were nearly two-thirds of Russian exports, its economy was managing the oil shock on its economy. Therefore, when the U.S. and its allies implemented multilateral sanctions, it only exacerbated the situation (Korhonen, 2019).

Though sanctions typically target the vulnerabilities of a country directly, they can have indirect effects that are just as damaging, if not more. For instance, part of the Russian sanctions program includes restrictions on the ability of Russian banks and companies in the energy and military-industrial sectors to borrow capital from foreign financial institutions. Though these sanctions had severe ramifications for the Russian economy, the indirect effect was arguably more effective.

By placing sanctions on its access to foreign borrowing, funds that can support Russian businesses and financial institutions became considerably lower. As a result, it was riskier for investors and foreign companies to do business in Russia, forcing them to completely disengage with any potential dealings. As a result, there was a decrease in the the amount of direct foreign investment entering the country. Consequently, the Russian government struggled to manage its debt market (Gurvich & Prilepskiy, 2015), suggesting that the indirect effect amplified the direct effects of sanctions threefold.

Straining the Russian economy further were sanctions that prevented targets from accessing primary economic markets, also discouraging Western companies from engaging in Russia. Western financial institutions were also not allowed long-term dealings with Russian financial institutions, namely Sberbank, VTB, Gazprombank, the Russian Agricultural Bank, and the state-owned development bank, VEB (Korhonen, 2019). The strategy behind the financial sanctions was to maintain payments in the short term consistent for international banks while also complicating the ability of Russian entities to fulfill future debt obligations (Aslund & Snegovaya, 2021).

The challenge of not generating sufficient capital led to difficulties for Russian companies and their ability to fulfill debt obligations in a timely manner. The damage brought by sanctions on businesses and financial institutions challenged Russia's Central Bank, which had to assume the role of financier to provide liquidity for designated entities.

In the year following sanctions, findings suggest that Russia lost approximately $54 billion in trade by the end of 2015, with the most impact seen in products that were not sanctioned (Korhonen, 2019). By imposing sanctions on Russian banks that blocked access to financing, they were unable to provide funds to companies that conduct cross-border trade. Sanctions also increased the risk level of partnering with Russian businesses, making foreign businesses wary of having operations in the country. Sanctioning states were also impacted, experiencing a loss of approximately $42 billion, with the EU bearing most of the damage due to stronger economic links with Russia.

Though sanctions did have an impact in the early phase of sanctions, several variables suggest that Russia could stabilize its economy by 2016. Towards the end of the Obama administration, economic conditions in Russia saw less contraction, capital outflows decreased, and the inflation rate began to subside. The primary explanation is the restoration of global oil prices, which increased to above $50 per barrel from $30 in 2015 (Nelson, 2017). Therefore, we can determine that the oil price surge became a short-term hedge against Western sanctions for Russia.

According to an analysis by the International Monetary Fund in 2015 (IMF, 2015), the medium-term impact of sanctions would lead to a 9% GDP drop-off. The IMF also states in the report that findings suggest Russia's economic woes were primarily due to lower capital inflows that disrupt technological advancement, resulting in less productivity. A chief economist at the U.S. State Department similarly stated in 2016 that private-sector companies in Russia targeted by sanctions could only generate two-thirds of their revenue potential (Ahn & Ludema, 2017).

Rebecca Nelson, a specialist in international trade and finance at the Congressional Research Service, found that within the first two years of sectoral sanctions (Nelson, 2017), Russia's oil industry experienced a significant spike in its exports and revenue, dropping by over 60%. By 2015, several other

economic variables saw similar levels of impact, including currency depreciation, which suffered a 50% drop-off; inflation rates, increasing from 6.8% to 15.5%; poverty levels, reaching 13% of Russia's total population; and capital flight, which saw a total of $152 billion in outflows.

Since the U.S. and EU imposed sanctions simultaneously on several industries, assessing which sanctions were the most effective in impacting Russia's economy is difficult. However, the U.S.'s use of secondary and smart sanctions was likely a convincing factor in ensuring that the international community would comply with economic authorities. Therefore, along with multilateral cooperation, the U.S. was a driving factor in impacting the Russian economy during the initial phase of sanctions.

The impact of sanctions also includes the growth of anti-dollar policies in the Kremlin. Shortly following the slew of sanctions between 2014 and 2015, Russia began to publicly share its intent to decouple from the political risk associated with using the U.S. dollar for cross-border trade. Sergei Glazyev, a member of the National Financial Council of the Bank of Russia, advised Vladimir Putin to begin the process of using alternative currencies in anticipation of more Western sanctions in the future (McDowell, 2023).

Russia continued demonstrating its intent to decouple from the Western currency with several announcements on how it planned to use different denominations in cross-border transactions. The Eurasian Economic Union, an economic partnership among Central Asian countries, Russia, and Belarus, began trading more in the ruble during this period. Similarly, Putin started advocating for BRICS to separate from the U.S. dollar when trading with member states.

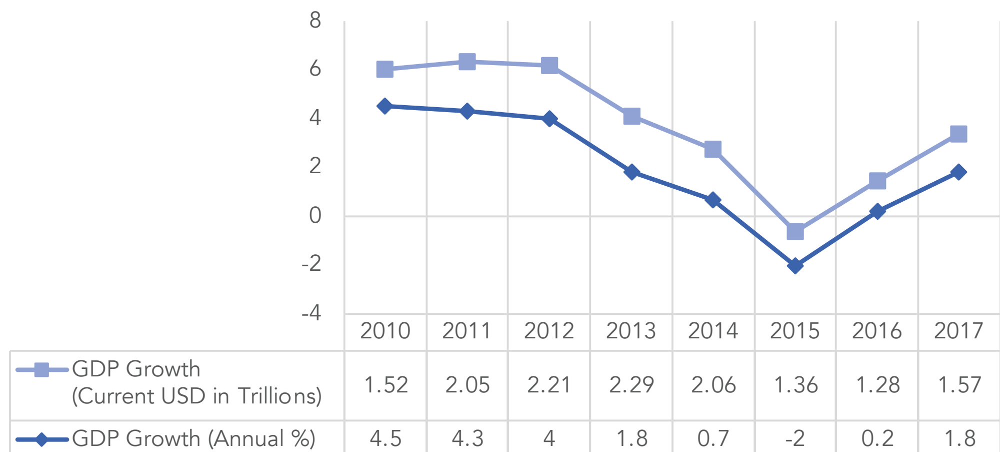
Other measures were instituted, such as creating the Financial Messaging System of the Bank of Russia (SPFS), an inferior analogous entity to the international SWIFT system. Though the SPFS continues to operate today, it is still deficient in many aspects and poses no threat of dethroning SWIFT as the de facto messaging system between financial institutions. However, it does demonstrate how Russia began to create separation from the West to protect against future sanctions.

To cover its loss of Western investment and capital, Russia began to look for other creditors to replace U.S. and European financial institutions. Shortly following the 2014 sanctions, Russia formalized a deal for the recently sanctioned VTB Bank and Sberbank with the China Development Bank for a credit line of 6 billion in renminbi. President Putin and President Xi Jinping attended a ceremony announcing the deal. Furthermore, the three most prominent financial institutions in Russia — Sberbank, VTB Bank, and Gazprombank — announced in 2015 that they would begin using renminbi more when conducting transactions (McDowell, 2023). Though the shift did not materialize in the manner that the Kremlin had anticipated, it did successfully partner with China in lowering the use of the U.S. dollar between them by approximately 20% between 2014 and 2018.

Financial institutions that were not sanctioned began to use the dollar less as well. Russia began to open correspondent accounts with banks located in China rather than the U.S. to conduct international transactions. By the end of 2020, over 20 Russian banks had switched to China's CIPS system along with more usage of the renminbi to avoid financial sanctions (McDowell, 2023). Major Russian companies also announced settling transactions in other currencies.

Table 4: Russian GDP Growth (2010-2017)

Source: (World Bank, 2023)



	2010	2011	2012	2013	2014	2015	2016	2017
GDP Growth (Current USD in Trillions)	1.52	2.05	2.21	2.29	2.06	1.36	1.28	1.57
GDP Growth (Annual %)	4.5	4.3	4	1.8	0.7	-2	0.2	1.8

In 2019, Rosneft, Russia's largest oil company, began using euros rather than the U.S. dollar (Astakhova, Fabrichnaya, & Ostroukh, 2019). The use of the U.S. currency dropped from 70% of all Russian transactions in Europe in 2014 to roughly 40% by 2020 (McDowell, 2023). The euro slowly started becoming the currency of choice for Russia due to its stability. However, it is likely that EU sanctions following the 2022 invasion will sour the relationship between Russia and the European currency.

Russia also retaliated against U.S. and European sanctions with sanctions of its own. The countermeasures represent how sanctions could not compel the Russian government to withdraw from the invasion. The countersanctions prohibited imports from the U.S., Europe, and other coalition countries that joined Washington in imposing their own measures (Hanousek & Bělín, 2019). However, these sanctions were more symbolic than anything else and had little impact.

In 2020, Russia's economy saw a recovery in its gross domestic product. Russian production and incoming investment also saw moderate growth, with similar increases in exports and total consumption (IMF, 2019). Its economy was experiencing enough upturn that experts at the International Monetary Fund projected that growth and inflation rates were on pace to stabilize in favor of the Russian Federation. However, despite moderate growth, Russia's economic progression was still lagging behind the global average, suggesting that Russia's economic presence was waning (Korhonen, 2019).

Several critics argue that sanctions were underperforming and unsuccessful in scaling back Russian activity. Part of the criticism includes the inability of sanctions to pull Russia away from its interests in Ukraine. Most of the individuals and companies sanctioned had little connection to the U.S. Instead, sanctioned individuals were more dependent on their status in Russia for access to financial resources. Even though Russian companies did experience much more damage by having less access to critical technologies and capital, research suggests that more than alienation from Western markets was needed to halt their operations.

According to government analysts (Welt, Archick, Nelson, & Rennack, 2022), U.S. sanctions were less impactful due to the target of sanctions. Since most sanctions from the U.S. targeted individuals and companies used in malign activities, Russia's economy was able to manage the pressure. Likewise, Western countries, particularly in Europe, are much more reliant on Russian goods to satisfy their needs in the energy industries. Therefore, we can assess that keeping the scope of targets within these boundaries was to protect U.S. and Western economic interests while holding Russian actors accountable without excessive collateral damage.

Russia's economy experienced another contraction in 2020, with GDP falling by 2.7%. Sanctions likely had little to do with the underperformance since the timeline correlates with the COVID-19 pandemic. Further supporting the argument that the drop in productivity was mainly due to the pandemic is the immediate recovery of its economy the year after, with annual economic growth increasing to 5.6% (World Bank, 2023). For comparison, Russia's economic contraction and recovery from 2019 to 2021 are nearly identical to the performance of the United States in the same period.

Though it seemed as if Russia would be able to weather the storm of sanctions in 2021, the 2022 full-scale invasion of Ukraine brought a new wave of measures that continue to strangle Moscow's economy. The current objective of Western sanctions is to disrupt Russia's economy by aggressively targeting its ability to trade commodities, particularly in the energy sector, and ability to fund the war campaign. More specifically, multilateral sanctions have targeted Russia's central bank by freezing over $300 billion of its foreign reserves located in Europe, Japan, and the U.S.; Russian coal and oil exporters; and export controls that intend to prevent key technologies from entering Russia. Several of Russia's larger banks have been removed from SWIFT, diminishing available payment channels.

Despite the complexity behind the sanctions regime targeting Russia, there is much skepticism and criticism about its lack of teeth. The deterioration of Russia's economy has been a gradual process rather than an immediate one. Many carveouts provide Russia access to the U.S. and the West, primarily due to Europe's heavy reliance on Russian oil and energy, such as the oil price cap. However, other major sources of revenue for Russia, such as its diamond mining company Alrosa, which is the world's biggest diamond producer, have been sanctioned (Campenhout & Marrow, 2024).

To protect its economic interests, the U.S. and its allies must maintain carveouts to avoid global repercussions that will ultimately hurt the West. For example, in 2018, sanctions on Rusal, a Russian company that produces and exports aluminum globally, shocked international markets to the extent that it took several years to recover. Several other industries were impacted, such as manufacturing companies, due to the Rusal sanctions (Petroff & Petroff, 2018).

Even though the West barred many of Russia's larger financial institutions from SWIFT, several smaller institutions maintain access to the messaging system. Removing all banks from SWIFT would

have significant consequences for Russia. However, a complete removal of Russian banks from the system will prevent cross-border energy transactions and the ability to pay for imports and exports. Therefore, certain large institutions, such as Gazprombank, can still use the system as well. In all, over 300 Russian banks still have access to SWIFT (Donovan, Nikoladze, & Bychkovska, 2023).

Russia has also resorted to discreet practices to continue evading sanctions, especially with its oil trade. By avoiding G7 shipping services, Russia has created a shadow fleet of oil tankers that continue to ship oil above the $60 threshold and hide their location to avoid detection. Challenges with enforcement and monitoring the price cap create a shortfall in the policy that Russia continues to exploit.

Between December 22, the start of the price cap, and October 2023, Russia generated $381 billion in oil revenue (Donovan, Nikoladze, & Bychkovska, 2023). Even though the price cap has not been as effective as initially anticipated, analysis determines that proceeds from Russian oil and gas sales dropped by about 24% (Gardner, 2024). Moscow has stated that it expects to recover some of its lost revenue by replacing the European markets with China and India.

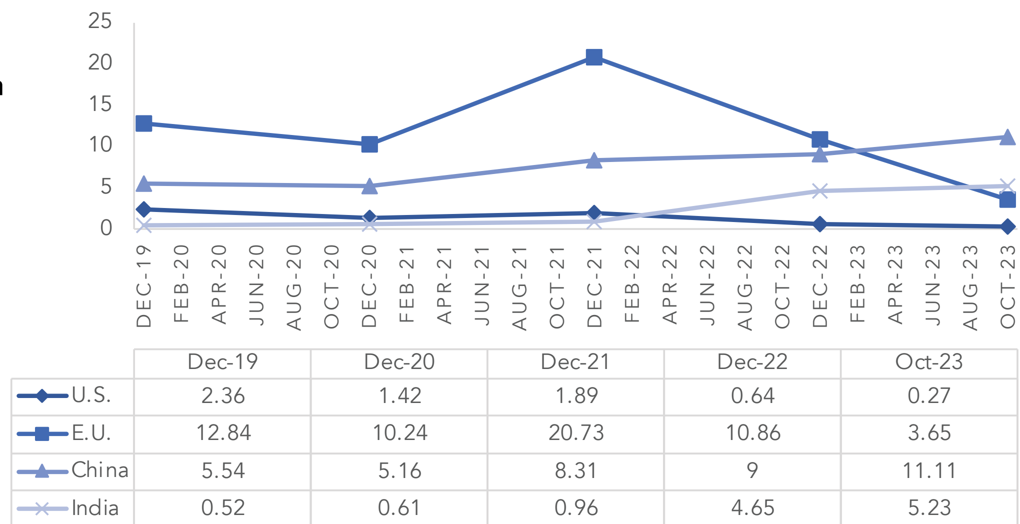
Prohibited goods that Russia uses for its war have swelled Central Asian markets through its shadow economy. The trade growth is likely due to Russians and their businesses fleeing the war and relocating throughout the region (Schreck, et al., 2023). Consequently, the area has become a hub for Russia's sanctions evasion tactics to gain access to Western goods. Shortly after the war began, Putin issued a decree allowing parallel imports to enter Russia discreet. Under the order, Western manufacturers that send goods to Central Asian countries cannot stop the resale of the products, creating a pathway for sanctioned products to enter Russia.

Russia has also rerouted trade to non-aligned countries to circumvent U.S. sanctions. Analysis conducted by the Bruegel Institute (Darvas, Moffat, Martins, & McCaffrey, 2022), an economics think-tank based in Brussels, found that Russia has found ways to divert trade to non-sanctioning countries to offset the pain from sanctions. Results clearly show the impact of trade with the U.S. and its allies, especially with the European Union. Ally countries have all significantly dropped their trade balance with Russia, with some cases, particularly the EU, U.K., and U.S., reaching points where production is negligible. Conversely, countries that are non-aligned or adversarial to Western interests see considerable increases. Data suggests that since 2019, China, India, and Turkey have all strengthened their trade relationship with Russia. Evidence from export and import flows supports this finding.

When evaluating bilateral trade in mineral fuels and all other goods, Russian trade with China doubles. More dramatic are Russian exports of mineral fuels to India, which saw the most substantial increase, rising from approximately $200 million in February 2022 to $3.6 billion in just four months. Currently, mineral fuel exports to India sit at $4.7 billion. Turkey also increased its Russian imports of mineral fuels, though only by $1.8 billion. Russia has also increased its import of products, including goods subject to sanctions, with the same countries but to a much lesser extent than exports. Table 5 below details Russia's shift in trade partners since the start of the 2022 Russia-Ukraine war.

Table 5: Russia's Total Exports by Exporting Destination (measured in USD billions)

Source: (Darvas, Moffat, Martins, & McCaffrey, 2022)



	Dec-19	Dec-20	Dec-21	Dec-22	Oct-23
U.S.	2.36	1.42	1.89	0.64	0.27
E.U.	12.84	10.24	20.73	10.86	3.65
China	5.54	5.16	8.31	9	11.11
India	0.52	0.61	0.96	4.65	5.23

Exceptions and mechanisms such as the above examples contribute to Russia's ability to withstand the economic punishment in the short term. However, that is not to say that Russia's economy has not suffered. According to Chief Sanctions Economist at the U.S. Department of Treasury Rachel Lyngaas, sanctions have created macroeconomic underperformance and fiscal confinement due to less revenue (Lyngaas, 2023).

Lyngaas states, with support from the data collected by the IMF and Treasury officials, that Russia's GDP contracted by 2.1% in 2022. Furthermore, Russia's economic projections are currently 5% lower than estimates before the 2022 invasion. Energy exports have alleviated some of the strain of sanctions, with energy exports performing exceedingly well.

Pressure from sanctions also contributed to the ruble's depreciation, which decreased by about 20% between February 2022 and December 2023. The Russian central bank has enacted several policies to stabilize the currency, with one of the more recent policies calling for an increase in interest rates from 7.5% to 11%. Despite the efforts, the ruble continues to struggle due to increased demand for the currency, declining export production, and sanctions. Reports in August 2023 demonstrate the severity of the issue, stating that the ruble had slumped to a 17-month low (Smith, 2023).

Initial predictions stated that sanctions would lead to Russia's economic crumble. However, Russia has shown its resiliency and capability to adjust to sanctions. However, that is not to say that sanctions have not effectively created economic challenges for Russia.

Sanctions are rarely ever engineered to inflict as much pain as possible from the onset. Instead, they typically ramp up sanctions gradually to prevent unnecessary damage to achieve their objective. Sanctions on Russia follow this same model, particularly with the most critical sanctions that contribute to Ukraine's defense. Contrary to the Iran case study, Russia's resources are critical to U.S. allies, and a maximalist approach would have contributed to collateral damage to European allies. Much of the damage from sanctions will likely be more evident in the medium to long term. Likewise, Europe's decoupling will lead to permanent damage and a valuable market that will likely take time to recover from (Demertzis, Hilgenstock, McWilliams, Ribakova, & Tagliapietra, 2022). While they have been economically effective as a policy instrument for the U.S. and its allies, it is difficult to assess whether they will accomplish the political objectives set forth by policymakers.

Political Effect

Due to Russia's economic position and decoupling from the West following the annexation of Crimea, there has been little political success in using sanctions. Sanctions for malign activity are routinely updated, suggesting that Russian activity continues to concern the U.S. Most notable, perhaps, is Russia's continuous aggression in Ukraine, where the conflict has only escalated since the initial attack on Ukraine a decade ago. Following the annexation of Crimea, relations between the U.S. and Russia have deteriorated, with Russia aligning with countries opposed to the U.S. in the process. However, it would be inaccurate to state that sanctions are purely the reason behind the severance between the two countries, as Russia's activities in Ukraine and activities that contradict international law and Western interests have seen an increase in severity.

Chemical Weapons

Sanctions due to Russia's use of chemical weapons began in 2018 after the poisoning of Sergei Skripal. The attack on Skripal, a former Russian military intelligence officer who was also operating as an agent for British intelligence, and his daughter in the U.K. was a violation of international law that led then-Secretary of State Michael Pompeo to impose sanctions on Russia and individuals linked to the assassination attempt. Measures include blocking access to accounts for individuals and certain lending activities to Russian financial institutions.

Three years later, in 2021, new sanctions were imposed by Secretary of State Antony Blinken due to the attempted assassination of Alexei Navalny in 2020. Considering that the sanctions following the 2018 attack were unsuccessful in coercing Russia against the use of chemical weapons, we can determine that they were ineffective as a policy instrument when measuring in terms of political success. Further supporting the argument that sanctions have been unsuccessful as a diplomatic tool are reports of Russia's use of prohibited chemical weapons in Ukraine. An article written in the Kyiv Independent (Basmat, 2023) records several other incidents involving the use of chemical equipment during the war.

War Campaign

Russia's military de-escalation in Ukraine and the return of Crimea is possibly the most critical and pressing objective for the United States. Sanctions following the 2014 annexation did not lead to Russia's departure from the region, nor did it ease Russia's ambition. Instead, Russian officials criticized the

sanctions and called for decoupling between the U.S. dollar and Russia. Under official demands, Russian financial institutions established more robust relationships with neighboring countries, with China being the biggest benefactor. The period between 2014 and 2022 saw several anti-dollar policies unfold, which can also explain Russia's resiliency against current Western sanctions.

Sanctions during this period were also likely a test phase for the Kremlin to determine the West's response in the event of an invasion. The timeline between 2014 and 2022 offered Russia a buffer period to establish safeguards against sanctions in a future attack. It is likely that there will not be an end to the war in the approximate future, suggesting that sanctions have been ineffective in successfully forcing Russia's withdrawal from Ukraine. On January 17, 2024, Russia's Security Council Chairman Dmitry Medvedev published on Telegram that historical Russian territories will serve as a "pretext for renewed hostilities," further suggesting a continuation of the war in Ukraine (Meduza, 2024).

Malign Relationships

The war in Ukraine has strengthened the relationship between Russia and countries that are a concern for U.S. policymakers. In light of export controls on goods critical to Russia's military, the Kremlin has looked to Iran, China, and North Korea to provide weapons and support.

On January 17, 2024, Vladimir Putin and Iranian President Ebrahim Raisi agreed to sign an interstate treaty. Though there are no details on the deal, the agreement follows a few months after the Kremlin announced developments between the two countries that include military-technical cooperation (Antonov, 2024). North Korea has also specified similar ambitions, with a recent statement announcing strategic alignment with Russia and a visit from Putin in the near future (Kim, 2024).

Cyber Activity

The National Security Agency recently released a statement announcing that Russian intelligence was exploiting vulnerabilities to conduct cyberattacks in the United States and allied countries (NSA, 2023). The announcement states how Russia is using cyber groups to conduct information collection operations throughout the globe. Cyberactivity has been used to collect information on the Israeli government, survey evidence in Ukrainian databases concerning Russian war crimes, and collect documentation in the International Criminal Court database on Russian war activity (CSIS, 2023).

Conclusion

The economic impact of sanctions has been moderate since the U.S. began using them in 2014. Evidence of political effects in the short term is only marginal, but the repercussions will likely be more apparent in the medium to long term. Initially, there was criticism of Western governments for not choking Russian finances tight enough following the annexation of Crimea. However, the West's economic dependency on Russian goods has made it challenging to apply maximalist policies. As sanctions continue to be used as a primary diplomatic tool of choice, the dependency from the West on Russian resources will likely wane.

While sanctions have impacted Russia, little can be said about their success in achieving political goals. Relations between the U.S. and Russia have deteriorated since the annexation of Crimea. Russia has created separation between itself and the U.S. to protect against sanctions, as seen in its increase in renminbi usage and advocacy for switching to national currencies when conducting cross-border transactions. Russia's participation in the BRICS and Eurasian Economic Union also demonstrates its ambition to find new economic relationships.

Russia's involvement in Western markets, particularly ones in Europe, has diminished to points near non-existent since the sanctions were instituted. The separation does create a gap in Russia's economic profile that will likely damage its potential in the future. However, Russia will likely try to replace its lost European market by strengthening its economic relationship with China and India. Oil and energy goods have become a buffer against Western sanctions and the main commodity for Russia's new trading partners.

In the meantime, Russia continues to expand its illegal activity and shadow economy to skirt sanctions. By looking to Central Asia and China, it has accessed sanctioned goods through unauthorized or black channels that disguise its operations. Russia's diversion of the oil price cap through its shadow fleet demonstrates how its shadow tactics complicate sanctions enforcement and effectiveness.

БАНК РОССИИ

CASE STUDY VENEZUELA

Background

Since 2005, Venezuela has been subject to U.S. sanctions for criminal, anti-democratic, and corrupt activity. The initial phase of U.S. sanctions targeting Caracas was due to a lack of cooperation from the Venezuelan government in preventing the spread of drug trafficking and terrorism in the country. By invoking sanctions under the Foreign Narcotics Designation Act and Arms Export Control Act, the U.S. blocked assets belonging to individuals and companies linked to activities detrimental to U.S. interests (Seelke, 2024). Terrorism-related sanctions attempted to prevent Venezuela's support for Hizballah, which looks at the country as a base for its operations throughout Latin America. Furthermore, measures under the Arms Export Control Act banned the sale of U.S. arms and military equipment to Venezuela.

Due to its narrow scope, sanctions related to terrorism and drug trafficking in Venezuela had minimal financial consequences. Therefore, the case study will not analyze the results of economic restrictions during the initial phase of sanctions.

Following Venezuela's 2013 presidential election, anti-democratic conditions throughout the country began to intensify. The U.S. response to the deteriorating situation was the enactment of the Venezuela Defense of Human Rights and Civil Society Act of 2014. Provisions within the act gave the president the authority to designate sanctions on individuals responsible for violence, anti-democratic activity, and violating civil liberties (Seelke, 2024).

Due to the decaying conditions in Venezuela, President Obama issued Executive Order 13692 to punish Venezuelan President Nicolas Maduro's repression of protestors and corruption. Under the executive order, OFAC created a sanctions program specific to Venezuela, formalizing the use of economic and financial policy measures directly against Maduro's government (Bartlett & Ophel, 2021). The introduction of a new Venezuela program also came with the announcement of sanctions on seven government officials (Office of the Press Secretary, 2015).

Through his maximum-pressure campaign, President Trump ramped up sanctions on Venezuela. In retaliation against Maduro's suppression of human rights and autocracy, Washington imposed financial restrictions that prevented access to the U.S. banking system. The Trump administration also limited Venezuela's access to the U.S. dollar and prohibited transactions involving its debt, including ones owed to the Maduro government (Seelke, 2024).

Venezuela's state-owned energy company, Petroleos de Venezuela, S.A., henceforth referred to as PdVSA, was also targeted. Sectoral sanctions froze assets belonging to PdVSA and prevented U.S. persons and entities from transacting with the company. However, due to corporate and economic interests, carveouts were made for PdVSA to avoid a blowback on the U.S. economy and its commercial interests.

Following sanctions on PdVSA, OFAC targeted National Development Bank and Minerven, Venezuela's central bank and state-owned gold company. Likewise, assets belonging to the Maduro regime that were in control of U.S. entities were frozen under President Trump.

In all, the Trump administration sanctioned Venezuela's primary industries, which include the gold, oil, financial, and defense sectors. The U.S. also placed restrictions on sea vessels and aircraft used to export essential goods to inhibit the ability for Venezuela to evade sanctions. Furthermore, ship classification and insurance companies were persuaded to withdraw services for Venezuelan transport vehicles, isolating them from the U.S. and limiting their potential to do business with the international community (Bartlett & Ophel, 2021).

The Biden administration has taken a completely different approach towards Caracas. Rather than using a maximalist strategy, President Biden's attempt to coerce Maduro into a more democratic leader consists of carveouts that grant economic opportunity for Venezuela. The U.S. has tried to entice Caracas by issuing licenses that lift sanctions on its oil industry to rectify its freefalling economy and begin the process of reparation, giving licenses to oil companies that allow Venezuelan petroleum production, imports, and exports. The exceptions, issued in October 2023, expire in April 2024 (Seelke, 2024).

So far, Maduro has responded by silencing political opponents and threatening military action, signaling that sanctions relief will not work. How the Biden administration will respond once the licenses expire is yet to be seen.

Impact

Before U.S. sanctions on the Maduro regime, Venezuela's economic standing was feeble and already reflected concerning statistics. According to an analysis conducted by the Brookings Institute (Bahar, Bustos, Morales, & Santos, 2019), imports of critical goods, such as medical equipment, had dropped by 68% between 2013 and 2016. Within the same time frame, infant mortality rates had increased by 44%, and food imports dropped

by 71%. The degenerating socioeconomic conditions help gauge how Venezuela was unable to provide basic humanitarian goods for the Venezuelan population.

The driver behind Venezuela's economic struggle is due to its dependence on the oil industry. Before sanctions, over 90% of Venezuela's exports were oil products, covering over half of its fiscal revenue (Rodriguez, 2023). Like the Russia case study, falling oil prices are to blame for Venezuela's economic woes in the mid-2010s. Contribution from Venezuela's oil industry to its GDP subsided to levels last seen in 1990. The lackluster performance in Venezuela's energy industry was simultaneously met with soaring levels of hyperinflation (Oliveros, 2020). Furthermore, the Maduro government was in the process of seizing complete control of Venezuela, commandeering its public institutions and state-owned companies (Ramirez, 2023). Therefore, when U.S. sanctions began to roll out, Venezuela's economic crisis was already well-established.

During the Trump presidency, when sanctions became the cornerstone of U.S. policy in Venezuela, economic strangulation began to escalate the situation. As part of its strategy with financial sanctions, the U.S. imposed restrictions targeting Venezuela's debt allocation, including on PdVSA, to stifle its energy sector. Foreign subsidiaries of Venezuelan companies were also barred from sending payments back to Venezuela, thwarting the possibility for Maduro to finance government programs (Rodriguez, 2022).

Even though sanctions on Venezuela in 2017 did not prohibit oil trade, they did make it difficult for PdVSA to receive credit and capital to pay for business endeavors, limiting the opportunity for Venezuela to profit from its energy industry. Simultaneously, the oil market began to recover, leading many economists to predict a wave of growth for Venezuela. However, sanctions would prevent their estimations from materializing.

Broad economic designations by the Trump administration expanded the range of impacted targets. Initially just the energy sector, the gold, oil, finance, and defense industries were all included in a new executive order that prevented trade activity (Rodriguez, 2022). The decision was based on the determination that individuals with leadership roles in the Maduro government were contributing to the Venezuela crisis by using these industries for their personal benefit.

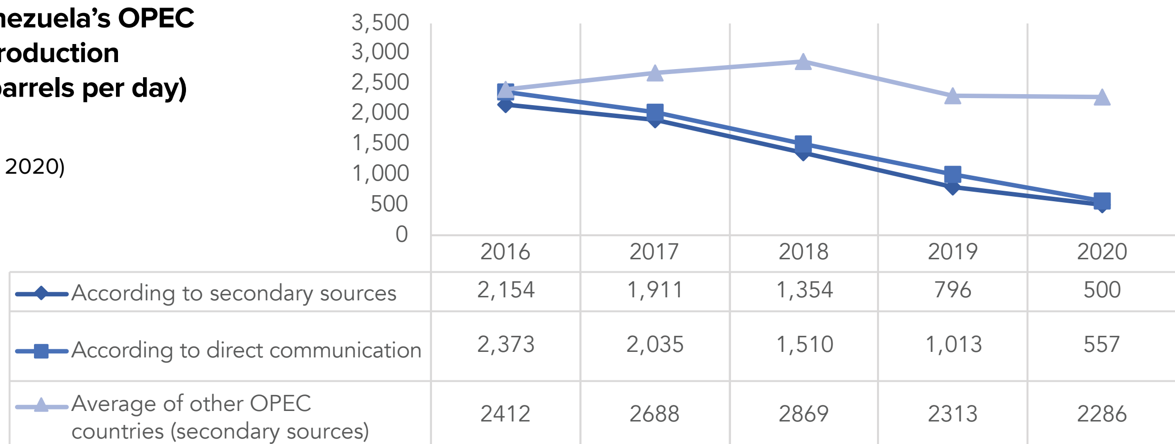
Trump's executive order focused on limiting Venezuela's opportunity to profit by pressuring clients of PdVSA to comply with certain trade thresholds established by Washington. Sanctions would eventually tighten through a new executive order that required third-party companies to terminate their relationships with PdVSA entirely. The first sanctions under the executive order were on subsidiaries of Rosneft, Russia's state-owned energy company, which was connected to approximately 70% to 80% of Venezuela's oil sales (Rodriguez, 2022).

The Trump administration also disconnected Venezuela from U.S. correspondent banks and the Federal Reserve. By losing access to U.S. financial institutions, Venezuela was unable to pay for imports and other goods, contributing to its economic troubles. The action was done in tandem with a series of asset blocks, including revoking Venezuela's access to CITGO, PdVSA's U.S. affiliate. Organizations outside of Washington also coordinated similar moves, including the IMF and Bank of England, which suspended Venezuela's access to approximately $400 million in special drawing rights (Weisbrot & Sachs, 2019).

Maduro's ability to manage Venezuela's foreign debt became challenging. The Trump administration's maximum pressure

Table 6: Venezuela's OPEC Crude Oil Production (thousand barrels per day)

Source: (OPEC, 2020)



	2016	2017	2018	2019	2020
According to secondary sources	2,154	1,911	1,354	796	500
According to direct communication	2,373	2,035	1,510	1,013	557
Average of other OPEC countries (secondary sources)	2412	2688	2869	2313	2286

strategy forbade the U.S. and Western entities from transacting with Venezuelan bonds. Individuals or businesses that violated existing measures ran the risk of facing secondary sanctions (Seelke, 2024), causing Western investors to look elsewhere for business opportunities. As a result, Caracas was unable to complete payments to creditors, forcing it to default on debt obligations (Sabatini, 2023).

The rest of Venezuela's economy saw equally drastic results. In 2018, Venezuela went into a state of hyperinflation, increasing by 130,000% (Cheatham & Roy, 2023). Furthermore, production levels contracted by 61%, minimum wage rates hit $7 per month, and its currency, the bolivar, lost 200,000% of its value. The collapse of Venezuela's economy created an exodus of 3.4 million people (Ramirez, 2023).

To navigate through their economic woes, Venezuela began resorting to the black market to soften the blow of U.S. sanctions. By using shell companies tied to government officials and business owners, Caracas was able to access U.S. markets and conduct business in surrounding countries. By 2021, 24 entities in the United States were sanctioned due to their financial support for Caracas, according to the Center for a New American Security (Bartlett & Ophel, 2021). Venezuela also had other financial operations linked to Colombia, Panama, the Marshall Islands, and Liberia.

As part of its attempt to hedge against the risk of sanctions tightening, Venezuela began to actively partner with countries adversarial to U.S. interests. In dire need of resources, Maduro began relying on China and Russia as a support base, using them for financing, technology products, and military assistance. Cuba, Iran, and Russia also assumed a more active role in partnering with Caracas to trade oil between each other (Bartlett & Ophel, 2021).

The debt crisis in Venezuela found relief through opaque supporters and adversarial countries. According to Christopher Sabatini (Sabatini, 2023), a senior fellow for Latin America at Chatham House, countries such as the United Arab Emirates, Turkey, China, Russia, and Iran began to increase their investment in Venezuelan bonds (Sabatini, 2023). Most of the purchases are in Venezuela's energy industry, which will likely make a future democratic transition difficult due to the influence bondholder countries will have.

Maduro's policy response to sanctions supported a separation from the U.S. dollar and financial system. In 2017, during the Russian Energy Forum in Moscow, Maduro publicly stated that oil-producing countries should begin using the yuan and ruble to avoid being vulnerable to U.S. sanctions (El Reportero, 2017). Caracas also attempted to join China's and Russia's banking system in 2019 (McDowell, 2023); however, no action has been taken since, likely due to Venezuela's economic crisis.

Going into the Biden administration, Venezuela's economy continued to spiral. By 2021, oil exports dropped to 558,000 barrels daily (Roy, 2022). Furthermore, Venezuela's debt soared to $150 billion, and 50% of Venezuelans lived in poverty. As of 2023, over 8 million Venezuelans have fled the country (Cheatham & Roy, 2023). However, the economy did see positive signs, with its real GDP growing by 8% in 2022 and 4% in 2023.

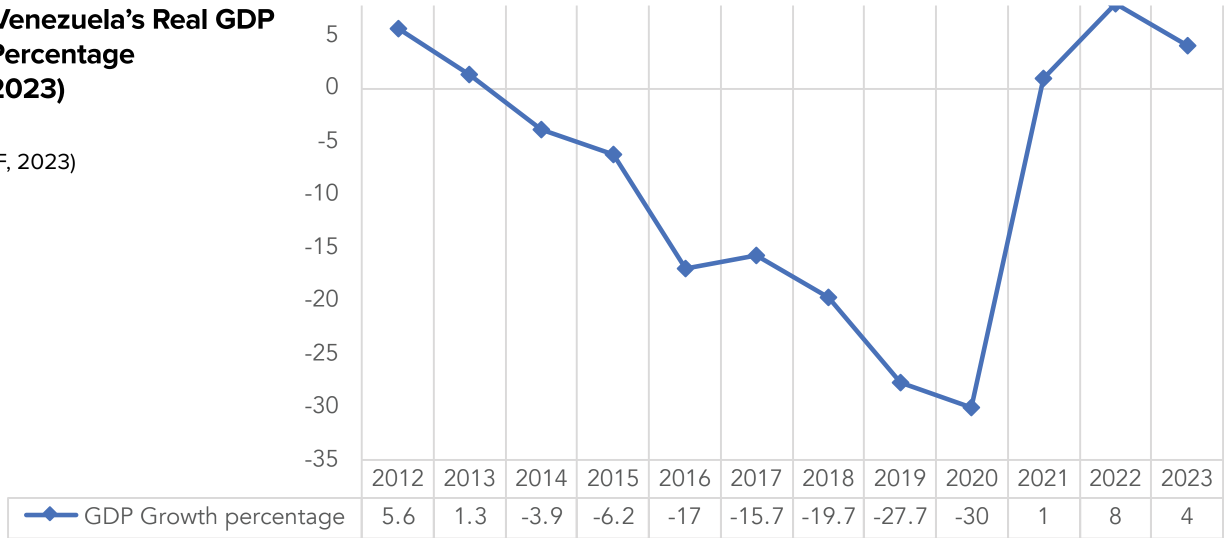
Relations between Washington and Caracas have simmered under the Biden administration, mainly due to the U.S. easing some of the existing sanctions. The Russia-Ukraine war has shocked the energy sector, leading the U.S. to use Venezuela as a counter against rising prices. In May 2022, OFAC permitted Chevron to negotiate with Venezuelan officials on reviving operations. Six months later, OFAC issued Chevron a license to continue joint ventures in Venezuela (Seelke, 2024). Other licenses were issued in October 2023 that authorize transactions with Venezuela's energy sector, state-owned gold company, and Venezuelan bonds.

Table 7 on the following page reflects data from the International Monetary Fund on Venezuela's GDP growth. The graph shows that Venezuela's economy suffered from falling oil prices in the global market much before the U.S. imposed sanctions. Between 2016 and 2017, Venezuela's economy saw a slight recovery before crumbling, likely due to sanctions targeting Venezuela's oil market and COVID-19. The hike from 2021 onward is likely due to the easing of sanctions and international oil demand.

Based on the data collected and external sources, it is likely that sanctions are not the sole culprit for Venezuela's economic crisis. Conditions in Venezuela can be linked to an accumulation of factors that contributed to the downfall of its economy. The timing of sanctions was a significant factor, preventing Venezuela from using its oil industry after economic conditions plummeted following the global oil shock to its energy-dependent economy. Furthermore, Venezuela suffers from rampant corruption and economic mismanagement under Maduro. Caracas has been able to use sanctions as a cover for its negligence and inability to manage the country. However, U.S. policymakers acknowledge that sanctions have contributed to the deteriorating conditions in Venezuela and support alleviation (Seelke, 2024).

Table 7: Venezuela's Real GDP Growth Percentage (2012 – 2023)

Source: (IMF, 2023)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP Growth percentage	5.6	1.3	-3.9	-6.2	-17	-15.7	-19.7	-27.7	-30	1	8	4

Political Effect

U.S. sanctions in Venezuela have failed in several of their political objectives. The main goal for Washington is to drive out the Maduro regime and instill a more democratic country. By pursuing officials and companies under the control of the autocratic government, policymakers were aiming to halt Maduro's corruption and human rights abuses in the country. However, as the evidence below will show, sanctions have had little impact when viewed through the lens of political effectiveness.

Though this case study did not review the impact of drug- and terrorism-related sanctions on the Venezuelan economy due to their negligible impact, it can still analyze its ability to curb such activities in the country.

Drug Trafficking

A recent analysis performed by the Government Accountability Office determines that drug trafficking and other related crimes continue to be a problem in Venezuela. Illicit financial flows leaving the South American country are likely the proceeds of its sale of illegal commodities, especially considering its role as a transit hub that transports goods to several markets. The analysis (GAO, 2023), which uses findings from the U.S. Southern Command headquarters, states that Venezuela continues to be a "preferred drug trafficking route, predominately for moving cocaine to global markets." Individuals in the Maduro regime operate in tandem with Venezuela's National Liberation Army and the Revolutionary Armed Forces of Colombia. Venezuela can transport drugs to U.S. and European markets through discrete networks that include proxies and shell companies. Treasury currently has drug-trafficking-related sanctions on 11 individuals and 25 companies linked to the Venezuelan government.

Terrorism

Connected to Venezuela's drug trafficking is the Hizballah. Throughout the 2000s, the Iranian proxy had well-established drug smuggling rings in the country. Members of the Venezuelan government have been complicit in accepting bribes from Hizballah that grant it the ability to operate without fear of prosecution (Clark, 2019). Both Nicolas Maduro and Tareck El Aissami, who served as Venezuelan Vice President and Minister of Petroleum as recently as 2023, have informal and formal links to Hizballah officials that tie back to the organization's Secretary General and the Iranian Revolutionary Guard Corps (Humire, 2020). In 2020, U.S. former Special Representative for Venezuela Elliot Abrams stated that Iran was transporting gold in exchange for gasoline in Venezuela (Pourmohsen, 2022). Such transactions are used to finance Hizballah's operations. The most recent U.S. determination for sanctions targeting Venezuela's support for terrorism was May 2023 (Seelke, 2024).

Anti-Democratic and Corrupt Actions

Corruption continues to undermine the U.S. push for democracy in Venezuela. Shortly following the financial sanctions of 2017, Maduro won reelection as Venezuelan president in a campaign that the international community say was rife with fraud (Fieser & Acosta, 2023). Juan Guaido, who with the support of global

leaders proclaimed himself as the rightful winner, was named interim president. However, Maduro refused to relinquish his position and maintained his grip over Venezuela's military and law enforcement. Eventually, support for Guiado subsided, dropping to 12% of Venezuelans by late 2022. In January 2023, the U.S. withdrew its support for Guiado (Lawler, 2023).

Later in 2023, an anti-corruption probe conducted by Venezuela on PdVSA led to the arrest of 44 government officials. The sweep was brought by an investigation of an embezzlement case involving the state-owned oil company, with charges including treason, appropriating public funds, and money laundering (Al-Jazeera, 2023). Estimates list the amount of laundered funds at $3 billion. Tareck El Aissami resigned following the investigation; however, no punishment has been announced. It should be noted that the Attorney General who oversaw the investigation, Tarek William Saab, is under U.S. sanctions for contributing to the violation of human rights in Venezuela (OFAC, 2017).

Following President Biden's October 2023 announcement that the U.S. would ease financial sanctions in exchange for a free and open democratic election, Maduro appears to continue to suppress political opponents (Sabatini, 2024). Marina Corina Machado, who won the democratic primary elections and was set to run against Maduro, was barred from participating. After appealing the decision, Venezuela's Supreme Justice Tribunal upheld the decision to ban her. The U.S. response was an immediate slap back of sanctions on Minerven, with an announcement from Treasury that oil sanctions will be allowed to expire in April 2024 if Maduro does not allow opposition figures to run (Spetalnick & Sequera, 2024).

Lastly, in December 2023, Venezuela passed a referendum to annex the Essequibo region of Guyana. The announcement preceded an announcement by Maduro to begin exploring energy resources in the region, with threats of military escalation following shortly after (Manuzzi, 2023). The region has been a point of contention for decades, with both countries claiming the territory as their sovereign property. However, it was not until the discovery of massive oil deposits that the situation risked military escalation and annexation. During several meetings in January 2024, both countries agreed to move forward through diplomatic channels rather than military action (Paraguassu, Madry, & O'Boyle, 2024).

Transparency International's most recent Corruption Perception Index ranks Venezuela as the 177th most corrupt jurisdiction in the world (Transparency International, 2023). Transparency International also finds that 21% of Venezuela's 2021 GDP consists of illegal operations that exploit illicit gold mining operations and kickbacks to military officials.

Conclusion

Sanctions targeting the Maduro regime were introduced in 2015 by the Obama administration. Despite formalizing a sanctions program specifically for the government, few policy measures were taken. Throughout the rest of the administration, most of the repercussions were due to a crash in oil prices, severely impacting Venezuela's petro-economy. When the oil market began to recover, the U.S. policy on Venezuela took a much more aggressive approach through Trump's maximum pressure strategy.

While oil prices began to increase, financial sanctions hurt Venezuela's ability to continue the operations of its state-owned company. By depriving Venezuela of access to U.S. financial institutions, capital, and investment, Venezuela's economy continued to crumble. The Maduro regime resorted to opacity and U.S. adversaries to supply access to desperately needed finances and support. Furthermore, Maduro pushed for anti-dollar policies and attempted to enter alternative financial markets to decrease its exposure to U.S. sanctions, though to little avail.

Punitive measures under the Trump administration were effective in straining Venezuela's stricken economy. Facing pressure from an anguished Venezuela, Maduro spun U.S. policies as the culprit for ailing conditions to cover for his monetary mismanagement. Furthermore, sanctions were incapable of removing the Venezuelan president from power or injecting democratic conditions. During the U.S. expansion of sanctions, Maduro refused to recognize democratically elected leaders, continues to offer Hizballah safe haven in Venezuela, disregards drug trafficking, and has threatened the annexation of Guyana's sovereign territory.

The Maduro government appears to continue with its autocratic leadership, leaving the Biden administration with a challenge. As of now, and similar to the Iran and Russia case studies, sanctions have failed to reverse Venezuela's autocratic governance. Following Biden's October decision, the conditional liberalization of sanctions has benefitted European and Latin American countries by catering to their energy interests. The administration will face pressure on its obligation to slap back sanctions if Maduro continues to ignore his commitment to the agreement. Whichever method the administration chooses will require coordination and cooperation from international – and most notably, South American countries currently taking advantage of the opportunity to invest in Venezuela's frail energy sector.

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Recommendations

The case studies indicate that sanctions only sometimes result in their intended objective. Regardless, they do reveal that there is utility in sanctions as an instrument that can help achieve policy goals due to their ability to inflict tension on a target economy effectively. Ensuring they maintain their effectiveness requires recalibration from the U.S. government in how and when it uses sanctions. By adjusting the strategy behind them, sanctions can be catered to be more effective from a policy standpoint rather than just economically. The below recommendations should be the foundation of sanctions and be done in tandem with other tools that the U.S. has to influence policy outcomes, such as diplomatic isolation, deterrence, and peacekeeping missions.

- Narrow the pathways for sanctions evasion by coordinating with allies and countries close to the target country.

As seen in all three case studies, one of the biggest challenges to maximizing effectiveness is cooperation from the international community in imposing sanctions. Foreign governments have criticized sanctions for often being unilateral and not considering the consequences for ally countries. Instex, a system created by the European Union with Iran to trade oil outside of sanctions, is an example of how a lack of coordination can challenge sanctions. Though the system was dissolved in 2023 (Iran International, 2023), it signals frustration within ally economies whose cooperation is necessary to make sanctions an effective instrument.

The Russia-Ukraine war exemplifies how multilateral sanctions can be effective with international partners. However, it also reveals how emerging countries or countries proximate to the target can undermine U.S. and Western policy. Therefore, there needs to be an economic incentive for countries that are non-aligned with U.S. interests to join in imposing measures of their own. Furthermore, sanctions should be imposed with cooperation from countries that have a significant financial and economic relationship with the target to increase pressure.

- Use sanctions with other policy instruments that incentivize countries to scale back their activity.

The fact that sanctions can stress an economy suggests the utility of using them as part of a larger strategy. Different tools of economic statecraft should become more formidable instruments for the U.S. when designing a sanctions program. Policymakers have done so in the past and are currently employing the strategy in Russia by using export controls. Members of Congress have proposed relocating the Bureau of Industry and Security, the entity responsible for overseeing export controls, to the Department of Defense rather than Commerce (Farrell & Newman, 2023), demonstrating an attempt to strengthen other economic tools to use along with sanctions. However, other tools of economic statecraft should also receive similar treatment.

Economic incentives, such as investment and multilateral trade agreements, can also be leveraged to discourage activity threatening U.S. interests. By applying conditions to such agreements, the U.S. can achieve smaller policy objectives, such as installing democratic conditions or halting the use of cyberactivity, to achieve more significant goals in the long-term. Furthermore, using other policy instruments will minimize the political risk associated with the U.S. dollar, ensuring that sanctions maintain their effectiveness in the future.

- Apply sanctions with granular intentions that offer a clear pathway to relief rather than broad and ambitious objectives.

Sanctions that aim to achieve smaller objectives are often more effective than more ambitious strategies. The example of U.S. sanctions on Iran in 1980 following the hostage negotiation demonstrates how smaller objectives are much more achievable than broader goals, such as regime change. During the hostage negotiations, sanctions were applied at a critical time and had a straightforward solution for Iran, making it an attainable goal. Broad sanctions, for example, on North Korea and Cuba, are much less likely to work considering that the cost for the target is the position of power, or more simply put, the highest price to pay for relief. Furthermore, broad economic sanctions have lower success rates due to the ability of targets to adjust to pressure and find alternative sources of relief.

A similar strategy applies when the U.S. is contributing to major policy outcomes that sanctions alone won't achieve, such as support for Ukraine against Russia. In such events, sanctions can pinpoint certain vulnerabilities that damage the target nation's ability to continue with its campaign. For example, sanctions on Russia include export controls and sanctions that block the flow of key technologies and supplies that Russia uses for its military. Though the eventual goal is Ukrainian victory, the smaller objective for U.S. sanctions is to harm Russia's military capabilities. A scenario such as the current sanctions regime on Russia during the war must be done in coordination with international partners for it to be effective.

- Washington should use sanctions sparingly on targets with little connection to the U.S. economy.

The lure of sanctions is the ease and quickness of designing them. However, resorting to sanctions as the de facto answer damages the impact they can have. Sanctions in cases with little bilateral connectivity will have a negligible effect unless policymakers resort to secondary sanctions to enforce them. However, the risk associated with secondary sanctions is making the instrument a coercive policy tool for U.S. allies, which can increase tension. With minimal economic connectivity, sanctions lose their utility. Therefore, the U.S. should avoid using sanctions on countries as a symbolic measure.

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