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# NAVAL POSTGRADUATE SCHOOL

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## THESIS

UNITED STATES' FOREIGN POLICY TOWARD IRAN:  
SANCTIONS

by

Ferhat Çalışkan

December 2011

Thesis Advisor:

Robert Looney

Second Reader:

Frank Giordano

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1. Reference: Çalışkan, Ferhat. *United States' Foreign Policy toward Iran: Sanctions*. Monterey, CA: Naval Postgraduate School, Department of National Security Affairs, December 2011.  
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REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188
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1. AGENCY USE ONLY (Leave blank)	2. REPORT DATE December 2011	3. REPORT TYPE AND DATES COVERED Master's Thesis	
4. TITLE AND SUBTITLE: United States' Foreign Policy Toward Iran: Sanctions		5. FUNDING NUMBERS	
6. AUTHOR(S) Ferhat Çalışkan		8. PERFORMING ORGANIZATION REPORT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School Monterey, CA 93943-5000		10. SPONSORING/MONITORING AGENCY REPORT NUMBER	
9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES) N/A		11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol number _____ N/A _____.	
12a. DISTRIBUTION / AVAILABILITY STATEMENT <del>Further dissemination only as directed by (Naval Postgraduate School, Code 261) (December 2011) or higher DoD authority.</del> Approved for public release; distribution is unlimited.		12b. DISTRIBUTION CODE F  A	
13. ABSTRACT (maximum 200 words) This thesis will follow a logical five-chapter flow: (1) Introduction, (2) a historical overview of the U.S. foreign policy toward Iran, (3) a theoretical discussion of the success of sanctions and an assessment of the success of U.S. sanctions on Iran, (4) an explanation of the current situation of the sanction policy with the help of game theory, and (5) a conclusion about the future of U.S. sanctions. Chapter II will provide a historical overview of the U.S.'s foreign policy toward Iran. This chapter will not cover all events, but will provide an overall historical background. This overview will be used in the second part of the thesis to assess U.S. sanctions and make distinctions among them. Chapter III will discuss the sanctions as a policy tool in a theoretical standpoint with a broader concept. Based on arguments in the literature and the facts, this chapter will put sanctions into categories and evaluate the probability of success for each one according to twenty-three considerations that are crucial for the success of sanctions. This chapter will also provide a history of U.S. sanctions on Iran and apply the twenty-three considerations to the case of U.S. sanctions, and then assess their success. Chapter IV will examine U.S. sanctions with a game theory approach and explain the strategic moves available for the U.S. Finally, in Chapter V, based on the insights from the assessments and the game theory, a conclusion about the future of U.S. sanctions will be presented.			
14. SUBJECT TERMS The U.S., Iran, Sanctions, U.S. Sanctions, Diplomatic Sanctions, Trade Sanctions, Financial Sanctions, Game Theory.		15. NUMBER OF PAGES 83	
		16. PRICE CODE	
17. SECURITY CLASSIFICATION OF REPORT Unclassified	18. SECURITY CLASSIFICATION OF THIS PAGE Unclassified	19. SECURITY CLASSIFICATION OF ABSTRACT Unclassified	20. LIMITATION OF ABSTRACT UU

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**UNITED STATES' FOREIGN POLICY TOWARD IRAN: SANCTIONS**

Ferhat Çalışkan  
Captain, Turkish Army  
B.S., Turkish Military Academy, 2003

Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES  
(MIDDLE EAST, SOUTH ASIA, SUB-SAHARAN AFRICA)**

from the

**NAVAL POSTGRADUATE SCHOOL  
December 2011**

Author: Ferhat Çalışkan

Approved by: Robert Looney  
Thesis Advisor

Frank Giordano  
Second Reader

Daniel Moran  
Chair, Department of National Security Affairs



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## **ABSTRACT**

This thesis will follow a logical five-chapter flow: (1) Introduction, (2) a historical overview of the U.S. foreign policy toward Iran, (3) a theoretical discussion of the success of sanctions and an assessment of the success of U.S. sanctions on Iran, (4) an explanation of the current situation of the sanction policy with the help of game theory, and (5) a conclusion about the future of U.S. sanctions.

Chapter II will provide a historical overview of the U.S.'s foreign policy toward Iran. This chapter will not cover all events, but will provide an overall historical background. This overview will be used in the second part of the thesis to assess U.S. sanctions and make distinctions among them.

Chapter III will discuss the sanctions as a policy tool in a theoretical standpoint with a broader concept. Based on arguments in the literature and the facts, this chapter will put sanctions into categories and evaluate the probability of success for each one according to twenty-three considerations that are crucial for the success of sanctions. This chapter will also provide a history of U.S. sanctions on Iran and apply the twenty-three considerations to the case of U.S. sanctions, and then assess their success.

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Finally, in Chapter V, based on the insights from the assessments and the game theory, a conclusion about the future of U.S. sanctions will be presented.

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## **ACKNOWLEDGMENTS**

First and foremost, I dedicate this work to my wife, Asli, and my daughter, Neda. To Asli, without your patience, support, and understanding during my studies, I would not have been able to finish this thesis. To my parents, although you were not here in Monterey in the physical form, your love and devotion was always felt. Thanks for everything you provided for me during my whole life. I am proud to be your son. Finally, to Professor Looney, and Professor Giordano, thank you for your tremendous guidance and leniency throughout this process.

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# I. INTRODUCTION

## A. MAJOR RESEARCH QUESTION

This thesis examines the United States' foreign policy in Iran by focusing on U.S. sanctions. U.S. foreign policy has been based on the perception of three pillars of Iranian threats: weapons of mass destruction, support of terrorism, and disruption of the Arab–Israeli peace process.<sup>1</sup> The United States of America has been using sanctions against Iran as a policy tool to reach its goals in the Middle East. This thesis evaluates the U.S. sanctions by distinguishing the types of sanctions and the periods when they are used. The primary question addressed is: Can sanctions work for the U.S. to reach its foreign policy objective in Iran?

## B. IMPORTANCE

Until the 1979 revolution, Iran was the closest ally of the United States of America in the Middle East. After that turning point, the U.S. drastically changed its relationship with Iran. Iran became a threat to U.S. interests in the Middle East, and the Americans responded to this threat by using strong sanctions against Iran. The nature of the sanctions evolved over time, eventually comprising all types of sanctions including trade, financial, diplomatic. U.S. sanctions are important in two ways. First, the relationship between Iran and the U.S. has been rich, comprised a period of good relations for more than four decades. The first U.S. sanctions came after this period, which overwhelmingly affected the relations. This situation makes the Iran–U.S. relationship a proper case study to examine the effects of the pre-sanction period against the success of sanctions. Second, the success or failure of U.S. sanctions on Iran is so crucial in the Middle East that the U.S. defines the alliance of the regional states in terms of their support of sanctions, which has been the norm in the region for more than two decades. Although the sanctions are shaping the relationship between the U.S. and the

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<sup>1</sup> M. Ali Ansari, *Confronting Iran: The Failure of American Foreign Policy and The Next Great Crisis In The Middle East* (New York: Basic Books, 2006): 136.

Middle Eastern states, they not only fail to address the foreign policy goals of the U.S., but they also prevent the application of other policy tools.

### **C. PROBLEMS AND HYPOTHESIS**

The research question posed raises two important problems for consideration: (1) the effect of preresultship with Iran on the success of U.S. sanctions, and (2) the success of U.S. sanctions as a policy tool.

The first problem raised is the assertion that the success of the first wave of sanctions should be attributed to the four-decade long tight relationship between the U.S. and Iran. The first wave of sanctions, which were related to the embassy seizure, was unique in that it was imposed on a country that was extremely dependent on the sanctioning country. Therefore, its success cannot be interpreted to justify continuing to use the same pattern of sanctions to reach different goals in a different context. In addition, the more time that passes from the first day of the sanctions, the less likely the sanctions are to work.

The second problem is at the center of this thesis, which evaluates the success of the U.S. sanctions. The very nature of some sanction types (i.e., diplomatic sanctions) prevents the U.S. from having a hold on Iran, which in turn makes it more difficult for the U.S. to change its sanction policy and adopt a different policy tool. The U.S. sanctions policy should be changed and adapted to the contemporary political environment of the Middle East and Iran, which necessitates the incorporation of incentives to the U.S. foreign policy toward Iran.

### **D. METHODS AND SOURCES**

This thesis is intended to accomplish three goals: (1) to give historical background information about U.S. foreign policy toward Iran, (2) to assess the success of U.S. sanctions, and (3) to examine which strategic moves the U.S. has to make to get Iran to comply.

First, this thesis attempts to provide the history of U.S. interaction and engagement with Iran and assess the success of the U.S. sanctions in light of this

relationship. Sources will primarily be history books and journal articles by experts. This part of the thesis will be in chronological order under the titles of each administration (i.e., the Truman administration).

Second, a theoretical discussion about the success of sanctions and each type of sanction will be integrated. Then, based on the information gleaned from government-produced and government-sponsored reports and UN resolutions, this thesis will assess the success of U.S. sanctions on Iran.

Finally, to examine the available strategic moves for the U.S. in its Iran policy, this thesis will apply the game theory. The strategic moves will be examined under four categories: first move, force to move, threat, and promise. After examining the four strategic moves, an overall evaluation will be presented to give more insight for the future of U.S. sanctions.

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## **II. HISTORICAL OVERVIEW OF THE U.S. FOREIGN POLICY TOWARD IRAN**

This chapter covers the analysis of the United States' foreign policy toward Iran between 1945 and 2001. The reason for choosing this timeframe is that after 1945, the United States started to fill the power vacuum that was created by the gradual British withdrawal from the Middle East. On the other hand, the notion of a regional balance of power in the Middle East that still has an effect on today's international relations emerged at that time as a response to the rise of the Soviet Union and the United States as superpowers. This chapter ends in 2001 because by that time, today's U.S. perceptions of Iranian threats, including weapons of mass destruction, support of terrorism, and disruption of the Arab-Israeli peace process had been adopted by American decision makers.<sup>2</sup> Although the chapter is divided by the names of the U.S. presidents, this does not necessarily mean that the analysis of U.S. foreign policy toward Iran is solely based on the personal choices of the presidents per se. The analysis is based on the interactions of both countries' domestic politics and challenges from third parties, and last but not least, the economic interests at stake.

### **A. THE TRUMAN ADMINISTRATION**

The early United States foreign policy toward Iran was shaped by the overall change in world politics, from multi-polarity to bipolarity, which emerged after the end of World War II. After the American involvement in the war, the United States sent troops to Iran as a part of an allied supply operation and conducted military missions to train the Iranian army. It also provided Iran with approximately \$8.5 million in aid. During this period, U.S.–Iranian relations grew rapidly and the United States sent the first ambassador to Iran in 1944.<sup>3</sup> During World War II, Iran was seen as a supply route that

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<sup>2</sup> Ansari, *Confronting Iran: The Failure of American Foreign Policy*, 136.

<sup>3</sup> David W. Lesch, *The Middle East and the United States: A Historical and Political Reassessment* (Colorado and Oxford: Westview Press, 1996): 52.



connected the allies. After the war, and also in the last months of the war, Iran became an arena of power politics in which both the Soviets and the United States tried to establish their influence in order to contain the other.

The Truman presidency witnessed the change in U.S. foreign policy from a “hands-off attitude” to comprehensive involvement in the Middle East.<sup>4</sup> After the end of World War II, in accordance with the agreed upon six-month period, the United States and Great Britain withdrew their troops from Iran, but the Soviets increased the number of their troops. Due to their presence in Iran, the Soviets were able to step up their influence and supported two pro-Soviet separatist regimes in the northern part of Iran.<sup>5</sup> After surmounting domestic pressures from liberal groups, which were more inclined toward appeasement of the Soviets, Truman adopted a more aggressive foreign policy as a response to Soviet expansionism in Iran.<sup>6</sup> According to Truman, Soviet activities in Iran were part of a bigger expansionist plan. In the letter that he wrote after the Moscow conference of foreign ministers in December 1945, Truman criticized his foreign minister, Byrnes, of failing to protect Iran and said:

I think we ought to protest with all the vigor of which we are capable against the Russian program in Iran. It is a parallel to the program of Russia in Latvia, Estonia, and Lithuania. It is also in line with the high-handed and arbitrary manner in which Russia acted in Poland. When you went to Moscow, you were faced with another accomplished fact in Iran. Another outrage if I ever saw one.

Iran was our ally in the war. Iran was Russia’s ally in the war. Iran agreed to the free passage of arms, ammunition and other supplies running into the millions of across her territory from the Persian Gulf to the Caspian Sea.... Yet now Russia stirs up rebellion and keeps troops on the soil of her friend and ally. Unless Russia is faced with an iron fist and strong language another war is in the making.<sup>7</sup>

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<sup>4</sup> George Lenczowski, *American Presidents and the Middle East* (Durham and London: Duke University Press, 1990): 7.

<sup>5</sup> *Ibid.*, 9–10.

<sup>6</sup> *Ibid.*, 11.

<sup>7</sup> *Ibid.*

As he elaborated in the letter, Truman decided to adopt a more confrontational policy rather than seeking compromise<sup>8</sup> and in the spring of 1946, he demonstrated American commitment to buffer the Soviet impact in Iran.<sup>9</sup> Subsequently, the United States supported Iran in its struggle against the Soviets and staged a policy that included several measures. First, on March 6, 1946, a note was delivered to Moscow to protest its unwillingness to withdraw its troops by March 2. Second, when Iran raised complaints in the United Nations Security Council against the Soviet's actions in the northern part of Iran, the United States openly demonstrated its diplomatic support of Iran. Third, the United States supported Iran's newly elected government in its efforts to change the conditions of the Soviet-Iranian oil agreement that gave the Soviets the lion's share. On September 11, 1947, George V. Allen, the U.S. ambassador to Iran, publicly condemned the coercion used by the Soviets for obtaining commercial privileges in Iran and assured the Iranians of American support to decide freely about their oil reserves.<sup>10</sup>

In sum, during the Truman administration, U.S. foreign policy toward Iran evolved in two ways. First, the United States supported Iran in order to contain the expansionist Soviets as a part of a bigger scheme, including Turkey and Greece, later known as the Truman Doctrine. Second, in order to secure the flow of oil, the United States urged and backed the Iranians to regain their rights on the oil reserves, which would have been very important for the United States and the Soviet Union if a war between these two superpowers had erupted.

## **B. THE EISENHOWER ADMINISTRATION**

The oil crisis that was not resolved during the Truman Administration was handed over to the Eisenhower administration but under different circumstances. Whereas for the former administration it was a struggle of economic interest between the British and the Iranians, for the next administration it turned out to be a political issue between

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<sup>8</sup> Michael A. Palmer, *Guardians of The Gulf: A History of America's expanding Role In The Persian Gulf, 1883–1992* (New York: The Free Press, 1992): 35.

<sup>9</sup> *Ibid.*, 39.

<sup>10</sup> Lenczowski, *American Presidents and the Middle East*, 12.

Mossadegh and the Shah.<sup>11</sup> Mossadegh, a popular political figure since the 1906 revolution, had two main political objectives: “strict constitutionalism at home and an equally strict policy of negative equilibrium abroad to assure independence from foreign domination.”<sup>12</sup> Mossadegh persistently claimed Iran’s right to control its oil revenues and made this issue a moral case for the nation’s inherent right to control its own resources and by doing so, he was going to be able to challenge the Shah’s political power.<sup>13</sup> Furthermore, Mossadegh began using the Soviet alliance card in order to secure the support of the United States in its oil share struggle with the United Kingdom. He made it clear to Ambassador Henderson that “Iran would prefer to go Communist rather than cause any trouble between the United States and the United Kingdom.”<sup>14</sup> In August 1952, Prime Minister Churchill opened the issue of a joint operation and suggested to Truman a combined effort toward Iran. This proposal was principally accepted but its implementation was left to Eisenhower whose tenure started in January 1953.<sup>15</sup>

Dwight Eisenhower and his administration adopted more bold initiatives in shaping the United State’s foreign policies in order to effectively contain the Soviet Union.<sup>16</sup> John Foster Dulles became the first U.S. secretary of state to visit the Middle East.<sup>17</sup> In the summer of 1953, concerned about the situation in Iran and its probable effort to get close to the Soviet Union, opening a new era in United States’ foreign policy, President Eisenhower ordered direct intervention in the internal affairs of Iran; he decided to give full support to the Shah in order to maintain internal stability in Iran and build external capabilities to deter the Soviet Union.<sup>18</sup> Several factors made it possible for the

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<sup>11</sup> Lenczowski, *American Presidents and the Middle East*, 36.

<sup>12</sup> Ervand Abrahamian, *A History of Modern Iran* (New York: Cambridge University Press, 2008): 114.

<sup>13</sup> Bruce R. Kuniholm, “Retrospect and Prospects: Forty Years of U.S. Middle East Policy,” *Middle East Journal*, 41, no. 1 (Winter 1987): 14.

<sup>14</sup> Cited in Palmer, *Guardians of The Gulf: A History of America’s expanding Role In The Persian Gulf, 1883–1992*, 66.

<sup>15</sup> Lenczowski, *American Presidents and the Middle East*, 36.

<sup>16</sup> Lesch, *The Middle East and the United States: A Historical and Political Reassessment*, 59.

<sup>17</sup> Philip L. Groisser, *The United States And The Middle East* (New York: State University of New York Press, 1982): 196.

<sup>18</sup> Palmer, *Guardians of The Gulf*, 60.

Eisenhower administrative to adopt a more interventionist policy toward Iran, which made the Cold War more militant in nature. On one hand, Stalin's death and the Soviet Union's tendency to give up its pursuit of southward expansion, and on the other hand, the foreseeable end of the Korean War, gave Eisenhower the freedom to shape the region.<sup>19</sup> This watershed in the foreign policy of the United States laid the foundation for future challenges faced by Americans in the Middle East and the policy options to meet these challenges in the coming decades.<sup>20</sup>

The cost of the operation named "Ajax" that aimed to covertly topple Mossadegh and install the Shah was estimated at \$100,000 to \$200,000. Kermit Roosevelt, who was in charge of the operation, met with the Shah and assured him that Eisenhower would confirm his mission by a phrase in a speech that would be held by the personal representative of the president in San Francisco. On August 9, 1953, Eisenhower pushed the button by sending a message to the Shah to wish him good luck. The next day, the Shah started the coup by issuing two declarations, one of which was unseating Mossadegh and the other, nominating General Zahedi in his place.<sup>21</sup> Although the first phase of the coup did not develop as the Shah and Eisenhower expected, on August 19, 1953, when the people of the bazaar spilled out into the streets with the support of some army units loyal to the Shah, Mossadegh's supporters were dispersed and defeated. Even though the coup was a product of American planning, the countercoup of the people from the bazaar was conducted mostly by the participation of the Iranians themselves.<sup>22</sup> After the overthrow of Mossadegh, President Eisenhower provided the Shah with \$68 million in emergency funds in order to compensate Iran's loss during the embargo period. Furthermore, more than \$300 million was given to Iran in the name of U.S. economic aid. Approximately \$600 million in military aid was also provided as the United States embarked on a major effort to enhance the capabilities of the Shah's security forces.<sup>23</sup>

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<sup>19</sup> Palmer, *Guardians of The Gulf*, 69.

<sup>20</sup> *Ibid.*, 60.

<sup>21</sup> Lenczowski, *American Presidents and the Middle East*, 38.

<sup>22</sup> *Ibid.*, 39.

<sup>23</sup> Lesch, *The Middle East and the United States: A Historical and Political Reassessment*, 63.

The suspended oil negotiations started again and finally ended up in an agreement between Iran and a new international consortium, Iranian Oil Participants. The terms of the agreement gave the United States' five companies a 40 percent share. After this agreement, oil production and export resumed and Iran became the second major oil producer after Saudi Arabia.<sup>24</sup>

Within the bold nature of the U.S. foreign policy in the Middle East, the Eisenhower administration pursued a path of initiatives to form regional alliances. The Baghdad Pact, which was signed as a mutual agreement between Iraq and Turkey on February 24, 1955, later expanded and included Great Britain on April 4, Pakistan on September 23, and finally Iran on 11 October.<sup>25</sup> The next day, an official American statement declared that "the United States has had a long-standing interest in the territorial integrity and sovereign independence of Iran. That has been amply demonstrated in the past. That interest remains a cardinal feature of U.S. policy."<sup>26</sup>

Due to the fact that even though the United States lead the way for regional alliances to face the Soviet threat, it did not join the Baghdad Pact and refrained from providing a guarantee of direct military action in case of Soviet aggression, the Soviet Union used every means possible to draw Iran to its side. Therefore, on March 5, 1959, the United States enhanced its commitment level to Iran's security and a bilateral security pact was signed between the United States and Iran. The first article of this agreement announced this commitment and said:

In case of aggression against Iran, the Government of the United States of America, in accordance with the Constitution of the United States of America, will take such appropriate action, including the use of armed forces, as may be mutually agreed upon and is envisaged in the Joint Resolution to Promote Peace and Stability in the Middle East, in order to assist the Government of Iran at its request.<sup>27</sup>

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<sup>24</sup> Lenczowski, *American Presidents and the Middle East*, 39.

<sup>25</sup> George Lenczowski, "United States' Support for Iran's Independence and Integrity, 1945-1959," *Annals of the American Academy of Political and Social Science*, 401 (May 1972): 53.

<sup>26</sup> Cited in Lenczowski, "United States' Support for Iran's Independence and Integrity, 1945-1959," 53.

<sup>27</sup> Cited in Lenczowski, "United States' Support for Iran's Independence and Integrity, 1945-1959," 55.

With the advent of this bilateral agreement, the United States' goal to form an allied front against the Soviet threat was reached and the foundation of the U.S. foreign policy toward Iran for the coming decades was laid.

### **C. THE KENNEDY ADMINISTRATION**

Kennedy took office in 1961 and mostly pursued the path of foreign policy toward Iran that had been laid by Eisenhower and Truman, which aimed to prevent the Soviet Union from expanding its sphere of influence and to secure the flow of oil to the West. Although Kennedy gave most of his attention to other areas, such as Cuba and Vietnam, he believed that the Middle East was one of the most important domains of power politics in his quest to contain the Soviet Union and block its expansion.<sup>28</sup>

The Shah manipulated the Cold War political environment and the fear of Communism in order to get military and economic aid as well as political support. By providing support to the Shah, the Kennedy administration's aim was to maintain stability in Iran with new reforms and make it a stronghold against Soviet threats, but the Shah used these aids to suppress Prime Minister Amini and to thwart his reforms,<sup>29</sup> which in turn made Iran weaker and less stable. The Shah refused Amini's proposals to cut military expenditures and invest more money in the economy and agriculture. Amini turned to the United States and the World Bank for loans, but they both declined, and finally Amini resigned. After the resignation of the prime minister, the Shah increased his control over the government and pretended to get close to the Soviets in order to force the United States to give more financial support.<sup>30</sup> However, in 1963, the Shah realized that what he should do to secure U.S. support and maintain his position in the midst of increasing unrest among the population was reform. The Shah announced the "White Revolution," which was a redistribution of lands from rich landlords to landless peasants.<sup>31</sup> The Kennedy administration was pleased by the "White Revolution"

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<sup>28</sup> April R. Summitt, "For a White Revolution: John F. Kennedy and the Shah of Iran," *Middle East Journal* 58, no. 4 (Autumn 2004): 561.

<sup>29</sup> *Ibid.*, 567.

<sup>30</sup> *Ibid.*, 568.

<sup>31</sup> *Ibid.*, 569.

and thought that this revolution would prevent a communist one.<sup>32</sup> But the so-called revolution could not foster economic growth and welfare. The mullahs, especially Khomeini, preached against land reform and accused the Shah of selling the country to the West. The Shah used the military to oppress the opposition from the clergy and the operations ended up in sending Khomeini into exile in 1964.

The most important effect of the Shah's actions against the opposition and his reluctance to reform the country was the increasing anti-American sentiment among Iranians. Because the Shah was installed by an Anglo-American coup and later supported by the United States, in the eyes of the Iranians, every mistake made by the Shah was also seen as a United States' mistake. Kennedy and his administration saw the 1963 uprising as a local event and failed to understand its implications. Consequently, after the uprising, the Shah became stronger and ruled with more oppression,<sup>33</sup> which paved the way for the events that led to the 1979 Revolution and an anti-American Iran.

#### **D. THE JOHNSON ADMINISTRATION**

During the Johnson administration, the Shah pursued a foreign policy toward the United States that would make him more credible at home as an independent leader acting alone, without seeking the consent of the United States. By doing so, he aimed to undermine the arguments of the opposition that accused him of selling out the country to the United States. Consequently, on one hand, the Shah tended to seek a rapprochement with the Soviet Union in order to prove his independence from the United States, and on the other hand, he always supported U.S. policies in Vietnam in order to secure American aid.<sup>34</sup> In January 1967, the Shah signed a military aid agreement with the Soviet Union that provided Iran with \$100 million worth of arms.<sup>35</sup>

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<sup>32</sup> Summitt, "For a White Revolution: John F. Kennedy and the Shah of Iran," 570.

<sup>33</sup> *Ibid.*, 572.

<sup>34</sup> Andrew L. Johns, "The Johnson Administration, the Shah of Iran, and the Changing Pattern of U.S.–Iranian Relations, 1965–1967; "Tired of Being Treated like a Schoolboy," *Journal of Cold War Studies* 9, no. 2 (Spring 2007): 87.

<sup>35</sup> *Ibid.*, 85.

The Johnson administration was more focused on Vietnam and the Arab-Israeli conflict, exacerbated due to growing Arab nationalism led by Nasser. And, although its attention was drawn to other regions, the Johnson administration did not want to lose one of its strongholds against the Soviet Union. The discontent between Tehran and Washington, caused by Iran's rapprochement with the Soviets, was resolved by the Shah's visit to Washington in August 1967. This summit, which was a watershed in the U.S.-Iran relationship, ended in a stronger U.S.-Iran relationship and new arms sales to Iran including a squadron of F-4 Phantoms. After this meeting, "U.S. officials began to treat the shah less like a "schoolboy" (as Kermit Roosevelt had put it), and the alliance matured from a patron-client relationship to a true partnership."<sup>36</sup> With the annual rate of \$94 million in arms sales to Iran from the United States, Iran's defense expenditures increased from 4.8 percent of GDP in 1963-64 to 8.5 percent of GDP in 1971. In 1968, the Johnson administration committed the U.S. to provide Iran \$600 million worth of arms over the next five years.<sup>37</sup>

#### **E. THE NIXON ADMINISTRATION**

The years when President Nixon was in office witnessed the apex of anti-war sentiments for the Vietnam War. Therefore, it was a top priority in his agenda to stop the war and, more broadly, to reduce U.S. commitments in other regions of the world.<sup>38</sup> Within these domestic considerations, Nixon pursued a foreign policy of supporting regional powers in order to secure United States' interests while refraining from deep involvement that would necessitate the deployment of U.S. troops in other countries. The Nixon Doctrine, a term that was used by the president himself, was elaborated by Henry Kissinger, national security advisor and later secretary of state, in his August 26 memorandum to the president in his own words:

The United States will live up to its commitments to defend countries against external aggression from major military powers but will not send U.S. troops to fight internal subversion in these countries and will limit its

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<sup>36</sup> Johns, "The Johnson Administration, the Shah of Iran," 88.

<sup>37</sup> MERIP Reports, "U.S. Strategy in the Gulf," no. 36 (April 1975): 19.

<sup>38</sup> Lenczowski, *American Presidents and the Middle East*, 118.



role to providing appropriate military and economic assistance to help the threatened countries help themselves.<sup>39</sup>

Although some of the Nixon administration's decisions, like the invasion of Cambodia and the bombing of Laos, did not match his own doctrine,<sup>40</sup> the Gulf region was the best application of the Nixon Doctrine. On one hand, the withdrawal of British forces from the Persian Gulf and the following power vacuum in the region, and on the other hand, the reluctance of United States citizens to embark on a new adventure in the Middle East, paved the way for the emergence of Iran as a regional power with the help of its oil revenues.<sup>41</sup> The Nixon administration's reluctance to be involved in the Gulf region and its choice to support the Shah was later put into words by Kissinger:

There was no possibility of assigning any American forces to the Indian Ocean in the midst of the Vietnam War and its attendant trauma. Congress would have tolerated no such commitment; the public would not have supported it. Fortunately, Iran was willing to play this role.<sup>42</sup>

In line with the doctrine, President Nixon increased military aid to Iran in quantity and quality in order to make the country of the Shah capable of guarding the Persian Gulf and secure the flow of oil to the West.<sup>43</sup> Because the United States did not want an arms race in the region, two consecutive administrations had not supported the Shah's program to build up the Iranian military since 1946. However, the Nixon administration reversed this nearly three-decade-old approach<sup>44</sup> and triggered a military buildup that, in one decade, ended up in a regional war. During the Nixon administration's first term, between 1968 and 1972, arms sales to Iran reached the level of \$1.7 billion, which was more than two times the \$600 million limit set by the previous administration.<sup>45</sup>

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<sup>39</sup> Jeffrey Kimball, "The Nixon Doctrine: A Saga of Misunderstanding," *Presidential Studies Quarterly* 36, no. 1 (March 2006): 69–70.

<sup>40</sup> *Ibid.*, 72.

<sup>41</sup> R. K. Ramazani, "Who Lost America? The Case of Iran," *Middle East Journal* 36, no. 1 (Winter 1982): 11.

<sup>42</sup> Cited in Ramazani, "Who Lost America? The Case of Iran 11

<sup>43</sup> Groisser, *The United States And The Middle East*, 203.

<sup>44</sup> Palmer, *Guardians of The Gulf*, 88.

<sup>45</sup> MERIP Reports, "U.S. Strategy in the Gulf," no. 36 (April 1975): 19.

The most tangible benefit of the Nixon Doctrine to the United States was seen during the Arab-Israeli conflict in 1973 and the following oil embargo of Arab states. The absence of port facilities and the shortage of oil caused by the embargo threatened to handicap U.S. operations in the Indian Ocean. The only oil supplier to turn face was Iran. The Shah ordered the transfer of oil to the U.S. Navy via the Iranian Imperial Navy, which made it possible for the United States to continue its presence in the region.<sup>46</sup>

In sum, the Nixon administration pursued and broadened the true partnership relation with Iran that was founded by the Johnson administration. However, Nixon supported the Shah to the extent that U.S. arms sales to Iran started a long-feared military buildup in the region. Therefore, although the first assumption of the Nixon Doctrine was to reduce the military presence of the United States, the decades-long arms race triggered by Nixon's policy and the ensuing conflicts in the region, inevitably necessitated U.S. military involvement in the coming decades.

#### **F. THE FORD ADMINISTRATION**

After the resignation of Nixon, caused by the Watergate scandal, Gerald Ford was nominated as the first non-elected president of the United States in 1974. During his short tenure, President Ford pursued the foreign policy outlined by the Nixon administration and kept Henry Kissinger as secretary of state. Therefore, during the Ford administration, the United States' foreign policy toward Iran was shaped by Kissinger and his assumption that the Shah of Iran was the most reliable partner in the Gulf Region,<sup>47</sup> which was later criticized by Jimmy Carter, Ford's rival, to the extent that he claimed that "As far as foreign policy goes, Mr. Kissinger has been president of this country."<sup>48</sup>

During the Ford administration (1974–1977), the trend of increasing military buildup was maintained and the arms imports of Iran reached a level nearly five times that of 1973. Table 1 shows the magnitude of the military buildup:

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<sup>46</sup> Palmer, *Guardians of The Gulf*, 99.

<sup>47</sup> Lenczowski, *American Presidents and the Middle East*, 141.

<sup>48</sup> *Ibid.*, 156.

Table 1. Iranian arms expenditures and imports (1973–1977) <sup>49</sup> (\$ millions)

Year	Defense Expenditures	Arms Imports
1973	3,729	525
1974	6,303	1,000
1975	8,646	1,200
1976	9,521	2,100
1977	8,747	2,400

There was another issue that was waiting to be dealt with and resolved by the Ford administration: oil prices. In September 1974, when the president publicly asked for a reduction in oil prices, the Shah responded in these sharply worded phrases: <sup>50</sup> “No one can dictate to us. No one can wave a finger at us because we will wave a finger back.”<sup>51</sup> The Shah’s reluctance to reduce oil prices and the impact of overpriced oil on western economies strained the decades-long relationship between the United States and Iran. From the Shah’s perspective, the oil revenues were crucial to maintaining his economic development program and military buildup. Nevertheless, the unplanned economic schemes of the Shah and Saudi Arabia’s decision to oppose an increase in the oil prices set by OPEC at the Doha summit in 1976 paved the way for a deteriorating Iranian economy, and finally, the demise of the Shah’s rule.<sup>52</sup> The Doha summit was a watershed in the tripartite relationship of the United States, Iran and Saudi Arabia. After the Doha summit, Saudi Arabia gained American appreciation and started to replace Iran as the most reliable ally in the region.<sup>53</sup>

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<sup>49</sup> Cited in Palmer, *Guardians of The Gulf*, 89.

<sup>50</sup> Andrew Scott Cooper, “Showdown at Doha: The Secret Oil Deal That Helped Sink the Shah of Iran,” *Middle East Journal* 62, no. 4 (Autumn 2008):575.

<sup>51</sup> Cited in Cooper, “Showdown at Doha” 575.

<sup>52</sup> Cooper, “Showdown at Doha,” 567.

<sup>53</sup> *Ibid.*, 591.

## G. THE CARTER ADMINISTRATION

Unlike his predecessor, Jimmy Carter engaged himself deeply in the decision-making process regarding U.S. foreign policy in the Middle East. His presidency witnessed three major foreign policy challenges: the peace negotiations over the Arab-Israeli conflict that ended up, through the Camp David Accords, reaching an Egypt-Israeli peace; the Soviet invasion of Afghanistan; and last but not least, the Iranian Revolution that ended the rule of the Shah and caused the ensuing hostage crisis.<sup>54</sup>

Although Carter put emphasis on the promotion of human rights throughout his tenure, he did not change U.S. policy or support of the Shah, who was one of the foremost human rights violators on earth at that time. The first repercussions of Carter's push for human rights made the Shah uneasy due to his fear of a probable American support of domestic opposition. But repeated announcements from both sides on the importance of close American-Iranian ties fostered the long-established relationship and relieved the Shah of his anxieties.<sup>55</sup> One of the most important mistakes Carter made was supporting and praising the Shah during his visit to Tehran in the midst of internal turmoil in Iran, which revealed the fact that the Carter administration misinterpreted and misunderstood the opposition and the situation in Iran.<sup>56</sup> On December 31, 1977, during this visit, President Carter described Iran under the Shah, a country that witnessed a revolution one year later, as "an island of stability" and said:

Iran, under the great leadership of the Shah, is an island of stability in one of the more troubled areas of the world. This is a great tribute to you, Your Majesty, and to your leadership, and to the respect, admiration and love which your people give to you.<sup>57</sup>

Despite all its promises in the election campaign about arms sales limitations, the Carter administration continued to provide the Shah with military equipment and weapons that, in less than a year, would fall into the hands of an anti-American

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<sup>54</sup> Lenczowski, *American Presidents and the Middle East*, 208–209.

<sup>55</sup> Barbara Zanchetta, "The United States And The "Loss" Of Iran," *Working Papers In International History And Politics*, no. 4 (June 2009): 12.

<sup>56</sup> *Ibid.*, 13.

<sup>57</sup> *Ibid.*

government.<sup>58</sup> In the midst of street protests in which 646 people were killed in six months (from August 23, 1977, to February 19, 1978)<sup>59</sup> the arms deals continued as if everything was calm and quiet in Iran. In July 1978, President Carter approved the sale of nearly \$600 million worth of American arms that included thirty-one Phantom jet fighters.<sup>60</sup>

Before the Shah left Iran on the warnings of the U.S. government on January 16, 1979, he appointed one of the opposition leaders, Shahpour Bakhtiar, as premier. Soon after, Carter sent General Robert Huyser, Deputy Commander of U.S. forces in Europe, with the task of establishing ties between Bakhtiar and the Iranian military, in so doing, he wanted to support Bakhtiar as the constitutional prime minister with a loyal army. But this initiative of Carter's was flawed in that it was not realistic to expect an army loyal to a dictator to support a little-known leader who was opposed to the same dictator.<sup>61</sup> After Carter's failed attempt to instate Bakhtiar, on February 1, 1979, Ayatollah Khomeini returned from his exile in Paris and appointed Mehdi Bazargan as the first prime minister of the Islamic Republic of Iran. The United States recognized the Bazargan government, and regardless of the new regime's anti-American viewpoint, returned to normalcy in its diplomatic relationship with Iran.<sup>62</sup>

Upon the U.S. government's invitation, urged by David Rockefeller and Henry Kissinger, on November 4, 1979, the Shah was admitted to the United States of America. Although it is not clear whether it was an action led by Khomeini or just a reaction of individuals acting on their own, soon after the Shah's arrival in New York, students attacked the American embassy in Tehran and held sixty-six individuals hostage. Soon after, Bazargan realized Khomeini's role and when Ahmad, Khomeini's son, praised the attackers in the name of his father, he resigned from his post.<sup>63</sup>

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<sup>58</sup> Ramazani, *Who Lost America? The Case of Iran*, 12.

<sup>59</sup> Asef Bayat, *Street Politics: Poor People's Movements in Iran* (New York: Columbia University Press, 1997): 38.

<sup>60</sup> Ramazani, *Who Lost America? The Case of Iran*, 12.

<sup>61</sup> Lenczowski, *American Presidents and the Middle East*, 197.

<sup>62</sup> *Ibid.*, 198–199.

<sup>63</sup> *Ibid.*, 199–200.

At first, the Carter administration resorted to soft power and ordered a stop to the oil imports from Iran to the United States and froze some \$12 billion worth of Iranian accounts in the United States. Later, in April 1980, Carter opted for military power and ordered a rescue operation. But when this operation, code-named “Delta,” failed due to the loss of one helicopter and its passengers, Carter was disgraced, which blocked the way for his reelection.<sup>64</sup>

As a response to the Soviet invasion of Afghanistan and the loss of Iran, the guardian of the Gulf, the Carter administration started to increase its presence in the Gulf region,<sup>65</sup> which was a return to Nixon’s hands-off attitude. On January 23, 1980, President Carter proclaimed this change of foreign policy in his State of the Union address and said:

Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.<sup>66</sup>

The presence of the United States in the Gulf region meant mostly the naval force. Table 2 shows the increased presence of the United States in line with the Carter Doctrine in the region.

Table 2. U.S. Navy strength in the Indian Ocean (1977–1980)<sup>67</sup>

<b>Year</b>	<b>Surface Ship Days</b>	<b>Carrier Ship Days</b>
1977	1439	100
1978	1207	35
1979	2612	153
1980	6993	836

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<sup>64</sup> Lenczowski, *American Presidents and the Middle East*, 201.

<sup>65</sup> Palmer, *Guardians of The Gulf*, 106.

<sup>66</sup> *Ibid.*

<sup>67</sup> *Ibid.*, 107.

## H. THE REAGAN ADMINISTRATION

Ronald Reagan, who witnessed the release of the hostages held in the Tehran embassy as the new president in his inauguration ceremony, faced the same threats and challenges as his predecessors, but in a different context. When Reagan took office, the gulf region was torn apart by the ongoing Iran-Iraq war and the Soviet invasion of Afghanistan. Additionally, the fabric of the region had changed due to the fact that Iran, one of the former major rings in the chain of defense against the Soviet Union, emerged as a new challenge. Although he refrained from declaring it openly, Reagan's foreign policy in the Middle East was a continuum of the Carter Doctrine and the Rapid Deployment Force, as the instrument of this doctrine was the most important part of the implementation of his foreign policy. During his tenure, the United States continued to increase its presence in the region and, in 1983, this trend led to the establishment of the United States Central Command as the new headquarters of the already increasing Rapid Deployment Force.<sup>68</sup> The establishment of the Central Command was a turning point in U.S. Middle East policy in that the United States demonstrated its commitment to provide security in the region on its own, rather than relying on regional powers and alliances like CENTO.<sup>69</sup>

Until the Iran-Iraq war began to threaten the flow of oil by Iranian attacks to Kuwaiti tankers carrying oil to West, the United States did not become involved in the Iran-Iraq war beyond balancing the regional military strengths of the Gulf countries with arms sales. The arms sales to Saudi Arabia continued and the transfer of the AWACS, a program started by Carter, was completed by the Reagan administration. But when Iranian attacks on oil tankers raised the risk of a probable interruption in the flow of oil, the United States urged the United Nation's response and, on June 1, 1984, United Nations Security Council Resolution (552), which "condemned Iranian attacks on ships bound to neutral Kuwaiti and Saudi ports," was agreed on and implemented.<sup>70</sup> Furthermore, in March 1987, as a response to the Kuwaiti-Soviet rapprochement on the

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<sup>68</sup> Palmer, *Guardians of The Gulf*, 113.

<sup>69</sup> *Ibid.*, 117.

<sup>70</sup> *Ibid.*, 119.

issue of reflagging, the United States responded to Kuwaiti's request to reflag its ships under the United States flag, which raised the risk of a war between Iran and the United States if there was an Iranian attack on a ship under a U.S. flag.<sup>71</sup>

Although Reagan enjoyed the happiness of seeing the hostages' release, as president of the United States, he also had to face the burden of accusations about his decision to trade arms for hostages. Violating the U.S. embargo on Iran and the rule of informing Congress about arms sales, Reagan agreed to provide Iran with arms and intelligence and, in exchange, he demanded that the Iranian government urge the Shiites in Lebanon to release the seven Americans held hostage in Beirut.<sup>72</sup> As part of this agreement, on January 17, 1986, Reagan approved the transfer of 4,000 TOW missiles<sup>73</sup> to Iran via the Central Intelligence Agency.<sup>74</sup> Nevertheless, these arms transfers to Iran ceased when Al-Shiraa, a Beirut magazine, revealed an account of tripartite arms transactions with the United States, Israel, and Iran, which was the beginning of a long debate later known as Irangate and was part of Iran-contra.<sup>75</sup>

On July 3, 1988, the Reagan Administration also witnessed one of the worst blunders in U.S. history when the U.S. navy shot down an Iranian plane and killed 290 civilian passengers. This tragedy helped the leaders of the revolution justify their anti-West and anti-U.S. stance.<sup>76</sup>

## I. THE BUSH ADMINISTRATION

George H. W. Bush's tenure witnessed the transformation of the world order from bipolarity to unipolarity, which deeply affected the United States' foreign policy in the Middle East. For more than four decades, the containment of the Soviet Union in its

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<sup>71</sup> Joe Stork, "Reagan Re-Flags the Gulf," *MERIP Middle East Report*, no. 148, Re-Flagging the Gulf (September–October 1987): 4.

<sup>72</sup> Christopher Hemmer, "Historical Analogies and the Definition of Interests: The Iranian Hostage Crisis and Ronald Reagan's Policy toward the Hostages in Lebanon," *Political Psychology* 20, no. 2 (June 1999): 270.

<sup>73</sup> The TOW missile is an optically tracked and wire-guided anti-tank weapon.

<sup>74</sup> Lenczowski, *American Presidents and the Middle East*, 238.

<sup>75</sup> *Ibid.*, 240.

<sup>76</sup> Efrahim Karsh, *The Iran–Iraq War 1980–1988*, (Oxford: Osprey Publishing, 2002): 61.



struggle to influence the Gulf region and the secure flow of oil had been the two pillars of the United States' foreign policy objectives. The collapse of the Soviet Union gave the Bush administration a free hand to shape its Middle East policy and build a new regional security structure.

The United States' response to the invasion of Kuwait and the post-war alliances of 1991 that excluded Iran from the regional security structure were the two major results of the Bush administration's approach toward Iran. Although Iran stayed neutral in the 1991 Gulf War and later sought to establish cooperation with members of the Gulf Cooperation Council (the members of GCC are Saudi Arabia, Kuwait, the United Arab Emirates, Oman, Qatar, and Bahrain),<sup>77</sup> the United States did not include Iran in the new security structure, which led the Iranians to perceive this new structure as an alliance against them.<sup>78</sup>

After the death of Ayatollah Khomeini in 1989, Ali Akbar Hashemi Rafsanjani became the new president and enacted reformist constitutional amendments in order to rationalize the government and its foreign policy.<sup>79</sup> In the first few years of his presidency, however, the assassination of Shahpour Bakhtiar in Paris in 1991 and the operations targeting the members of the Mojahideen-e Khalq Organization<sup>80</sup> in Europe reinforced the international view of Iran as a country resorting to terrorism.<sup>82</sup> On August 1, 1991, the Bush administration proclaimed the national security strategy of the United States and warned Iran about terrorism when it stated:

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<sup>77</sup> Amin Saikal, "The United States and Persian Gulf Security," *World Policy Journal* 9, no. 3 (Summer 1992): 518.

<sup>78</sup> *Ibid.*, 525.

<sup>79</sup> M. Ali Ansari, *Confronting Iran: The Failure of American Foreign Policy and The Next Great Crisis In The Middle East* (New York: Basic Books, 2006.): 120.

<sup>80</sup> Mojahideen-e Khalq Organization is the most organized Iranian opposition group which decided to stay under Saddam Hussein's patronage during the Iran-Iraq War.

<sup>81</sup> Ansari, *Confronting Iran: The Failure of American Foreign Policy and The Next Great Crisis In The Middle East*, 198–199.

<sup>82</sup> *Ibid.*, 125–126.

We remain open to an improved relationship with Iran. However, meaningful improvement can only occur after Iran makes clear it is lending no support to hostage-taking or other forms of terrorism.<sup>83</sup>

Rafsanjani sent signals to make it clear that Iran wanted to normalize relations. The first signal was Rafsanjani's departure from Khomeini on the issue of the Israeli-Palestine peace talks. Stating that Iran would support any deal acceptable to the Palestinians, he implied his willingness to join the Madrid Peace talks, but Iran was not on the invitation list.<sup>84</sup> Although on December 20, 1991, Rafsanjani condemned terrorism and anti-Western rhetoric at a Friday prayer sermon in response to the call of the United States, no further signal of rapprochement was sent from the Bush administration in the coming years, which was partly caused by the president's reluctance to be seen as "soft on Iran" on the eve of the election campaign.<sup>85</sup>

## **J. THE CLINTON ADMINISTRATION**

Until the Clinton administration took office, the United States' foreign policy in the Middle East was shaped in the context of balance of power calculations that always set Iran and Iraq on opposite sides, which necessitated overt or covert American support to one of these Gulf countries. But with the help of the changed international and regional balance of power due to the collapse of the Soviet Union, and the undermined economy and military strength of war-torn Iraq and Iran, the Clinton administration transformed this foreign policy trend into isolating both countries, and named this new policy "dual containment." On May 18, 1993, Martin Indyk, the special assistant to the president for Near East and South Asian affairs at the National Security Council, explained the dual

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<sup>83</sup> The White House, *The National Security Strategy of The United States*, Washington, DC, August 1, 1991: 10.

<sup>84</sup> Said Amir Arjomand, *After Khomeini: Iran Under His Successors*, (New York: Oxford University Press, 2009): 144.

<sup>85</sup> Ansari, *Confronting Iran*, 131–132.

containment and stated that, based on the strength of the United States and its allies in the region, the United States would contain both countries rather than balancing one another.<sup>86</sup>

With an emphasis on the more challenging nature of the threats from Iran, Indyk put the challenges from Iran into five categories. First, he claimed that Iran supported terrorism and assassination; second, he accused Iran of disrupting the Arab-Israeli peace process its support of Hezbollah and Hamas; third, he opposed the Iranian efforts to impose regime change on pro-American Arab governments; fourth, he stated that Iran wanted to dominate the Gulf Region via a military buildup; and finally, he warned about the Iranian quest to obtain weapons of mass destruction.<sup>87</sup> The Clinton administration's response to these challenges was crystallized in May 1995 when the United States enforced a sanction that would have an all-inclusive ban on American trade with Iran. One year later, under pressure from Congress, President Clinton increased pressure on Tehran and signed a bill that was a "sanction on foreign companies investing more than \$40 million annually in Iran's oil and gas industry."<sup>88</sup>

Although, President Clinton's first term and the last years of the Rafsanjani government the prospect for a thaw in mutual relations was spoiled by U.S. sanctions and the Khobar Towers bombing, Iran's 1997 election resulted in a new president, Mohammed Khatami, who promised to bring democracy to election campaigns.<sup>89</sup> He changed the political environment and brought about a new wave of optimism. On December 14, 1997, President Khatami spelled out his intentions for mutual relations with the United States and said that: "I, first of all, pay my respect to the great people and nation of America."<sup>90</sup> And later, on January 7, 1998, Khatami appeared on CNN and

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<sup>86</sup> F. Gregory Gause, "The Illogic of Dual Containment," *Foreign Affairs* 73, no. 2 (March–April 1994): 57.

<sup>87</sup> *Ibid.*, 58.

<sup>88</sup> Robin Wright and Shaul Bakhash, "The U. S. and Iran: An Offer They Can't Refuse?" *Foreign Policy*, no. 108 (Autumn 1997): 127.

<sup>89</sup> Puneet Talwar, "Iran in the Balance," *Foreign Affairs* 80, no. 4 (July–August 2001): 60.

<sup>90</sup> Cited in R. K Ramazani, "The Shifting Premise of Iran's Foreign Policy: Towards a Democratic Peace?" *Middle East Journal* 52, no. 2 (Spring 1998): 185.

spoke of his intentions to “break down the wall of mistrust” between the two countries. Khatami’s new approach toward the West and the United States was welcomed by some Western countries and consequently, Europe and Japan became more reluctant to put pressure on Tehran and cooperate with the United States in implementing the sanctions.<sup>91</sup>

The United States responded to the Iranian overture and the changing approach of its allies in March 2000 when Madeleine Albright, Secretary of State, gave a speech about a new American approach toward Iran and outlined three aspects of this new policy. First, she announced the softening of sanctions on some commodities including food and carpets and individual exchanges. Second, she proposed to resolve the decades-long legal claims of both parties. And finally, she offered an open dialogue with no preconditions.<sup>92</sup>

Although these mutual overtures opened a new door toward a sustainable friendly relationship, the pressures on both governments from domestic politics (Iranian hardliners and on Capitol Hill) made it hard to further the initial progress.<sup>93</sup> The most important aspect of the Clinton administration’s Tehran policy was the fact that it laid the foundation of the United States’ foreign policy with Iran for the next two administrations. And this foreign policy was based on three pillars of Iranian threats: weapons of mass destruction, support of terrorism, and the disruption of the Arab-Israeli peace process.<sup>94</sup>

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<sup>91</sup> Talwar, *Iran in the Balance*, 61.

<sup>92</sup> *Ibid.*, 62.

<sup>93</sup> *Ibid.*, 62–67.

<sup>94</sup> Ansari, *Confronting Iran*, 136.

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### III. SANCTIONS

#### A. A THEORETICAL DISCUSSION OF THE EFFICIENCY OF SANCTIONS

Policymakers have a spectrum of tools for responding to foreign policy challenges, and this spectrum ranges from diplomacy to the use of military force. When, on the one hand, the challenge is not worth engaging the military due to the high cost of an expedition, and yet, diplomacy is not enough to appease the domestic public and the prestige of the country is at stake, sanctions are used as a mid-way tool.<sup>95</sup> Sanctions can be defined as using unilateral or multilateral diplomatic or economic measures such as limiting financial relations or trade and cutting diplomatic relations with the aim of a desired policy change in the target country.<sup>96</sup> The main goal of economic sanctions is “to lower the aggregate economic welfare of a target state by reducing international trade in order to coerce the target government to change its political behavior.”<sup>97</sup> The first use of economic sanctions dates back to 432 BC, when the Athenians banned access to traders in Megara to the Athens’ harbor, which, to the chagrin of the Athenians, resulted in being one of the reasons they lost the Peloponnesian War.<sup>98</sup>

Although states are becoming more inclined to resort to sanctions, there is no consensus on the answer to these questions: Why and when do states resort to sanctions? Can they be successful in reaching their objectives?<sup>99</sup> Considering the cost-benefit analysis, are sanctions really beneficial? What are sanctions intended to achieve?<sup>100</sup> Is it ethical to use the people of the sanctioned country “as a means to achieve the foreign

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<sup>95</sup> David Cortright and George A. Lopez, Bombs, “Carrots, and Sticks: The Use of Incentives and Sanctions,” *Arms Control Today* (March 2005): 19.

<sup>96</sup> Robert Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction,” *World Economics* 9 no. 4 (October–December 2008): 182.

<sup>97</sup> Robert A. Pape, “Why Economic Sanctions Do Not Work,” *International Security* 22, no. 2 (Autumn 1997): 93.

<sup>98</sup> Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction”, 181.

<sup>99</sup> Dean Lacy and Emerson M. S. Niou, “A Theory of Economic Sanctions and Issue Linkages: The Role of Preferences, Information, and Threats,” *The Journal of Politics* 66, no. 1 (February 2004): 25.

<sup>100</sup> Simon Chesterman and Beatrice Pouligny, “Are Sanctions Meant to Work? The Politics of Creating and Implementing Sanctions Through the United Nations,” *Global Governance* 9 (2003): 503.

policy objective of the sanctioning country”?<sup>101</sup> But, even though there is no consensus on whether sanctions succeed or fail to reach their objectives, some cases support the arguments on both sides. Therefore, this part of the chapter will cover the discussion of sanctions as a policy tool, and end with a list of conditions under which the imposition of the sanctions turns out to be a success story.

Neta C. Crawford and Audie Klotz explain the influence of the sanctions by categorizing them in four models of influence that explain how sanctions work. These models of influence are compellance, normative communication, resource denial, and political fracture. First, the compellance model assumes that the only way to change the target country’s behavior is to compel “the self interested, rational utility-maximizing decision making elite of the state who respond to actual or anticipated changes in the ratio of costs and risks to benefits.”<sup>102</sup> For sanctions to be successful, the ruling elite must lose more than they would gain by choosing a policy as a response to the domestic politics rather than giving concessions to the sanctioning state. Sanctions must hit the ruling elite and the burden of the sanctions must be felt first by the leaders of the target country. Therefore, if the target regime is not dependant on the sanctioning country or third countries in terms of trade, arms sales, and/or economic resources, sanctions will not force them to give concessions and will inevitably fail.<sup>103</sup> Second, the normative communication model explains the influence of sanctions in that they persuade the population and the decision makers by means of moral arguments. The sanctioning countries put forward normative arguments and punish the target for its wrong behavior. Therefore, in this model, “the act of sanctioning becomes more important than the costs to the target state or the effects of the sanctions.”<sup>104</sup> Third, the resource denial model suggests that sanctions work when they deprive the target sate of its capacity to sustain the policy that is rejected by the sanctioning country. For sanctions to be successful, the

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<sup>101</sup> Charles A. Rarick, “Economic Sanctions: Failed Foreign Policy Tool and A Cost to American Business,” *Economic Affairs* (September 2007): 68.

<sup>102</sup> Neta C. Crawford and Audie Klotz, ed., *How Sanctions Work: Lessons From South Africa* (New York: St. Martin’s Press, 1999): 26.

<sup>103</sup> *Ibid.*, 27.

<sup>104</sup> *Ibid.*, 27–28.

sanctioning country must have a chance to cut the supply of a resource that is crucial for the target country if it pursues its rejected policy. Thus, resource denial will not be successful if the blockage or the boycott is not fully enforced or the sanctioned country is autarkic in resources.<sup>105</sup> Finally, the political fracture model assumes that because the state is not just comprised of elites but rather includes political actors, civil society, and people in general, sanctions can trigger this complex nature of the target state to revolt against the regime. Thus, sanctions put the legitimacy of the regime in question by inflicting economic burden, which yields the desired result of disintegration and uprising against the government. For the model to work, the political structure of the target must be fragmented, and the sanctioning country must have the communication channels to provoke and support the revolting masses.<sup>106</sup>

The most important criticism of trade sanctions is that sanctions not only hit the target country but also harm the business and trade of the sanctioning country as well as third parties. Even if the imposed sanctions restrict the trade of limited items, the loss of a whole country as a market will inevitably cause a loss of sales, and in return, this will result in less employment due to the broken backward linkages of the banned items.<sup>107</sup> The United States is one of the most well-known countries that uses sanctions as a foreign policy tool. In the past, the U.S. sanctioned a number of countries including Afghanistan, Iran, Myanmar, Yugoslavia, Cuba, and so on.<sup>108</sup> Whether the U.S. achieved its policy goals by these sanctions is still being debated, but their costs are clear and amount to an annual average of \$15 billion between 1989 and 1998. Table 3 gives the details of the costs of sanctions to the U.S. economy.

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<sup>105</sup> Crawford and Klotz, ed., *How Sanctions Work*, 28.

<sup>106</sup> *Ibid.*, 27–28.

<sup>107</sup> Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction,” 185.

<sup>108</sup> Hossein G. Askari et al., *Economic Sanctions: Examining Their Philosophy and Efficiency*, (London: Praeger, 2003): 168.



Table 3. Estimated loss of U.S. exports to U.S. economic sanctions<sup>109</sup> (millions of U.S. dollars)

Year	Due to Comprehensive Sanctions	Due to Selective Sanctions	Total
1987	2,012	4,328	6,340
1988	1,912	5,276	7,188
1989	2,698	20,469	23,167
1990	1,839	14,099	15,938
1991	2,655	11,704	14,359
1992	1,750	14,784	16,534
1993	3,148	8,649	11,797
1994	2,243	10,392	12,635
1995	2,526	11,460	13,986
1996	4,484	9,116	13,600
1997	5,607	12,491	18,098
1998	5,238	10,278	15,516
<b>Average</b>	<b>3,009</b>	<b>11,087</b>	<b>14,097</b>
<b>Average since 1989</b>	<b>3,219</b>	<b>12,344</b>	<b>15,563</b>

When trade sanctions target a market that is highly interconnected and global, like the oil market, the consequences of the sanctions will affect many countries and the burden will be distributed to everybody without knowledge regarding the recipient of the benefits. For instance, when Iraq invaded Kuwait, the oil trade with both of these countries was cut and approximately five million barrels of oil per day were withdrawn from the oil market, which caused an increase in oil prices from \$18 per barrel to \$40 per barrel within two months.<sup>110</sup> Apart from this global affect, sanctions hit the neighboring countries that have a large volume of trade with the target country. In 1990, Turkey was one of the earliest countries to join the embargo against Iraq and closed its trade with Iraq, which cost Turkey approximately \$2.7 billion. Another neighbor of Iraq, Jordan,

<sup>109</sup> Askari et al., *Economic Sanctions: Examining Their Philosophy and Efficiency*, 169.

<sup>110</sup> Carbaugh, "Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction," 189.

had to face a higher burden due to its dependence on trade with Iraq.<sup>111</sup> Also, supply vacuum in the target country will be filled by domestic firms and they will challenge the sanctioning countries' competition power in the future.<sup>112</sup> Furthermore, the perception of the third countries' entrepreneurs about the sanctioning country will be more skeptical, and most probably they will have second thoughts about making investments with the citizens of a sanctioning country in order to avoid becoming a victim of future sanctions. Finally, in the case of unilateral trade sanctions, the target country can easily change the supplier, giving a third country a more lucrative chance to step in and take the opportunity. For example, when the United States enacted the May 1995 embargo on Iran, and the American CONOCO's deal was abrogated, the French oil company, Total, replaced CONOCO, which made the United States lose a lot of business, but affected Iran less as it just signed a less lucrative contract with the French.<sup>113</sup> Although disadvantages in trade sanctions outnumber its advantages, when the sanctioning country's goal is to cripple a specific capability of the target country, trade sanctions are more likely to contribute to the final policy objective. For example, if a state has a monopoly on a specific technology for building a high-tech weapons system, and it does not want to lose its monopoly, a trade sanction, including specific items related to that technology, is more effective and easier to impose than other kinds of sanctions.

Another type of economic sanctions include financial sanctions that are directed at the financial assets of the target country by cutting loans, prohibiting transactions, imposing higher interest rates, and freezing funds. Financial sanctions are much more likely to be successful than trade sanctions for several reasons. First, because financial assets are more related to future investment capacity, they are more targeted than trade sanctions as they can be imposed on state officials, businesses and banks that are affiliated with the policy makers without a near-future burden on the population. Second, due to the fact that governments are the main controllers of the flow of money, and

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<sup>111</sup> Carbaugh, "Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction," 189.

<sup>112</sup> Rarick, "Economic Sanctions: Failed Foreign Policy Tool and A Cost to American Business," 67.

<sup>113</sup> Jahangir Amuzegar, "Iran Economy and The U.S. Sanctions," *Middle East Journal* 51, no. 2 (Spring 1997): 193.

regulations in financial markets are heavier than the trade market, financial sanctions are easier to implement than trade sanctions.<sup>114</sup> For example, in the late 1970s, the United States had no difficulty freezing Iranian financial assets because, on the one hand, the government used its state power to regulate finance, and on the other, made the most of its leverage in the global transaction system in which “virtually all transactions in Eurodollars clear through New York.”<sup>115</sup> Third, the private capital of the sanctioning country also strengthens the effect of financial sanctions because even the threat of these sanctions decreases business confidence in the target country and the money flow to the target country decreases due to weakened credibility. For example, when the United States threatened sanctions against South Africa, in 1985–1986, many U.S. firms withdrew their assets from South Africa without any kind of enforcement by the U.S. government.<sup>116</sup>

One of the reasons that the success of sanctions is always under debate is that there is no clear-cut division between the effect of the sanctions and the other coercive measures, like the threat or use of force. After studying 115 sanction cases between 1914 and 1990, Gary Hufbauer, Jeffrey Schott, and Kimberly Ann Elliot, argued that forty of them (34 percent) were successful and yielded the desired end.<sup>117</sup> In his article, Robert A. Pape challenges the findings of Gary Hufbauer, Jeffrey Schott, and Kimberly Ann Elliot, as most of the alleged success cases were caused by the use of force rather than sanctions, and because it is not clear whether the more country cooperated with the sanctions the more probable the sanctions would yield the desired result. In his analysis, Pape differentiates between the effect of the sanctions from the use of force and argues that in eighteen cases, the results were not caused by sanctions, but some sort of use of force such as a military victory, military coercion, foreign-sponsored assassinations or military

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<sup>114</sup> Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction,” 186.

<sup>115</sup> Robert Carswell, “Economic Sanctions and The Iran Experience,” *Foreign Affairs* 60, no. 2 (Winter 1981): 250.

<sup>116</sup> Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction,” 187.

<sup>117</sup> Pape, “Why Economic Sanctions Do Not Work,” 92.

coups.<sup>118</sup> Table 4<sup>119</sup> gives a detailed list of the cases in which the outcome was determined by factors other than sanctions.

Table 4. Errors in the Hufbauer and Elliot Database by type

Case	Year	Coercer	Target	Nature of Dispute/Outcome
<b>Outcomes Determined by Force, Not Economic Sanctions: 18</b>				
<i>Brute Force Military Victory: 6</i>				
1.	1939	Allies	Germany, Japan	Germany conquered; Japan surrendered to invasion threat.
2.	1948	India	Hyderabad	Hyderabad conquered by Indian army.
3.	1967	Nigeria	Biafra	Biafra overrun by 200,000 Nigerian troops.
4.	1972	U.K./U.S.	Uganda	Amin defeated by Tanzanian invasion.
5.	1977	U.S.	Nicaragua	Somoza defeated by FSLN guerrillas.
6.	1982	U.K.	Argentina	U.K. forces reconquered the Falkland Islands.
<i>Military Coercion: 7</i>				
7.	1914	U.K.	Germany	Germany surrendered when military defeat imminent.
8.	1921	League of Nations	Yugoslavia	Yugoslavia retreated from Italian military threat.
9.	1925	League of Nations	Greece	No economic sanction; Greece retreated from League naval threat.
10.	1956	U.S.	U.K./France	Britain and France retreated from Soviet nuclear threat.
11.	1960	U.S.	Dominican Republic	Trujilloistas fled from U.S. invasion threat.
12.	1965	U.K./U.N.	Rhodesia	Whites coerced by guerrilla military threat.
13.	1982	U.S./Netherlands	Suriname	Bouterse coerced by guerrilla military threat.
<i>Foreign-sponsored Assassinations and Military Coups: 5</i>				
14.	1951	U.K./U.S.	Iran	Mossadegh overthrown in U.S.-sponsored coup.
15.	1956	U.S.	Laos	Government overthrown 3 times in U.S.-sponsored coups.
16.	1962	U.S.	Brazil	Goulart overthrown in U.S.-sponsored coup.
17.	1963	U.S.	South Vietnam	Diem assassinated in U.S.-sponsored coup.
18.	1970	U.S.	Chile	Allende killed in U.S.-sponsored coup.

For example, in the case of Iran, in 1951, because of the nationalization of the oil company, the west boycotted the purchase of Iranian oil in order to force Mossadegh to sign a 50-50 profit-sharing contract. But the objective was reached by means of a military coup planned by the U.S. and the UK. Although demonstrations were held against the Mossadegh government, they were triggered by the Central Intelligence Agency (CIA)

<sup>118</sup> Pape, "Why Economic Sanctions Do Not Work," 99.

<sup>119</sup> Ibid., 102.

rather than the sanctions' squeezing effect on the population to change the leader.<sup>120</sup> In the case of Chile, in 1970, when the leftist Salvador Allende Gossens took office, the U.S. cut economic aid to Chile and encouraged the financial institutions not to give credit in an effort to change its leader. But the desired outcome was reached by unrest amongst the population, triggered by CIA meddling, the socialist economic policies of Allende, and CIA-led local media that depicted the government as a Soviet puppet.<sup>121</sup>

Diplomatic sanctions are also used by policy makers in order to isolate and put diplomatic pressure on the target country. Diplomatic sanctions are "characterized by severing formal diplomatic ties with a country or significantly downgrading ties from the normal level of diplomatic activity for foreign policy purposes."<sup>122</sup> Whereas the effect of trade and financial sanctions on the sanctioning country in terms of costs is not clear and can change from case to case, the result of diplomatic sanctions is certain to affect the sanctioning country to the same extent as the target country. In the case of economic sanctions, both parties bear the consequences of the sanctions on the basis of their economic capacity and investments in bilateral trade, but because communication is the flow of two-sided information, diplomatic sanctions cut this flow for both parties no matter which one is economically and militarily more powerful. On one hand, non-engagement makes the sanctioning country less informed about the target state and causes the loss of valuable intelligence, and on the other hand, as a consequence of the loss of communications, the sanctioning country loses its ability to influence the sanctioned country. Furthermore, the only way to assess the effects of policy tools such as economic sanctions in the target country is via a diplomatic missionary in that country.<sup>123</sup> Also, in some cases, sanctioning countries combine sanctions and incentives, and by doing so, they make the target state's leaders freer to accept the offer with impunity and without any domestic pressure. In short, in the case of "carrot-and-stick

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<sup>120</sup> Pape, "Why Economic Sanctions Do Not Work," 120–121.

<sup>121</sup> Ibid, 123–124.

<sup>122</sup> Tara Maller, "The Dangers of Diplomatic Disengagement in Counterterrorism," *Studies in Conflict & Terrorism*, 32: 6 (2009): 512.

<sup>123</sup> Tara Maller, "Diplomacy Derailed: The Consequences of Diplomatic Sanctions," *The Washington Quarterly* (July 2010): 61.

diplomacy” the leaders of the target country have something to justify their concessions in the eyes of the citizens. But if the sanctioning state imposes diplomatic sanctions as well as economic sanctions and incentives, it deprives itself of the capability to choose and adopt the right incentive that creates a public opinion inclined to make concession. Therefore, cutting diplomatic relations also harms the sanctioning country, as it cannot make assessments to answer questions such as: Did the policy tool yield the desired end? What is the right time for tightening or loosening the economic sanctions? What is the right incentive to make the target give concessions? Is soft power sufficient? If not, what should the timing be for more severe measures? In sum, “the concept of diplomatic severance or non-engagement is somewhat counterintuitive and paradoxical given the inherent purpose of diplomacy.”<sup>124</sup>

## **B. 23 CONSIDERATIONS FOR SUCCESSFUL SANCTIONS**

Although there is no consensus on the success of sanctions, the ongoing discussion gives some insights about the assessment of sanctions. Even though there is no clear-cut answer as to whether sanctions work, once sanctions are adopted as a policy tool, the literature provides us with information on some conditions under which sanctions tend to be more successful. The considerations for successful sanctions are the following:

1. Financial sanctions are more effective than trade sanctions.
2. Diplomatic sanctions are counterproductive, let alone beneficial, as policy tools.
3. Diplomatic sanctions may diminish the effect of other coercive measures.
4. Diplomatic sanctions deprive the sanctioning country of its influence on the target country.<sup>125</sup>
5. “Multilateral sanctions over single issues are more likely to succeed than unilateral sanctions.”<sup>126</sup>

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<sup>124</sup> Maller, “The Dangers of Diplomatic Disengagement in Counterterrorism,” 512.

<sup>125</sup> *Ibid.*, 522.

<sup>126</sup> Navin A. Bapat and T. Clifton Morgan, “Multilateral Versus Unilateral Sanctions Reconsidered: A Test Using New Data,” *International Studies Quarterly* (2009) 53, 1090–1091.

6. Pre-sanction volume of trade and financial ties directly affect the success of the sanctions.<sup>127</sup>
7. The more targeted the sanctions, the higher the probability of success.
8. The more targeted the sanctions, the more complex the implementation.<sup>128</sup>
9. Sanctions also hit the sanctioning country, as well as the target country.
10. Sanctions must be processed through a cost-benefit analysis because sometimes they are more costly than expected.
11. The collateral damage of sanctions on third parties should be taken into account.
12. “Domestic political institutions in the target country matter.”<sup>129</sup>
13. Incentives help sanctions yield the desired objectives with fewer objections from the target state’s public opinion.
14. The objective of the sanctions must be concrete and understood by the target.
15. The rational short-term objectives are more easily reached than ideological long-term ones.
16. The sanctioning country’s economy must be larger than the sanctioned country.<sup>130</sup>
17. “Crisis economies under the sanctions develop close (or closer) linkages to the illegal spheres of the world market.”<sup>131</sup>
18. The threat of force transcends the effect of sanctions when they are used together.
19. “Sanctions tend to be easier to introduce than lift.”<sup>132</sup>
20. “Sanctions can be bypassed by through re-export from third countries.”<sup>133</sup>

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<sup>127</sup> Carbaugh, “Are Economic Sanctions Useful in Discouraging the Proliferation of Weapons of Mass Destruction,” 197.

<sup>128</sup> Simon Chesterman and Beatrice Pouligny, “Are Sanctions Meant to Work? The Politics of Creating and Implementing Sanctions Through the United Nations,” *Global Governance* 9, (2003): 507.

<sup>129</sup> Nikolay Marinov, “Do Economic Sanctions Destabilize Country Leaders?,” *American Journal of Political Science*, Vol. 49, no. 3, (July, 2005): 573.

<sup>130</sup> Rarick, “Economic Sanctions: Failed Foreign Policy Tool and A Cost to American Business,” 68.

<sup>131</sup> Chesterman and Pouligny, “Are Sanctions Meant to Work? The Politics of Creating and Implementing Sanctions Through the United Nations,” 503.

<sup>132</sup> Richard N. Haas, ed., *Economic Sanctions and American Diplomacy*, (New York: A Council of Foreign Relations Book, 1998): 205.

<sup>133</sup> Hossein G. Askari et al., *Economic Sanctions: Examining Their Philosophy and Efficiency*, (London: Praeger, 2003): 66.

21. Sanctions targeting an important resource or item of the sanctioned country, that may cause global fluctuations in markets, must be reconsidered.
22. Sanctions inevitably harm innocent people.
23. “If a target faces a resolute and credible sender, then compliance should be more likely, since the expected costs of sanctions will be higher for the target state.”<sup>134</sup>

### C. U.S. SANCTIONS ON IRAN

U.S. sanctions on Iran have been varied in type and scope over the last three decades, starting with the 1979 hostage crisis. Embassy-seizure driven sanctions were lifted in 1981, and after a three-year gap, in 1984 a new wave of sanctions was introduced with accusations of Iranian sponsorship of terrorism and ambitions for nuclear weapons. In 1995 and 1996, the scope of sanctions was enlarged to include some extraterritorial measures on third countries’ trade, which caused friction between the EU and the U.S. Until recently, almost all of the U.S. sanctions on Iran have been unilateral without the support of key state actors such as Russia, China, Japan and the European Union.<sup>135</sup>

Although sanctions were put into effect as a reaction to sporadic Iranian challenges, the long-term objective of all the sanctions was “to weaken the Iranian economy,” especially by hitting the oil industry, and then wait for “political instability” due to the economic burdens on the people, finally “leading to a change in the regime.”<sup>136</sup> In his article, Patrick Clawson gives a list of the objectives of sanctions in detail. In the last two decades, the American objectives have been:

- “Taking a moral stance against human rights abuses in Iran.
- Deterring other countries from taking the same nuclear route as Tehran

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<sup>134</sup> Adrian U-Jin Ang and Dursun Peksen, “When Economic Sanctions Work?” *Political Research Quarterly* (March 2007): 143.

<sup>135</sup> Richard N. Haas, ed., *Economic Sanctions and American Diplomacy* (New York: A Council of Foreign Relations Book, 1998): 85.

<sup>136</sup> Askari et al., *Economic Sanctions: Examining Their Philosophy and Efficiency*, 70.



- Signaling international disapproval
- Delaying and disrupting Tehran’s nuclear and missile programs
- Helping the democratic opposition
- Crippling the country, or at least the government
- Using sanctions as leverage to open fruitful negotiations on the nuclear issue or perhaps on a broader set of issues
- Persuading Iran to halt its uranium enrichment efforts.”<sup>137</sup>

The first wave of sanctions during this period was the one imposed as a response to the hostage crisis in which fifty-two American citizens were held in Iran in November 1979. President Carter put a ban on American imports from Iran<sup>138</sup> and froze all Iranian assets (worth approximately \$12 billion) in the United States and in banks abroad under U.S. control.<sup>139</sup> Later, in April 1980, the president extended the sanctions to include all bilateral commerce and travel between the two countries, but he excluded items related to food, medicines and people in the news business.<sup>140</sup> The final agreements between Iran and the U.S. on 20 January 1981 that released the Americans ended this first wave of sanctions. Although some other factors, such as the domestically unsustainable nature of hostage taking as a state policy played a role, the sanctions between 1979 and 1981 also contributed to their desired end. Therefore, they can be classified as successful sanctions.

The second wave of sanctions was launched in January 1984 and from that time on, the United States (later within the mandate of the United Nations) imposed sanctions that were increasingly strict in both scope and magnitude.<sup>141</sup> The reason for resuming sanctions was the 1983 bombing of U.S. marines in Lebanon and the ensuing American accusations against Iran for having a part in the incident. The 1984 sanctions put some restrictions on Iranian loans, and the World Bank was also pushed to join the sanctions.

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<sup>137</sup> Robin Wright, ed., *The Iran Premier: Power, Politics, and U.S. Policy* (Washington D.C.: United States Institute of Peace Press, 2010): 116–117.

<sup>138</sup> Haas, ed., *Economic Sanctions and American Diplomacy*, 85.

<sup>139</sup> Carswell, “Economic Sanctions and The Iran Experience,” 247.

<sup>140</sup> Haas, ed., *Economic Sanctions and American Diplomacy*, 85.

<sup>141</sup> *Ibid.*, 85.

During the Iran-Iraq war, sanctions were expanded to include the export of “dual-use items that could be adapted for military use.”<sup>142</sup> In 1987, an executive order that imposed sanctions on almost all imports from Iran was signed by President Reagan.<sup>143</sup> The 1992 sanctions documented in “the Iran-Iraq Arms Nonproliferation Act” also expanded the scope of the sanctions to include almost any technological improvement in computer science that could contribute to the targeted programs in Iran.<sup>144</sup>

The hard-line stance against Iran, due to the adoption of the dual containment strategy by the Clinton administration, contributed to this increasing reliance on sanctions as a policy tool. In 1995, Iran opened its oil and gas sector to direct foreign investment, which gave the United States the opportunity to increase the Iranian stake in challenging sanctions.<sup>145</sup> The Clinton administration put restrictions on U.S. firms investing in the Iranian oil and gas industry and “U.S. economic transactions with Iran” in March and May 1995, respectively.<sup>146</sup>

In 1996, the Iran-Libya Sanctions Act (ILSA) expanded the sanctions one step further and forced third parties not to invest more than \$20 million in the Iranian resource industry. ILSA gave the president six options and the president had to impose at least two of them.<sup>147</sup> These six options were:

- 1- “Denial of Export-Import Bank loans, credits, or credit guarantees for U.S. exports to the sanctioned firm.
- 2- Denial of licenses for the U.S. export of military or militarily-useful technology to the sanctioned firm.
- 3- Denial of U.S. bank loans exceeding \$10 million in one year to the sanctioned firm.
- 4- If the sanctioned firm is a financial institution, a prohibition on that firm’s service as a primary dealer in U.S. government bonds, and/or a prohibition on that firm’s service as a

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<sup>142</sup> Wright, ed., *The Iran Premier: Power, Politics, and U.S. Policy*, 116.

<sup>143</sup> Haas, ed., *Economic Sanctions and American Diplomacy*, 85.

<sup>144</sup> *Ibid.*, 86.

<sup>145</sup> Katzman, “The Iran–Libya Sanctions Act(ILSA),” 1.

<sup>146</sup> Haas, ed., *Economic Sanctions and American Diplomacy* 87.

<sup>147</sup> Katzman, “The Iran–Libya Sanctions Act(ILSA),” 2.

repository for U.S. government funds (each counts as one sanction).

- 5- Prohibition on U.S. government procurements from the sanctioned firm.
- 6- Restriction on imports from the sanctioned firm, in accordance with the International Emergency Economic Powers Act.”<sup>148</sup>

ILSA also provided the president with flexibility by giving him the right to waive sanctions provided the country of the violating firm agreed to put economic sanctions on Iran. The expiration provisions of ILSA were the abandonment of Iranian efforts to acquire weapons of mass destruction and the removal of Iran from “the U.S. list of state sponsors of terrorism.”<sup>149</sup>

From the very beginning of the implementation of ILSA, the EU states opposed it and accused the U.S. of enforcing U.S. laws extraterritorially. But this friction was surmounted to some extent when an agreement was reached not to confront over ILSA in terms of trade, which seriously weakened the effects of ILSA. In September 1997, the first project to exceed the threshold was allowed by the U.S. when President Clinton waived ILSA sanctions on a \$2 billion contract between Iran and a consortium comprised of French Total SA, Russian Gazprom, and Malaysian Petronas. The project was about the South Pars gas field and the waived contract consisted of the second and third phases of the 25-phase plan. This waiver set a precedent for other firms and between 1999 and 2006, bypassing ILSA, more than \$80 billion worth of investment in the energy industry of Iran was contracted.<sup>150</sup> The Table 5 gives details of the foreign investment in Iran’s energy sector between 1999 and 2006.

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<sup>148</sup> Katzman, “The Iran–Libya Sanctions Act(ILSA),” 2

<sup>149</sup> Ibid., 3.

<sup>150</sup> Katzman, “The Iran Sanctions Act(ISA),” *CRS Report for Congress* (October 12, 2007): 6.

Table 5. Foreign investment in Iran energy sector (1999–2006) <sup>151</sup>

Date	Field	Company(ies)	Value	Output Goal
Feb. 1999	Doroud (oil)	Totalfina Elf (France)/ENI (Italy)	\$1 billion	205,000 bpd
Apr. 1999	Balal (oil)	Totalfina Elf/ Bow Valley (Canada)/ENI	\$300 million	40,000 bpd
Nov. 1999	Soroush and Nowruz (oil)	Royal Dutch Shell	\$800 million	190,000 bpd
Apr. 2000	Anaran (oil)	Norsk Hydro (Norway)		?
July 2000	Phase 4 and 5, South Pars (gas)	ENI	\$1.9 billion	2 billion cu.ft./day
Mar. 2001	Caspian Sea oil exploration	GVA Consultants (Sweden)	\$225 million	?
June 2001	Darkhovin (oil)	ENI	\$1 billion	160,000 bpd
May 2002	Masjid-e-Soleyman (oil)	Sheer Energy (Canada)	\$80 million	25,000 bpd
Sep. 2002	Phase 9 and 10, South Pars (gas)	LG (South Korea)	\$1.6 billion	?
Oct. 2002	Phase 6, 7, 8, South Pars (gas)	Statoil (Norway)	\$2.65 billion	3 billion cu.ft./day
Feb. 2004	Azadegan (oil)	Inpex (Japan) 10% stake	\$200 million Japan stake	260,000 bpd
Oct. 2004	Yadavaran (oil); deal includes gas purchases for 30 years	Sinopec (China) and ONGC (India)	\$70 billion (value of exploration not known)	300,000 bpd
June 2006	Gamsar block (oil)	Sinopec (China)	\$50 million	?
<b>Totals</b>			<b>\$80 billion+</b>	<b>Oil: 1.2 million bpd Gas: 5 billion cu.ft./day+</b>

In 1999 and 2000, some amendments were incorporated into the trade sanctions, which loosened the sanctions by removing the ban on the exportation of food and medical equipment, and allowed the importation of carpets, caviar, dried fruits, and nuts from Iran. But also, in March 2000, as one of the measures to stop technology assistance related to WMD, the Iran Nonproliferation Act (INA) was enacted, which would impose sanctions on firms and countries that were believed to be selling WMD technology to Iran.<sup>152</sup> The INA somehow targeted Russia as it banned notable payments to the Russian

<sup>151</sup> Katzman, “The Iran Sanctions Act (ISA),” 6.

<sup>152</sup> Katzman, “Iran: Arms and Technology Acquisition,” 1.

Aviation and Space Agency if any missile technology was transferred from the agency to Iran within one year.<sup>153</sup>

Later in 2001, as a reaction to the September 11 attacks, Executive Order 13224 targeted the entities believed to be supporting international terrorism, which was mostly referring to Al Qaeda activities. But this Executive Order also turned out to be a sanction against Iran, and as time passed, it increasingly included Iranian entities such as Qods Force, Bank Saderat (October 21, 2007), Qods Force senior officers, Iranian Committee for the Reconstruction of Lebanon, Imam Khomeini Relief Committee Lebanon Branch, (August 3, 2010).<sup>154</sup>

Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) of 2010 amended and extended the Iran Sanctions Act of 1996. The new version of the sanctions were more targeted in terms of Iran's resource capacity and more powerful in that, whereas in the former version, the president had to choose two of six optional sanctions, the new one mandated the president to impose three of six optional sanctions. The targets of the new version are the development of the petroleum resources of Iran, the production of refined petroleum products in Iran, and the exportation of refined petroleum products to Iran.<sup>155</sup> The first part of the amendments puts sanctions on a person who is related with "an investment that directly and significantly contributes to the enhancement of Iran's ability to develop petroleum" and has a value of \$20 million or a combination of at least \$5 million investments amounting to an aggregate \$20 million in a 12-month period.<sup>156</sup> The second part of the amendment imposes sanctions on a person who knowingly "sells, leases, or provides to Iran [...] goods, services, technology, information, or support that could directly and significantly facilitate the maintenance or expansion of Iran's domestic production of refined petroleum products, including any direct and significant assistance with respect to the construction, modernization, or repair

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<sup>153</sup> Katzman, "Iran Sanctions," *CRS Report for Congress* (August 6, 2010): 33.

<sup>154</sup> Katzman, "Iran Sanctions," *CRS Report for Congress* (August 3, 2010): 51.

<sup>155</sup> The Congress, Comprehensive Iran Sanctions, Accountability, and Divestment Act, sec. 102. page STAT. 1318.

<sup>156</sup> *Ibid.*, sec. 102, (a), (1), page STAT. 1318.

of petroleum refineries.” The threshold for trade or investment is \$1 million for each and an aggregate of \$5 million in a 12-month period.<sup>157</sup> Finally, the third part of the act imposes a ban on any person who sells Iran refined petroleum products with the same market value as the second part of the amendment.<sup>158</sup> CISADA broadens the scope of the sanctions and punishes the country of the person who violates the act by prohibiting export license and approval for transfer to that country.<sup>159</sup> Furthermore, it gives the president the option of prohibiting foreign exchange, banking transactions, and property transactions under the jurisdiction of the United States.<sup>160</sup>

Along with the U.S. sanctions, the United Nations also started to impose sanctions on Iran with the aim of crippling its capability to acquire WMD, especially nuclear weapons. Because the United States was at the forefront of the proponents of more sanctions and voted for them in the UN chamber, they should have also been integrated as an element of U.S. sanctions. Between 2004 and 2010, the UN enacted seven resolutions related to Iran: Res. 1540, Res. 1696, Res. 1737, Res. 1747, Res. 1803, Res. 1835 and Res. 1929.

Table 6. Key provisions of the UN resolutions related with Iran (2004–2010)<sup>161</sup>

Year	Res. Nu.	Key Provisions
2004	1540	<ul style="list-style-type: none"> <li>• Prevention of proliferation of nuclear, chemical and biological weapons.</li> <li>• Concerns about the threat of illicit trafficking in WMD related materials.</li> <li>• Commitments to cooperation within IAEA framework.</li> </ul>
2006	1696	<ul style="list-style-type: none"> <li>• Concerns about Iran’s nuclear program.</li> <li>• Prevention of the transfer of any item or technology that could contribute Iran’s enrichment activities and ballistic missile program.</li> <li>• Threat of force under Article 41 of Chapter VII of the Charter of the</li> </ul>

<sup>157</sup> Ibid., sec. 102, (a), (2), page STAT. 1318–1319.

<sup>158</sup> The Congress, Comprehensive Iran Sanctions, Accountability, and Divestment Act, sec. 102, (a), (3), page STAT. 1319.

<sup>159</sup> Ibid., sec. 102, (a), (3), page STAT. 1320.

<sup>160</sup> Ibid., sec. 102, page STAT. 1322.

<sup>161</sup> UN Security resolutions 1540, 1696, 1737, 1747, 1803, 1835, and 1929, <http://www.un.org/documents/scres.htm>

		UN.
2006	1737	<ul style="list-style-type: none"> <li>• Deploring Iran’s non-cooperation with IAEA.</li> <li>• Prohibitions of the supply, sale, or transfer of WM-related items.</li> <li>• Freezing of funds to the persons or entities listed in the annex as related with nuclear or/and ballistic missile programs.</li> <li>• Prevention of the training of Iranian nationals in WMD-related areas.</li> <li>• Threat of force under Article 41 of Chapter VII of the Charter of the UN.</li> </ul>
2007	1747	<ul style="list-style-type: none"> <li>• Restraint in the supply of battle tanks, armored combat vehicles, artillery systems, combat aircraft, attack helicopters, warships, missiles to Iran.</li> <li>• No new commitments for financial assistance, concessional loans, grants to the Iranian Government.</li> <li>• The list of commitments to be fulfilled by all states in case of cooperation from Iran.</li> <li>• Threat of force under Article 41 of Chapter VII of the Charter of the UN.</li> </ul>
2008	1803	<ul style="list-style-type: none"> <li>• Vigilance over the Iranian banks, especially Bank Melli and Bank Saderat.</li> <li>• Inspection of cargoes to and from Iran that are shipped by Iran Air Cargo and the Islamic Republic of Iran Shipping.</li> <li>• Encouragement of the EU High Representative for the Common and Security Policy to continue communication with Iran.</li> <li>• Threat of force under Article 41 of Chapter VII of the Charter of the UN.</li> </ul>
2008	1835	<ul style="list-style-type: none"> <li>• Call upon Iran to comply with its obligation under UN resolutions and IAEA requirements.</li> </ul>
2010	1929	<ul style="list-style-type: none"> <li>• Concerns about the construction of an enrichment facility at Qom and Iran’s enrichment of uranium to 20 percent.</li> <li>• Vigilance over the transactions involving Iranian banks, including the Central Bank of Iran.</li> <li>• Travel bans on the people listed in Annex I, II in addition to the lists provided by the previous resolution. (especially individuals of the Islamic Revolutionary Guard Corps –(IRGC))</li> <li>• Vigilance of member states over their nationals’ business with Iran.</li> <li>• Prohibition on the opening of new branches of Iranian banks in member states’ territories.</li> <li>• Prohibition of member states’ financial institutions opening banking accounts in Iran.</li> <li>• Establishment of a “Panel of Experts” to oversee the implementation of the resolutions.</li> </ul>

#### **D. ASSESSMENT OF THE U.S. AND UN SANCTIONS IN ACCORDANCE WITH TWENTY-THREE CONSIDERATIONS**

The first wave of sanctions related to the embassy seizure had a unique feature in that they were imposed on a country that was extremely dependent on the sanctioning country. After a close diplomatic and economic relationship under the Shah, as of 1981, Iran was heavily dependent on the United States in terms of military equipment and oil and gas sector related technology.<sup>162</sup> Furthermore, with the help of its leverage in the global transaction system in which “virtually all transactions in Eurodollars clear through New York,” the United States could easily control the flow of money related to the frozen \$12 billion. For example, an Iranian money transfer from a French bank to a dollar account with an exporter in London is routed first from the French bank to New York, then the New York bank routes the money to the bank in London.<sup>163</sup>

Although the first wave of sanctions put no pressure on third countries and was implemented by the U.S. only, there was global support behind the U.S. because of the unacceptable nature of the offence in terms of human rights. Therefore, given this global support, the sanctions could be classified as multilateral in diplomatic support, if not in implementation.

The case was also so sensitive that the result of a cost-benefit analysis could not determine whether to impose sanctions or not. Due to this situation, the benefits of rescuing the hostages were not comparable to the costs, which eliminated any criticism of the sanctions as costly.

Other factors that contributed to the success of the sanctions were the concretely and rationally defined short-term objectives, rather than the vaguely and ideologically determined long-term objectives. The objective was to rescue the hostages as soon as possible and this objective was understood by the target country as clearly as the sanctioning country. The incentive for the target to make concessions was also obvious and it was to get back the frozen assets. Due to this situation, there was no room for

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<sup>162</sup> Carswell, “Economic Sanctions and The Iran Experience,” 254.

<sup>163</sup> *Ibid.*, 250.



miscalculations and mistakes in determining the intent of the adversary. Also, the target faced a resolute and credible sender in that the U.S. was certain to take action and rescue its citizens, even if it required the use of force.

Finally, as is always the case, the imposition of the sanctions was as easy as pushing a button, but lifting them turned out to be a long-term problem. Even the establishment of the Iran-U.S. Claim Tribunal in The Hague was not able to help solve the problem of returning the frozen assets to Iran. The tribunal is still in charge of hearing claims but since 2003 has not issued any judgment.<sup>164</sup>

In sum, even though no one can say that the release of the hostages was achieved only by sanctions, it is clear that they contributed to the desired end. With the help of the uniqueness of the situation elaborated in the previous paragraphs, this first wave of sanctions can be assessed as successful due to the fact that the desired end was reached without any other more costly measures, such as the use of force.

The second wave of sanctions is different from the first wave of sanctions in that their objectives are not concrete and short term. Also, they are not imposed against a target that has something valuable for the sanctioning country. Furthermore, whereas there is no clear incentive for the target to make concessions, the demands are broadly defined and have no road map to make progress step-by-step, which prevents the sending of positive signals from the target country. For example, the U.S. demands that Iran stop its efforts to acquire WMD and its support of terrorism, but the imposed sanctions do not clearly explain the next step after the desired end is acquired. This makes the situation more difficult for Iran to accept and explain to its citizens the situation of giving without any assurance of getting something back. Therefore, sanctions must have a road map that clearly explains the incentives for each Iranian step toward full cooperation.

One of the most crucial deficiencies of the second wave of sanctions is the absence of a multilateral implementation and support from third countries. In the case of ILSA, the EU perceived the sanctions as an extraterritorial enforcement of U.S. laws and opposed them, never even considering bandwagoning with the U.S. The situation was not

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<sup>164</sup> Wright, ed., *The Iran Premier: Power, Politics, and U.S. Policy*, 115–116.

critical enough for the EU to give up their trade interests. Because Iran is an important importer of goods from EU states, especially Germany, who did not support the sanctions, the effect of the sanctions was diminished from the very beginning and they turned out to be a godsend for EU firms replacing rival U.S. firms. The first waiver allowing the French Total SA set the precedent, and as time passed, more and more firms invested in the Iranian energy sector, which made ILSA only applicable to U.S. firms. The first waiver to ILSA also sent a signal to Iran that the U.S. was not determined enough to implement the sanctions fully, which put the U.S. resolution in question.

Another disadvantage of the second wave of sanctions was the lack of interdependence between the U.S. and Iran. Whereas the U.S. was the largest exporter to Iran in the 1970s, at this time, it was way down the list. The prolonged imposition of trade and financial sanctions deprived the U.S. of its leverage of influence on the Iranian economy as the U.S. had been replaced by other countries in the Iranian market. Furthermore, this situation indirectly affected the success of the sanctions. Because the U.S. had no implementation power in terms of trade; it had to put pressure on the trade partners of Iran, and by doing so, it also faced EU opposition, especially from Germany. This friction also diminished the effect of U.S. diplomatic sanctions as the EU states initiated “critical dialogue” with Iran, rather than joining the U.S. in isolating Iran.

As U.S. sanctions became more targeted in time, they welcomed more states to the bandwagon and started to be more multilateral. In the last decade, U.S. sanctions have been supported by the EU and they represented the concerns of more countries by paralleling their provisions with the UN sanctions. Although the former sanctions were vague and broadly defined, recent ones are more concrete, but still far from a clear road map. They should incorporate some articles such as “if Iran makes a commitment to stop uranium enrichment in Qom, all states will lift the sanctions on technology assistance in the petroleum refinery industry.” This does not mean that everything will be solved by just clearly defining concessions and incentives, but at least it provides the grounds to resume direct talks, which is the most needed element in the settlement process.

Finally, diplomatic sanctions are harmful to the interests of the U.S. let alone being beneficial toward reaching its objectives. The more the U.S. distances itself from

Iran, the more it loses its ability to correctly interpret Iran's reactions and the effects of the sanctions. The U.S. seeks to surmount the side effects of the lack of communication by relying on other countries. For example, in U.N. Resolution 1803, the need for dialogue is clearly articulated by encouraging the EU High Representative for the Common and Security Policy to continue communications with Iran. But nothing can replace the efficiency of direct talks when it comes to exchanging ideas or concerns that yield pertinent results to both countries.

In sum, until recently, the second wave of sanctions were characterized by being unilateral, having long term broadly defined objectives, and a lack of communication. In the last decade, they became more targeted and multilateral, but still devoid of a clear road map of concessions and incentives. Their most important deficiency is the lack of dialogue and this can be surmounted only by direct talks. Because of these deficiencies, they are still not successful in reaching their desired objectives, though they are much closer to being successful than in the 1990s. Finally, because in U.N. resolutions, the threat of force is always articulated, even if the U.S. reaches its objectives, it is very difficult to distinguish the effect of sanctions from the effect of the threat of force.

## IV. GAME THEORETIC APPROACH

### A. U.S. SANCTIONS AND THE “BETTER THAN DOING NOTHING” FALLACY

U.S. sanctions have been the norm for shaping U.S. foreign policy toward Iran but they have not been successful in making the Tehran Administration comply with the norms introduced by the U.S. or international community. The current situation, has the U.S. imposing sanctions on Iran, and as a response, Iran defies U.S. actions and does not cooperate with the international community.

In this chapter, with the help of insights from game theory,<sup>165</sup> the current situation and the strategic moves<sup>166</sup> will be presented. In the first phase, the current situation will be structured on the perception that even if the U.S. cannot make Iran comply, it should keep the sanctions policy, because it is “better than doing nothing,” which is a widespread response to the question: Why sanctions? In the second phase, this “better than doing nothing” attitude will be changed and the situation will be based on the perception that if the U.S. cannot make Iran comply by imposing sanctions, then it should stop sanctioning, because it also hurts itself. In the last phase, a new situation, in which the structure will be changed by introducing “incentives” with clear road maps instead of “doing nothing” as an option for the U.S. Finally, an interpretation of these three phases will be presented in order to explain the current U.S. sanction policy’s efficiency and its future.

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<sup>165</sup> Solomon A. Garfunkel and Joseph Malkevitch, *For All Practical Purposes: Introduction to Contemporary Mathematics* (New York: W. H. Freeman and Co., 1997):561–610.

<sup>166</sup> Avinash K. Dixit, and Barry J. Nalebuff. *Thinking Strategically: The Competitive Edge In Business, Politics, and Everyday Life* (New York, London: W. W. Norton & Company, 1991): 119.

**B. CURRENT SITUATION (“BETTER THAN DOING NOTHING”)**

Table 7. Options available for U.S. and Iran (current situation-better than doing nothing)

<u>Options for USA</u>	<u>Options for Iran</u>
<b>4 – Best</b> – USA does nothing; Iran complies.	<b>4 – Best</b> – Iran defies; USA does nothing.
<b>3 – Next Best</b> – USA uses sanctions; Iran complies.	<b>3 – Next Best</b> – Iran defies; USA uses sanctions.
<b>2 – Least Best</b> – USA uses sanctions; Iran defies.	<b>2 – Least Best</b> – Iran complies; USA does nothing.
<b>1 – Worst</b> – USA does nothing; Iran defies.	<b>1 – Worst</b> – Iran complies; USA uses sanctions.

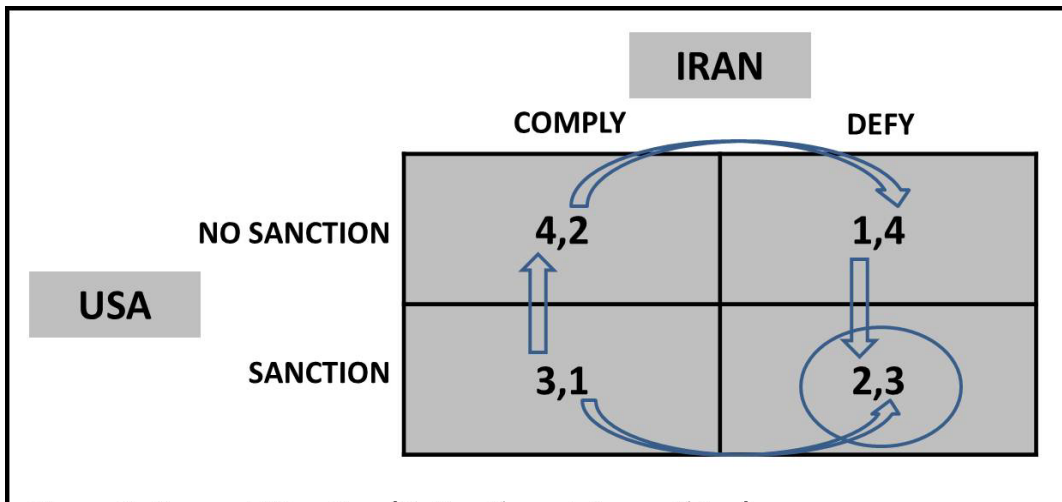


Figure 1. Current situation (better than doing nothing).

### The U.S. MOVES FIRST

If The U.S. uses No Sanctions, then Iran chooses to Defy, which ends up with (1, 4)

If The U.S. uses Sanctions, then Iran chooses to Defy, which ends up with (2, 3)

Because the U.S. is the first to move, the Americans will make the choice and compare their payoffs (1 and 2), which will lead them to take (2, 3).

The result: the U.S. uses sanctions and Iran defies.

### The U.S. FORCES IRAN TO MOVE FIRST

If Iran complies, then the U.S. chooses No Sanction, which ends up with (4, 2)

If Iran defies, then the U.S. chooses Sanction, which ends up with (2, 3)

Because the Iran is the first to move, the Iranians will make the choice and compare their payoffs (2 and 3), which will lead them to take (2, 3).

The result: the U.S. uses sanctions and Iran defies.

### The U.S. USES THREAT (the U.S. wants Iran comply)

If Iran defies, then the U.S. uses no sanction, which ends up with (1, 4)

Normally; If Iran defies, then the U.S. uses sanction, which ends up with (2, 3)

The result: There is no possible threat option for the U.S., because it is harmful to the U.S. but beneficial to Iran.

### The U.S. USES PROMISE (the U.S. wants Iran comply)

If Iran complies, then the U.S. uses sanction, which ends up with (3, 1)

Normally; If Iran complies, then the U.S. uses no sanction, which ends up with (4, 2)

The result: There is no possible promise option for the U.S., because it is harmful for both countries.

**C. CURRENT SITUATION (NOT “BETTER THAN DOING NOTHING”)**

Table 8. Options available for U.S. (current situation-not better than doing nothing)

<u>Options for USA</u>	
<b>4</b>	<b>– Best</b> – USA does nothing; Iran complies.
<b>3</b>	<b>– Next Best</b> – USA uses sanctions; Iran complies.
<b>2</b>	<b>– Least Best</b> – USA does nothing; Iran defies.
<b>1</b>	<b>– Worst</b> – USA uses sanctions; Iran defies.

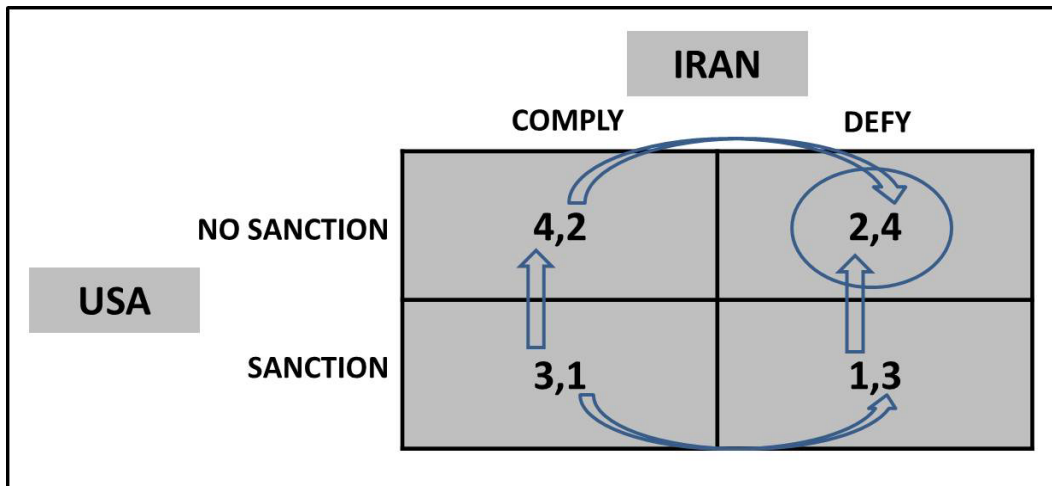


Figure 2. Current situation (not better than doing nothing)

The U.S. MOVES FIRST

If the U.S. uses No Sanctions, Iran chooses to Defy, (2, 4 )

If the U.S. uses Sanctions, then Iran chooses to Defy, (1, 3 )

Because the U.S. is the first to move, the Americans will choose and compare their payoffs (2 and 1), which will lead them to take (2, 4).

The result: the U.S. uses no sanction and Iran defies.

The U.S. FORCES IRAN TO MOVE FIRST

If Iran complies, then chooses No Sanctions, the results are (4, 2)

If Iran defies, then the U.S. chooses No Sanction, the results are (2, 4)

Because Iran is the first to move, the Iranians will choose and compare their payoffs (2 and 4), which will lead them to take (2, 4).

The result: the U.S. uses no sanction and Iran defies.

The U.S. USES THREAT (the U.S. wants Iran to comply)

If Iran defies, then the U.S. chooses sanction, the results are (1, 3).

Normally; If Iran defies, then the U.S. chooses No Sanctions, which ends up with (2, 4).

There is an available threat option for the U.S., because it is harmful to the U.S. and to Iran. This threat option eliminates (2, 4) and the payoff matrix looks like Figure 3.

		IRAN	
		COMPLY	DEFY
USA	NO SANCTION	4,2	<del>2,4</del>
	SANCTION	3,1	1,3

Figure 3. Threat position for U.S. (not better than doing nothing)



If Iran defies, then the U.S. chooses sanctions, and the results are (1, 3).

If Iran complies, then the U.S. chooses No Sanction, the results are (4, 2).

Because Iran is the first to move, the Iranians will choose and compare their payoffs (3 and 2), which will lead them to take (1, 3).

The result: There is an available threat option for the U.S., but it does not make the Iranians comply. They still prefer defiance rather than compliance.

The U.S. USES PROMISE (the U.S. wants Iran to comply)

If Iran complies, then uses sanctions, the results are (3, 1).

Normally, If Iran complies, then the U.S. uses no sanctions, and the results are (4, 2).

The result: There is no possible compromise option for the U.S., because it is harmful for both countries.

**D. INCENTIVES INSTEAD OF “NO SANCTIONS”**

Table 9. Options available for U.S. and Iran (new situation)

<u>Options for USA</u>	<u>Options for Iran</u>
<b>4 – Best</b> – USA uses incentive; Iran complies.	<b>4 – Best</b> – Iran complies; USA uses incentive.
<b>3 – Next Best</b> – USA uses sanctions; Iran complies.	<b>3 – Next Best</b> – Iran defies; USA uses sanctions.
<b>2 – Least Best</b> – USA uses sanctions; Iran defies.	<b>2 – Least Best</b> – Iran defies; USA uses incentive.
<b>1 – Worst</b> – USA uses incentive; Iran defies.	<b>1 – Worst</b> – Iran complies; USA uses sanctions.

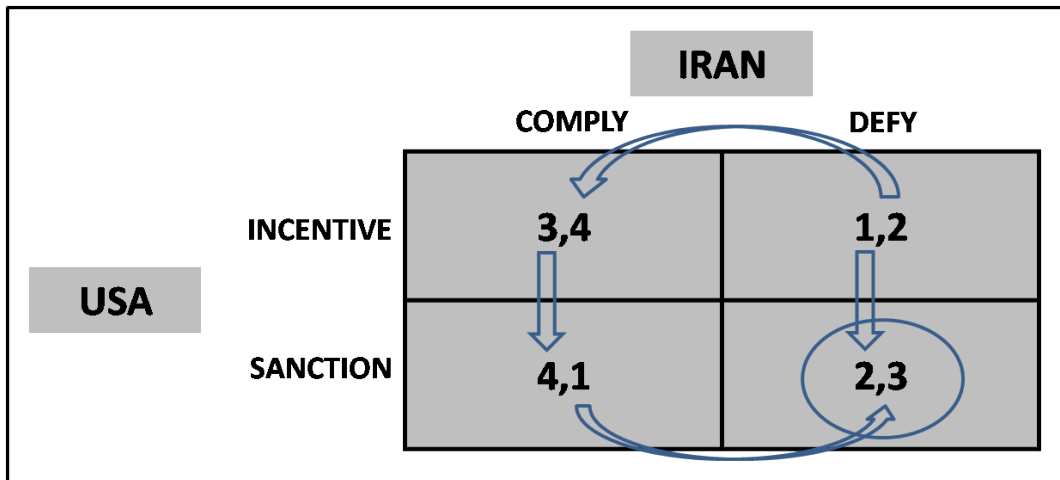


Figure 4. New situation

The U.S. MOVES FIRST

If the U.S. uses Incentive, then Iran chooses to comply, which ends up with (3, 4)

If the U.S. uses Sanctions, then Iran chooses to defy, which ends up with (2, 3)

Because the U.S. is the first to move, the Americans will choose and compare their payoffs (3 and 2), which will lead them to take (3, 4).

The result: the U.S. uses incentive and Iran complies.

The U.S. FORCES IRAN TO MOVE FIRST

If Iran complies, then the U.S. chooses Sanctions, which results in (4, 1).

If Iran defies, then the U.S. chooses Sanctions, which results in (2, 3).

Because Iran is the first to move, the Iranians will choose and compare their payoffs (1 and 3), which will lead them to take (2, 3).

The result: Iran defies and the U.S. uses sanctions.

The U.S. USES THREAT (the U.S. wants Iran to comply)

If Iran defies, then the U.S. chooses Incentives, which results in (1, 2).

Normally, If Iran defies, then the U.S. uses sanctions, which results in (2, 3)

There is an available threat option for the U.S., because it is harmful to the U.S. and Iran. This threat option eliminates (2, 3) and the payoff matrix looks like Figure 5.

		<b>IRAN</b>	
		COMPLY	DEFY
<b>USA</b>	INCENTIVE	3,4	1,2
	SANCTION	4,1	<del>2,3</del>

Figure 5. Threat position for U.S. (new situation)

If Iran defies, then the U.S. chooses Incentives, which results in (1, 2).

If Iran complies, then the U.S. chooses Sanctions, which results in (4, 1).

Because Iran is the first to move, the Iranians will choose and compare their payoffs (2 and 1), which will lead them to take (1, 2).

The result: There is an available threat option for the U.S., but it does not make the Iranians comply. They still prefer defiance rather than compliance.

The U.S. USES PROMISE (the U.S. wants Iran to comply)

If Iran complies, then the U.S. uses Incentives, which results in (3, 4).

Normally; If Iran complies, then the U.S. uses Sanctions, which results in (4, 1).

There is an available promise option for the U.S., because it is harmful for the U.S. but beneficial for Iran. This promise option eliminates (4, 1) and the payoff matrix looks like Figure 6.

		<b>IRAN</b>	
		COMPLY	DEFY
<b>USA</b>	INCENTIVE	3,4	1,2
	SANCTION	<del>0,1</del>	2,3

Figure 6. Promise position for U.S. (new situation)

If Iran defies, then the U.S. chooses Sanctions, which results in (2, 3).

If Iran complies, then the U.S. chooses Incentives, which results in (3, 4).

Because Iran is the first to move, the Iranians will choose and compare their payoffs (3 and 4), which will lead them to take (3, 4).

The result: There is an available promise option for the U.S., and it makes the Iranians comply.

### E. INTERPRETATION

The current situation, in which the “better than doing nothing” attitude is represented, the U.S. does not have a dominant strategy, but Iran has one, which is the defiance option. The Nash Equilibrium<sup>167</sup> is formed in (2, 3) which means that the U.S. imposes sanctions but Iran still defies. Even if the U.S. moves first or makes the Iranians move first, it cannot force Iran to comply. Furthermore, the U.S. has no option for making promises or threats in order to change the situation. In sum, the U.S. is stuck in sanction policy and this policy does not yield the desired results for the U.S.

In the current situation in which the “better than doing nothing” attitude is changed, the worst option for the U.S. is not “The U.S. uses sanctions; Iran denies” but “The U.S. does nothing; Iran denies.” In this situation, both countries have a dominant strategy, which is No Sanctions for the U.S. and Defy for Iran. The Nash Equilibrium is

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<sup>167</sup> If the game is played repetitively in the long run, it results in a point that is defined as the Nash Equilibrium.

formed in (2, 4), which means that the U.S. does nothing and Iran defies. Again the U.S. cannot change the situation and make Iran comply with its terms by acting first or waiting for Iran to move first. The U.S. has only a threat position but it does not work. In sum, the U.S. is stuck with doing nothing and this situation does not give the U.S. what it wants, but at least the cost of the sanctions policy is not a burden on the U.S. economy anymore.

The perception that sanctioning is better than doing nothing is a fallacy because, as we analyzed in the first and second phases, this attitude does not help the U.S. reach its objectives. Furthermore, abandoning this approach and adopting the opposite, at least relieves the U.S. economy from the burden of sanctions and keeps the situation from getting any worse. Another adverse effect of the “better than doing nothing” perception is that it prevents the U.S. from adopting a completely new attitude, which would change the structure and create an environment in which Iran would also benefit from complying with U.S. terms, but in the end, Iran will comply with U.S. terms.

The final phase presents this new approach in which the U.S. replaces the “doing nothing” option with incentives. The incentives that are clearly explained step-by-step and are attractive enough to make Iran abandon its dominant strategy will provide the desired environment for American policy makers. In this new environment, the U.S. can reach its objectives by acting first and giving clearly defined incentives to Iran. Furthermore, if the U.S. does not want to be seen as soft, it can threaten Iran to comply and thereby reach its objective. Normally, from a game theoretic approach, the threat option cannot be used with the first move or promise. But, from an international U.S. image point of view, this can be a middle way to save face for both countries. For example, the U.S. can publicly threaten the Iranians by stating that if the Iranians do not respond to the U.S.’s promises, they will lose their last chance to normalize relations.

In sum, the current policy, which has the options of either sanctioning or doing nothing cannot help the U.S. reach its objectives in Iran. Because of the three-decade long sanctions, the U.S. lost its financial, economic, and diplomatic ties with Iran. Now the U.S. is replaced by other powers such as Russia and France as the technology advisers and providers. As the U.S. has lost its leverage in Iran the sanctions have become ineffective. For the Iranians, there is no difference between U.S. sanctions and no

sanctions, because they are used to living with sanctions and this has become the norm for them. The U.S. cannot force the Iranians to comply by threatening to keep sanctions or promising to lift them. The U.S. can only reach its objectives by changing the structure of the game by introducing incentives as an option, which will force the Iranians to make a choice between incentives and sanctions.

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## V. CONCLUSION

Iran is perceived as the leading policy threat against the U.S. supported and maintained regional balance of power in the Middle East. Three pillars of this threat are the Iranian's pursuit of weapons of mass destruction (nuclear weapon), support of terrorism, and disruption of the Arab-Israeli peace process by supporting the hardliners among Palestinian politicians.<sup>168</sup> The policy response of the consecutive U.S. administrations to this challenge has always been the financial, trade, and diplomatic sanctions.

The first wave of sanctions, which was imposed after the hostage crisis between 1979 and 1981, was successful mostly because of the unique nature of the incident and the U.S.-Iran relations. The incident, hostage taking, was not a course of action that could be pursued by a government facing overall condemnation from the international community. Iran was extremely dependent on the U.S. in terms of military equipment and the oil and gas sector related technology.<sup>169</sup> These three-decade long economic and military ties gave the U.S. the power to influence the Iranian policy makers and this leverage directly affected the outcome of the sanctions at that time.

The second wave of sanctions is totally different from the first wave in nature. As time passed, the U.S. lost its leverage in the Iranian economy and military because of the willingness of the third countries (France and Russia) to support Iran as a trade partner and military supplier. The trade and financial sanctions, per se, also contributed to this process by discouraging U.S. firms from investing in Iran. Whereas in the 1980s, the U.S. was able to put pressure on Iranian leaders by freezing assets or cutting military aid and supply, in the 1990s and 2000s the U.S. faced the difficulty of finding a trade or military agreement to annul, which drastically diminished the effect of sanctions as time passed.

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<sup>168</sup> Ansari, *Confronting Iran*, 136.

<sup>169</sup> Carswell, "Economic Sanctions and The Iran Experience," 254.



Although other countries started to contribute to the implementation of sanctions and the sanctions became more multilateral, they are still not supported enough to force the Iranians to comply.

Today, Iranian leaders are more free-handed in defying the U.S.'s policy in the Middle East, because they know that what they will face is stricter sanctions and they are used to living with sanctions by adopting their economic and military ties with states other than the U.S. The "better than doing nothing" perception that supports sanctions, even though they are not effective, is a fallacy that prevents the other policy options available for American decision makers. It is a fallacy because an option that does not meet your needs or lead to what you want cannot be better than doing nothing if it loads an extra burden on your economy.

As was elaborated in the fourth chapter, in the current situation, the U.S. cannot change the strategy of Iran and force the Iranians by either promise or threat. This is because the U.S. is stuck and has no promise or threat position, due to the fact that there is no difference between the presence or absence of sanctions for the Iranians. Neither the threat of sanctioning is enough to cause fear among the Iranians, nor is the promise of lifting sanctions enough to encourage them. Therefore, in order to put the Iranians in a dilemma in which they will compare the incentives and the sanctions and enhance the possibility of future success with more economic and military ties, the U.S. should incorporate incentives in its policy toward Iran.

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