

## **Economic Sanctions Erode Iran's Appetite to Escalate Conflict With US: Experts**

January 26, 2020

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Economic sanctions against Iran are having an effect, even as experts who spoke with The Epoch Times diverge on the nature of the impact and on how big a role sanctions have played in the Islamic regime's reluctance to escalate following the assassination of a top general.

Gen. Qassem Soleimani was killed in Baghdad on Jan. 3 by a missile fired from a U.S. drone, a strike that Secretary of State Mike Pompeo called a preemptive move to keep Soleimani from executing an "imminent" attack on American assets.

In retaliation, Iranian leaders ordered ballistic missile strikes on Jan. 8 that hit two Iraqi bases housing U.S. troops, inflicting damage and non-life-threatening injuries, with no deaths. On the same day, on high alert for signs of U.S. retaliation, Iran's military shot down a Ukrainian passenger plane shortly after it had taken off from Tehran's Imam Khomeini International Airport, killing all 176 people on board.

Some reports suggest that Iran's retaliatory strike, which had been communicated to Iraqi authorities in advance and resulted in no loss of life, was calibrated to avoid military escalation with a powerful adversary.

"What Tehran knew was that a direct attack on the American military would likely have turned the current battle of sanctions and proxies into a hot war between the two countries, one that Iran's leadership doesn't want," Tho Bishop, political consultant and media coordinator for the Mises Institute, told The Epoch Times.

"The degree to which sanctions altered Iran's military response to the killing of Qasem Soleimani is less obvious," Bishop said.

Sam Bazzi, a Middle East analyst and founder of the Hezbollah Watch monitoring project, said sanctions are a factor tempering Iran's response, but because the country still has slack in its economy to absorb them, U.S. military deterrence was the key factor preventing escalation.

“The U.S. sanctions have not reached their maximum extent,” Bazzi told The Epoch Times. “Last year, Mark Dubowitz, the CEO of the Foundation for the Defense of Democracies, famously said, ‘The sanctions needle now stands at around a 6. We need to get to 11.’”

“As such, there is much more room to damage the Iranian economy, while at the same time, the incremental deployments of U.S. troops in the region prevent [Iranian Supreme Leader Ayatollah Ali] Khamenei from lashing out, as a U.S. counter-attack in an all-out war is expected to be devastating to an increasingly vulnerable regime.”

“These factors have so far restrained Tehran from retaliating proportionately in the aftermath of the assassination.”

Steve Hanke, professor of applied economics at Johns Hopkins University, told The Epoch Times that Iran’s reluctance to mount a more forceful response is likely linked to hopes of gaining some relief from sanctions.

“By not reacting in an identifiable, visible way, it obviously mitigates the probability of getting additional sanctions put on them and maybe getting some relief from the sanctions in some way, either via Europe or China or Russia or some other non-U.S. entity,” Hanke said.

In a press conference announcing new sanctions on an Iranian general because he “oversaw the massacre of 148 helpless Iranians in the Mahshahr region,” U.S. Special Representative for Iran Brian Hook outlined the impact of the Trump administration’s “maximum pressure” campaign on the Iranian economy.

“The sanctions we have imposed are the toughest ever,” Hook said on Jan. 17. “They are making an enormous difference, and the Iranian people are rightly blaming their own government for 40 years of corruption, mismanagement, and kleptocracy.”

Hook, the Trump administration’s point man on Iran, then said Tehran was facing “some of the worst protests” in its history, adding that Iran’s oil exports were down by more than 2 million barrels per day, slashing the country’s oil revenue by over 80 percent.

“This amounts to a loss of around \$50 billion annually,” Hook said, adding that “President Rouhani admitted that Iran had lost \$200 billion from U.S. sanctions since their re-imposition. Iran is also facing a banking crisis with roughly half of all bank loans in arrears.”

More than one in four young Iranians is jobless, and inflation is at 40 percent, Hook said.

“Today, the question that people are asking is whether the regime has the competence to avoid a banking disaster and hyperinflation. The Iranian economy this year could contract by as much as 14 percent,” he said.

International organizations such as the International Monetary Fund (IMF) have noted Iran's economic duress.

"Iran's economy has entered a steep recession," the IMF said in its most recent economic outlook for the Middle East. "Output in 2019 is expected to shrink by 9.5 percent as U.S. sanctions have continued to tighten."

"The key thing," Hanke said of Iran's economy, "is that they've really been in a death spiral."

Iran recently climbed to the third spot on the Cato Institute's list of the World's Most Miserable Countries, just behind Venezuela and Argentina.

"My modified Misery Index is the sum of the unemployment, inflation, and bank lending rates, minus the percentage change in real GDP per capita," said Hanke, who developed the misery measure.

Still, while Iran's economy appears stuck in a nosedive, Hanke said data suggests a lower level of inflation than official figures claim.

Stable black market exchange rates between the U.S. dollar and the Iranian rial, in conjunction with other high-frequency data that he said he monitors daily, are consistent with a 20 percent level of inflation, he said. This would support Bazzi's observation that Iran's economy retains enough slack to blunt the impact of sanctions.

Hanke also said that the effect of sanctions is weakened as regimes typically find workarounds.

"The history of sanctions is always the same thing," Hanke said. "The targeted parties learn how to adapt, how to mitigate the effects of the sanctions."

According to the United States Institute of Peace, Iran has used a number of tactics to evade the sanctions, including storing oil on its tanker fleet at sea, disguising ships, and turning off transponders to preventing tracking.

"If there is an art that we have perfected in Iran, and we can teach it to others for a price, it is the art of evading sanctions," Iran's foreign minister famously said in December 2018 at the Doha Forum.

Between May 2 and Sept. 10, 2019, at least a dozen Iranian oil tankers delivered crude oil to China, Syria, and Turkey, the Institute noted.

Worse, unintended consequences of sanctions are possible, Hanke said, in that they can spark a "circling of the wagons" effect. This is where people rally around a regime they are otherwise fed

up with and inclined to topple, because sanctions can easily be portrayed as an attack against the people, not the regime's leaders. He argued that Iran's leaders have been effective in foisting that perception of the sanctions on the public.

Hanke said the roots of Iran's economic vulnerability rest in its interventionist policies.

"The economy is a state-controlled, intervened economy. The best way to think about it is interventionism. It's got a lot of socialism," he said. "It's gotten worse and worse over time since the Revolution."

Hanke said it's "inconceivable" that any major initiatives can take place without "the state's fingers all over it" and that "this sets in motion the death spiral."

"The question is, how fast does the spiral go? And that determines when they're going to hit rock bottom," he said.

"Sanctions just accelerate the spiral."