

Do Sanctions Work? The Iran Sanctions Regime and Its Implications for Korea



Edited by Jang Ji-Hyang and Peter Lee
December 6, 2013

| ASAN PROCEEDINGS |

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The Asan Institute for Policy Studies

About

The Asan Institute for Policy Studies is an independent, non-partisan think tank that undertakes policy-relevant research to foster domestic, regional, and international environments that promote peace and prosperity on the Korean Peninsula, East Asia, and the world-at-large.

The Middle East and North Africa (MENA) Center provides timely analysis of the major trends and developments unfolding across the Middle East and North Africa as well as their implications for the Korean Peninsula.

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The views expressed herein are solely those of the authors and do not reflect those of the Asan Institute for Policy Studies.

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Executive Summary

It has been one year since the United States and European Union imposed additional bans on the foreign purchase of Iranian crude oil. While international sanctions have had a major impact on Iran, they have not stopped the regime's nuclear program. Have sanctions failed? And if so, what lessons does this hold for the North Korean case? Furthermore, what are the economic and strategic consequences of sanctions for South Korea's relationship with Iran?

Even as negotiations over Iran's nuclear program continue, South Korea must weigh its strategic, diplomatic, and economic options vis-à-vis Iran. As one of Iran's top oil consumers, South Korea imports close to 150,000 barrels of Iranian oil per day. Annual bilateral trade exceeds 15 billion US dollars with approximately 2,000 small and medium-sized South Korean enterprises operating in Iran until recently. South Korea remains one of the most energy-dependent countries in the world, and Iran will figure prominently in its Middle East policy for the foreseeable future.

This proceedings book is the result of a roundtable hosted by the Middle East and North Africa (MENA) Center at the Asan Institute for Policy Studies on April 10, 2013. Titled, "Do Sanctions Work? The Iran Sanctions Regime and Its Implications for the Korean Peninsula," the roundtable examined the efficacy of sanctions in stopping Iranian regime's nuclear program, drawing on the experience of the North Korean case. It also looked at how sanctions shape state behavior and development as well as their efficacy as coercive tools.

The papers and proceedings contained herein suggest that international sanctions have been ineffective at stopping Iran and North Korea's nuclear programs. Furthermore, South Korean participation in sanctions has not changed Iran's commitment to an enrichment capacity or North Korea's commitment to weapons production and

testing. What we have instead witnessed is internal economic diversification away from vulnerable exports and shifting trade relations towards a small number of consumers, particularly China. In sum, this proceedings book argues that sanctions do not achieve the political objectives of deterring the pursuit of nuclear programs, and more importantly, they appear to be counterproductive as tools of economic pressure.

요약문

국제사회 제재 조치의 효과와 한계: 이란 제재와 한국의 전략적 선택

아산정책연구원 중동연구센터는 2013년 4월 10일 “제재가 과연 효과적인가? 이란 제재와 한국의 전략적 선택”을 주제로 ‘아산 라운드테이블’을 개최했습니다. 이번 라운드테이블에서는 국제사회의 이란 제재가 이란의 정치·경제에 미친 영향을 살펴보고 한반도에 주는 정책적 함의를 논의했습니다.

지난 3월 유엔 안보리가 북한의 3차 핵실험을 규탄하며 추가 대북 제재 결의안을 채택하자, 북한은 연일 한국과 국제사회에 대한 위협의 수위를 높이고 있습니다. 북핵 문제를 해결하고 북한 위협에 대한 대응방안을 마련하기 위해 제재가 과연 국가 행동을 변화시키는 효과를 갖는지 근본적으로 재검토해야 할 시점입니다. 이번 라운드테이블의 첫 번째 세션에서는 이란에 대한 제재가 효과가 있었는지, 이란과 북한에 대한 제재는 어떻게 다른지, 제재 대신 대북 지원이 대안이 될 수 있을 것인지 등을 논의했습니다.

두 번째 세션에서는 이란 제재가 이란의 경제에 미친 영향을 살펴보고, 이란산 원유 수입 의존도가 높은 국가 중 하나인 한국이 취해야 할 정책 방향을 모색했습니다. 한국은 미국과 ‘이란산 원유 수입국에 대한 제재조치의 예외적용 국가’ 지위를 180일마다 연장받아야 합니다. 에너지의 안정적 확보, 미국과의 공조, 대북제재 등이 복합적으로 얽혀있는 이란 이슈에 대해 우리는 어떤 전략적 접근을 취할 것인가에 대한 총체적인 논의가 필요한 때입니다.

Introduction

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“Do sanctions work?” Whether it is towards Iran or North Korea, the topic of sanctions inevitably highlights some of the inherent contradictions confronting South Korea. As a major exporter with vested economic interests in Iran, South Korea is, by nature, opposed to sanctions that appear to only benefit its competitors. However, as a staunch ally of the United States and faced with the threat of North Korea, South Korea is, by circumstance, sympathetic to sanctions as a nonproliferation tool. But the current debate over the efficacy of sanctions in stopping Iran’s alleged nuclear weapons program also raises important questions about South Korea’s broader Middle East policy.



First, South Korea needs to develop its own position regarding the Iran sanctions regime. For too long, South Korea has simply followed United States’ policy towards the Middle East, regardless of its own interests. Today, South Korea is a recognized global leader in its own right and even a member of the United Nations Security

Council. It is time that South Korean policy makers look beyond the Republic of Korea-United States alliance and articulate a position that is not beholden to the whims of individual American presidents.

First, South Korea needs to develop its own position regarding the Iran sanctions regime.

As the “Arab Spring” transforms much of the Middle East and North Africa, new players are emerging to play leadership roles. This is an opportune moment for South Korea to distinguish itself as an active leader in international affairs. Where we see injustice, as in Iran’s 2009 elections, we must speak out. Where we see threats, as in Iran-North Korea nuclear cooperation, we must act. Korea must pursue policies that reflect its own interests, even when they are not necessarily those of its allies. Consequently, the political logic behind sanctions needs to be objectively examined by South Korean leaders and asked if it is in our national interests to abide by them.

Second, the economic rationale behind sanctions must be more closely scrutinized.

Second, the economic rationale behind sanctions must be more closely scrutinized. As South Korea tries to maintain its special exemption status from the United States and European Union sanctions, the underlying contradiction is becoming increasingly apparent. We declare our commitment to stopping Iran’s nuclear program through sanctions, yet our bilateral trade relationship and oil dependence make us hesitant to fully comply.

The side-effect of severing these economic ties becomes particularly acute when the role of China is taken into account. China has shown that it is prepared to fill the void left by economic sanctions in Iran, just as it has used its economic leverage to prop up the North Korean regime while making it more dependent on Beijing. If the purpose of economic sanctions is to induce a change in state behavior by depriving it of trade and capital, then the role of China, India, and others essentially negates



any effect derived from Korea's adherence. This raises the most important question of all: If sanctions do not work, what should we do?

Papers

1. Moon Duk-ho

United Nations Security Council Sanctions on Iran and North Korea

2. Go Myong-Hyun

Redefining Humanitarian Aid to North Korea

3. Abbas Aminifard

*The Effect of Sanctions on Iran's Economy:
Solutions and Prospects*

4. Han Intaek and Jang Ji-Hyang

*Blessing or Curse?
The Unintended Consequences of the Iran Sanctions Regime*

United Nations Security Council Sanctions on Iran and North Korea

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The past 20 years have seen many successes and failures in dealing with North Korea, but what is troubling is that international sanctions do not seem to have worked against the North. It is worth noting that Iran appears to be following in the footsteps of North Korea in its nuclear program. Indeed, the North Korean and Iranian nuclear issues are increasingly becoming one single international issue. The role of the United Nations Security Council (UNSC) is pivotal in resolving the latest nuclear standoff with North Korea. At this critical juncture, UNSC sanctions are vital, but not enough. The fundamental objective of nuclear disarmament remains unachieved and will require many more years to come.

But the reality is that as more sanctions have been applied by the international community, North Korea and Iran have undertaken more provocations. Obviously, UNSC sanctions are slowing down both countries' weapons of mass destruction (WMD) programs and making it more costly to procure specialty items from abroad, which is the purpose of sanctions. However, engagement or diplomacy should not be excluded. Dual track approaches are important. Along with sanctions,

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multilateral dialogue mechanisms must be maintained. Immediate steps should be taken to defuse rising tensions. South Korea and the US should coordinate their deterrence against North Korean military provocations.

Nuclear Weapons Capability: North Korea and Iran

North Korea has made significant advances in its nuclear weapons program over the past 20 years. During the Six-Party Talks, many believed that North Korea was using its nuclear weapons as a bargaining chip in negotiations. Today,

Today, it is clear that North Korea has no plans to relinquish its nuclear weapons anytime soon.

it is clear that North Korea has no plans to relinquish its nuclear weapons anytime soon. Over the past decade, it has accumulated a significant quantity of plutonium and possibly highly enriched uranium (HEU) stocks. Its underground nuclear tests and ballistic missile tests demonstrate that it continues to make rapid progress on its nuclear and ballistic missile capabilities. The Yongbyon Nuclear Research Center was originally built to produce plutonium. But, two years ago, Dr. Siegfried Hecker was shown a nuclear fuel fabrication plant within the complex that had been converted into a uranium enrichment workshop. All of this raises the question of whether the ultimate objective of comprehensive, verifiable, and irreversible disarmament (CVID) is still possible.

Compared to North Korea, Iran's nuclear program has mainly focused on gas centrifuges to produce enriched uranium. Iran is currently believed to have significant stocks of low enriched uranium (LEU) which could be converted into HEU, the main material for making a uranium bomb.¹ It is estimated that Iran has the

1. Low enriched uranium contains 3 to 5% of the isotope uranium-235 and is used to fuel nuclear reactors. Highly enriched uranium contains more than 20% of uranium-235, and "Weapons-grade" uranium contains more than 90% of uranium-235.

ability to build five HEU nuclear bombs out of its current stocks. In terms of technical requirements, Iran would only need six months to a year to make a nuclear bomb.

Many analysts continue to debate whether Iranian policymakers have even decided to go nuclear yet. The consensus remains that rather than actually acquiring the bomb, Iran is instead seeking to develop a so-called “breakout capability,” whereby it has the potential to suddenly go nuclear. This suggests that Iran will not be trying to depart from the Nuclear Nonproliferation Treaty (NPT) like North Korea, but rather using its breakout capability to negotiate with the international community. This is a key difference with North Korea. Iran also possesses a range of facilities to make plutonium and also to make weapons-grade HEU. The International Atomic Energy Agency (IAEA) believes that Iran began work on its nuclear weapons program in the 1980s. Iran is steadily moving on to having a sufficient amount of special material for making nuclear bombs.

There also remains uncertainty as to whether North Korea has cooperated with Iran in the nuclear field. There are many well-documented records of the two country’s bilateral cooperation in ballistic missile development, but not in terms of nuclear weapons development. We have a lot of circumstantial evidence but no smoking gun. No country is suggesting that there is a definite smoking gun in regards to North Korea-Iran nuclear connection. This is a very calculated and calibrated answer, reflecting the government’s concern. Some analysts say that countries are intentionally responding in this manner because if we encounter evidence of a smoking gun in the North Korea-Iran nuclear connection, what will be our response to this unprecedented case of proliferation? In any event, in the wake of North Korea’s third nuclear test, we must be sure to closely consider the possibilities of such cooperation.

If we encounter evidence of a smoking gun in the North Korea-Iran nuclear connection, what will be our response to this unprecedented case of proliferation?

The North Korea-Iran connection will continue to remain a “hot potato.” I am afraid North Korea and Iran became weapons of mass destruction (WMD) partners either through a series of commercial transactions or through ballistic missile cooperation. I suspect that North Korea initially sought to obtain hard currency and financing from Iran for building nuclear weapons, but today these two countries are now exchanging data and also interacting as strategic partners.

Another important development is the emerging China-Iran strategic partnership. China’s vulnerabilities concern its access to maritime routes. Due to the presence of America’s 7th Fleet in the Asia-Pacific, many analysts believe that China is unable to secure its oil supplies flowing from the Middle East. But now, in order to reduce their dependence on sea-lanes, China is seeking options to obtain their oil and gas from Iran via land-based routes through Pakistan.

International Nonproliferation Regime: Falling Behind

International nonproliferation regimes such as the NPT, IAEA, and other bilateral nuclear arrangements are all falling behind, unable to disrupt the North Korean and Iranian nuclear weapons programs. There are many legal arrangements, international conferences, and systems in place, but the problem is that these international regimes are always one step behind proliferators such as Iran, North Korea, Libya, or Syria, who are constantly advancing their nuclear weapons program in secret.

Many people are asking for hard evidence or evidence of a smoking gun. This is not open source information; they are doing these illicit programs in a clandestine manner. So we should not be disappointed that we have not acquired reliable information or intelligence on these proliferators’ illicit activities. We should be trying to acquire reliable information or evidence, but the lack of hard evidence toward North Korea-Iran nuclear cooperation does not suggest the absence of illicit nuclear proliferation activities.

I suspect that international nonproliferation regimes are very outmoded. Current nonproliferation regimes cannot be eliminated, but they should incorporate elements of counter-proliferation. In the aftermath of the September 11 attacks, the US

Looking at it today, the Proliferation Security Initiative was a visionary idea.

government proposed establishing the Proliferation Security Initiative (PSI) in 2004. At the time, the PSI was not well-received because it was seen as infringing upon countries' maritime sovereignty. Yet, looking at it today, the PSI was a visionary idea. These kinds of counter-proliferation efforts should be incorporated in policies designed to counter North Korea and Iran's illicit nuclear programs.

Another aspect has been the P5+1 negotiations between Iran and the five permanent members of the UNSC (China, France, Russia, the United Kingdom, and the United States) plus Germany. These countries have continued to request that Iran adopt initial transparency measures, which it refuses to do. The initial transparency measure is reportedly that Iran should stop pursuing 20 percent uranium enrichment. The second is that Iran should ship out 20 percent of its HEU stock abroad. Finally, Iran should lower the operational status of the Fordow Uranium Enrichment Facility (UEF). The Fordow Facility operations could contain what the IAEA calls a 'possible military dimension (PMD).' If Iran follows through on these requests, the international community would attenuate sanctions and allow a certain extent of Iranian transactions, but Iran has still not accepted the requests by the six countries. Iran's reluctance to accept these requests suggests that it is buying time to pursue its own nuclear program.

Why a Gas Centrifuge Program?

Another problem relating to Iran's nuclear program has to do with gas centrifuges. Originally, there were many uranium enrichment methods. In the 1930s and 1940s, the US tried to develop various methods of uranium enrichment. The first Hiroshima

bomb was made of highly enriched uranium, but this highly enriched uranium was made not using gas centrifuges, but a laser separation method. At that time, the gas centrifuge method was not thought to be an economically sound or viable option. In the 1960s and 1970s, the gas centrifuge method emerged in making fuel for commercial reactors, especially for reactors like the light water reactor (LWR).

The new use of the gas centrifuge method led to the establishment of a nuclear fuel company, URENCO by the Netherlands, United Kingdom, and Germany. URENCO provided much low enriched uranium to commercial reactors around the globe. They knew already that this gas centrifuge

The A.Q. Khan network is now referred to as the root cause of the gas centrifuge program in North Korea and Iran.

method would be widely proliferated and spread throughout the world, but they did not take any precautionary and preventive measures to prevent the spread of this gas centrifuge method. At that time, A.Q. Khan of Pakistan worked there for about 10 years, and he stole very important materials and technology and brought them to Pakistan in the mid-1970s. With the help of his contacts in the Netherlands and Europe, he was able to establish his own gas centrifuge program in Pakistan under the support of the Pakistani government. He succeeded in making HEU bombs in Pakistan around the mid-1980s. Once he manufactured these HEU bombs in Pakistan, he sold gas centrifuge technology and materials to Iran, Libya, and North Korea. This is why the A.Q. Khan network is now referred to as the root cause of the gas centrifuge program in North Korea and Iran.

United Nations Security Council Resolutions: WMD Sanctions

Security Council Resolutions have many purposes but they especially affect Iran and North Korea. These resolutions are called WMD sanctions. A "list control" refers to a prohibition list that includes embargoed items. Different groups carry their own lists. The Nuclear Suppliers Group (NSG) list is used to prevent the

pursuit of developing a nuclear weapons program. The Australia Group (AG) is for preventing chemical and biological weapons programs. The Missile Technology Control Group (MTCR) is intended to prevent ballistic missiles programs.

Figure 1.1: Smart Sanctions Targeted at North Korea’s WMD and Ballistic Missiles

List Control (Embargo) <ul style="list-style-type: none">■ NSG guidelines<ul style="list-style-type: none">> INFCIRC/254/Rev.11/Part 1> INFCIRC/254/Rev.8/Part 2■ AG control list<ul style="list-style-type: none">> S/2006/853■ MTCR control list<ul style="list-style-type: none">> S/2013/947■ All arms and relations materials <p>➔ Member states interdiction and report</p>	Designated Individual/Entities <ul style="list-style-type: none">■ 12 individuals, 19 entities <p>➔ Travel ban/asset freeze</p>
	Financial Vigilance <ul style="list-style-type: none">■ Prevention, suppression and disruption of WMD and its financing■ FATF proliferation financing recommendations <p>➔ Establish legal authority</p>

Source: Adapted by the Author from UNSCR 2094.

The UNSC also keeps an individual/entities list, which includes sanctions targeted at those who the Council considers involved in illicit nuclear weapons program. There are also lists of recommendations for UN member states to maintain financial vigilance towards activities associated with illicit nuclear programs such as those of Iran and North Korea. These are the major elements contained in the latest UNSC Resolution 2094, which was adopted immediately following North Korea’s third nuclear test. Although the measures introduced by sanctions do not enforce total embargos, they are sanctions specifically targeted toward North Korea’s activities associated with nuclear weapons and ballistic missile development.

Challenges to Implementing UNSC Resolutions

Nevertheless, there are several intrinsic challenges to implementing UNSC resolutions. North Korea has long demonstrated patterns of illicit procurement of materials

abroad for over 50 years despite various sanctions in place to cease such activity. They have many embassies, trading companies, and agents devoting time and energy to procuring specialty items all over the world. They normally use false cargo manifest documentation among various other methods. It is also concerning that North Korea is exclusively funding this kind of illicit procurement abroad.

North Korea has established a far-reaching global network through which it performs business with Iran and Syria via intermediaries and multinational corporations.

North Korea has already acquired and imported specialty items from outside its borders and has established a far-reaching global network through which it performs business with Iran and Syria via intermediaries and multinational corporations. There is a big problem in the area of maritime and air cargo vulnerabilities, and especially in trans-shipment.

Figure 1.2: List of North Korean Techniques for Evading Sanctions

- Falsifying cargo manifest documentation
- Physically concealing cargo to deceive cursory physical inspections
- Legitimate trade is often used as cover
- Multiple middlemen, shell companies, and banks hide the actual origin of cargo and its destined end-user
- Multiple trans-shipment
- Use of air cargo (chartered flights)
- Dual-use items or items with lower parameters
- Knock-down kits (ship arms components abroad for future assembly)
- Technical training and sending engineers and scientists abroad
- Designated entities/individuals use aliases and different names
- Legitimate companies, including air carriers, sea carriers and banks, can become implicated in a sanctions violation
- Exclusive funding for illicit procurement

Source: Adapted by the Author from the UN Panel of Experts Final Reports (S/2013/337, S/2012/422).

Trans-shipment refers to the widespread use of containerization in transporting maritime cargo. Containerization creates vulnerabilities in disrupting the illegal transport of certain materials or items since most cargo is not inspected. In order to avoid random inspections, North Korea relies on mega ports and free ports in Southeast Asia for transporting materials. In particular, Malaysia, Singapore, and Taiwan do not strictly enforce maritime cargo inspections for fear of slowing cargo transport and upsetting their clients, thus making it possible for North Korea to continue to rely on maritime cargo to transport illicit items. This is also the case with air cargo, of which North Korea has exploited vulnerabilities by using chartered flights to transport prohibited items to and from North Korea.

There are many variations and limitations among UN member states' willingness or preparedness to implement sanctions on North Korea and Iran. More than 100 member countries do not submit their implementation reports, and for submitted reports, there is no quality control for ensuring adequate implementation. Also non-compliance reports are submitted sometimes two to three years after the date of the incident. Member states' lack of cooperation in implementing sanctions is a clear problem.

More than 100 member countries do not submit their [sanctions] implementation reports.

It is also widely known that Chinese cooperation is an essential element to resolving these nuclear issues. China has to do more otherwise UNSC Resolutions will only be implemented to a limited degree. UN member states should do more as well, especially in terms of enforcing "catch-all" controls, forging early cooperation between industry and government, and cutting off technological assistance. Those involved in this illicit WMD business benefit from large profits, sometimes 10 or 20 times the amount of money they would earn from normal trade. That's why we cannot remove all these people. Such large profit-margins help perpetuate this behavior and incentivize individuals to remain in this lucrative trade.

The lack of a standardized and detailed international indictment process, as well as different legal systems among member countries has created inconsistent approaches in prosecuting those suspected of being involved with illegal activities. For example, if a businessman involved in these illicit activities is tried, he could claim in court that he was not aware that any such law existed for prohibiting the trade of certain items. Inconsistencies in indicting those engaging in illegal trade demonstrate the need to create integrated methods of prosecution in controlling WMD trade.

Specialty materials like high strength aluminum alloy, maraging steel, and carbon fiber should be the three main specialty materials controlled by the international community. These materials are widely used for producing ballistic missiles and gas centrifuges, suggesting that the purchase and transport of these materials should be tightly controlled.

Until now, 12 individuals and 19 entities from North Korea were identified and designated by the UNSC as leading figures of WMD programs, whereas in Iran's case, 121 individuals and entities have been designated. There has been greater success in designating Iranian actors over North Korean actors because of greater Chinese opposition to designating North Korean leaders.

12 individuals and 19 entities from North Korea were identified and designated by the UNSC as leading WMD programs, whereas in Iran's case, 121 individuals and entities have been designated.

The Way Forward in Troubled Waters

Finally, UNSC resolutions should work in tandem with autonomous sanctions imposed by the US and EU. Passing UNSC resolutions requires the absolute consensus among all permanent members, including China and Russia. Due to these two permanent members' veto power, resolutions are sometimes limited to ambiguous, softer terms. This is why certain measures in the UNSC sanctions are described using

indirect expressions. In contrast, US and EU sanctions contain more direct language. We should therefore build consensus within the UNSC framework to incorporate measures put in place by the US and EU. This is not to say that those sanctions are always in the right direction, but in the event of another nuclear test or another long range missile launch by North Korea, we should also devise additional measures at our next UNSC meeting. In that case, we should refer to US and EU autonomous sanctions.

(The views and suggestions presented herein are the author's and do not necessarily reflect those of the ROK Ministry of Foreign Affairs.)

Redefining Humanitarian Aid to North Korea

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This paper will look at how sanctions have been, if at all, effective against North Korea, as well as evaluate the effectiveness of sanctions in the future. The current state of the North Korean and Iranian nuclear programs is very different. North Korea withdrew from the Nuclear Nonproliferation Treaty (NPT) and has since conducted three nuclear tests and poses an imminent threat. In contrast, Iran is still part of the NPT and has not carried out any nuclear tests and poses a potential threat. The stated aim of both United Nations and other unilateral sanctions regimes against North Korea is to stop proliferation and to achieve North Korea's eventual denuclearization. In the case of Iran, the sanctions are intended to stop Iran's nuclear program because currently, Iran is not yet thought to have a nuclear weapon.

Comparing the North Korea and Iran's Sanctions Regime

There are different dimensions to sanctions within the sanctions regime. First, there are economic sanctions. For North Korea, South Korea provides them with many economic incentives, such as energy assistance in exchange for denuclearization, whereas sanctions on Iran are extensive. They are not simply limited to UN sanctions but also unilateral United States and European Union sanctions on Iran's energy exports, including an oil embargo against Iran.

There are also sanctions directed toward banking and finance sectors, which are important because the stated aim of the UN sanctions regime is to target individuals and entities that aid the proliferation or development of nuclear programs. For North Korea, the scope of the sanctions is very narrow and includes freezing assets and denying financial services for individuals and entities, but sanctions are targeted more broadly toward Iran. In addition to targeting Iranian individuals and entities, the UN sanctions regime has also targeted sanctions against the Iranian Central Bank.

There are also sanctions on nuclear and military technologies. For North Korea, the UN ban is more comprehensive, whereas for Iran, light nuclear reactors are excluded from the ban. In summary, it is evident that the narrow scope of the sanctions benefits North Korea. Seeing how the international sanctions regime is heavily reliant on UN sanctions, the specific focus of UN sanctions in stopping proliferation rather than

Table 2.1: Comparison of Nuclear Programs and Sanctions on North Korea and Iran

Status	North Korea	Iran
State of Nuclear Program	Withdrew from the NPT	Still a member of the NPT
	Conducted 3 nuclear tests	Has not conducted a nuclear test
Threat Level	Imminent and present threat	Still a potential threat
Sanctions Objective	Stop proliferation and denuclearization	Stop nuclear program
Sanctions (Economic)	Energy assistance as incentive for denuclearization	Multilateral and unilateral energy sanctions
Sanctions (Banking/Finance)	Freeze on financial assets of key proliferators	US and EU sanctions on Iranian Central Bank
Sanctions (Missile, Nuclear, and Dual Use Technology)	UN ban	UN ban (excludes light water reactors)
Sanctions Focus	Narrow	Broad

achieving denuclearization is beneficial for North Korea. For Iran, the sanctions are directed quite broadly.

So what does this say about the overall sanctions regime? In Iran’s case, the punishment does not fit the crime. North Korea has violated the law for a longer period of time but they have gotten away with more. Even though we are targeting proliferating individuals and entities, many North Koreans carry multiple identities, so identifying proliferators’ names is not very effective. The effectiveness of sanctions is also limited because of North Korea’s relations with China, which has softened many of the major sanctions targeted at North Korea.

Aid and Assistance to North Korea

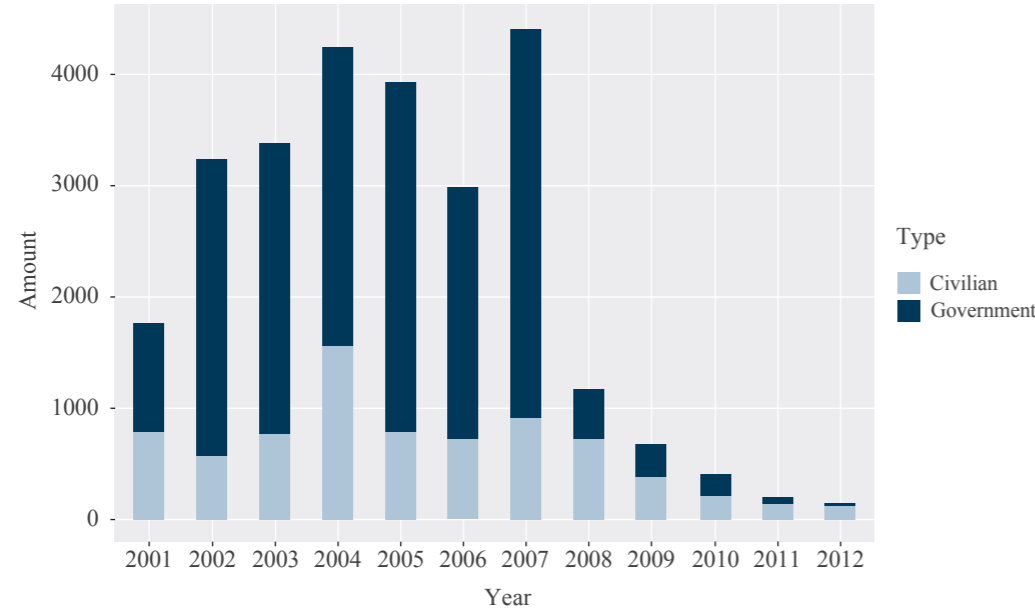
This then raises the issue of finding the right solution for the North Korea nuclear problem. North Korea is self-isolated, so there is not much use in cutting off their links with the international community. The remaining policy option, as cruel as it may seem, is to sever their food supply. In the 1990s, when North Korea experienced mass starvation and famine, food aid to the North served as a carrot and incentive in exchange for their cooperation on the nuclear issue.

North Korea is self-isolated, so there is not much use in cutting off their links with the international community.

The US has supplied a substantial amount of food aid to North Korea in the past decade, spending US\$1.3 billion over the last 15 years. South Korea spent much more than the US on food aid, but during the Lee Myung-bak administration, both countries shifted their policies and essentially stopped supplying food aid to North Korea. In the beginning, starting in 2001, South Korean aid to North Korea did not amount to much and took the form of direct aid, meaning that it was exchanged between the North and South Korean governments.

There is also indirect domestic aid, which means the government gives money to domestic NGOs and in turn, they send aid to North Korea. Another mechanism for providing food aid is through international NGOs. There are also food loans. After 2008, South Korea stated that it would give food to North Korea, but this is actually misleading. The Lee Myung-bak administration provided food loans to North Korea and asked North Korea to repay the debt from these loans. Considering these conditions of loan repayment, it is evident that government food aid to the North no longer exists.

**Figure 2.1: South Korean Aid to North Korea 2001-2012:
Civilian vs. Government (100 million Won)**



Source: Ministry of Unification. (n.d.). *South Korea government aid to North Korea and South Korean aid to North Korea* (Korean).

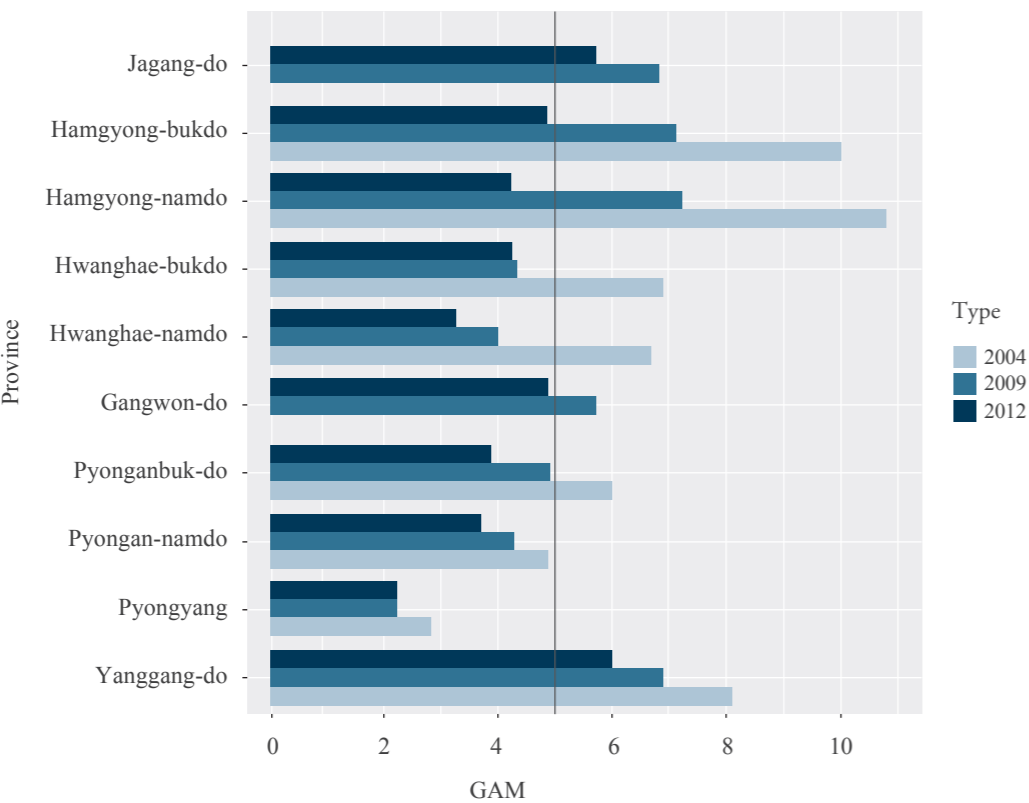
Another form of assistance is civilian aid where private citizens provide aid to North Korea. But this aid has also steadily decreased over the past few years to the point where there is very little civilian aid currently sent to North Korea.

North Korea is also increasingly dependent upon China. The North Korean economy has been experiencing an account surplus for the past couple of years and this idea conflicts with our perception of North Korea as a poor, starving country. One view of the drivers behind North Korea’s money-making schemes is that North Korea acquires funds by selling drugs as well as through engaging in trade with China. However, most people believe that these activities mostly benefit the elite.

North Korea Today: Getting Better?

International organizations such as the WHO, UNICEF, and WFP have conducted nutritional surveys of North Korean children since the 1990s. This offers a fairly reliable overview of national statistics on Pyongyang and the country as a whole. For instance, the Global Acute Malnutrition (GAM) survey provides an idea of what is going on across North Korea in terms of malnutrition. Also, child malnutrition figures provide a representative sample of the status of the national population. For example, if children are suffering from malnutrition, it means that the entire population is suffering from some sort of food shortage. Usually, the threshold of malnutrition is defined as 10 percent of children from infancy to 15 months of age suffering from malnutrition. Figures above 10 percent indicate a serious food emergency, and figures exceeding 15 percent indicate a famine, similar to those found in many African countries.

Figure 2.2: Global Acute Malnutrition (GAM) between 2004-2012 by Province

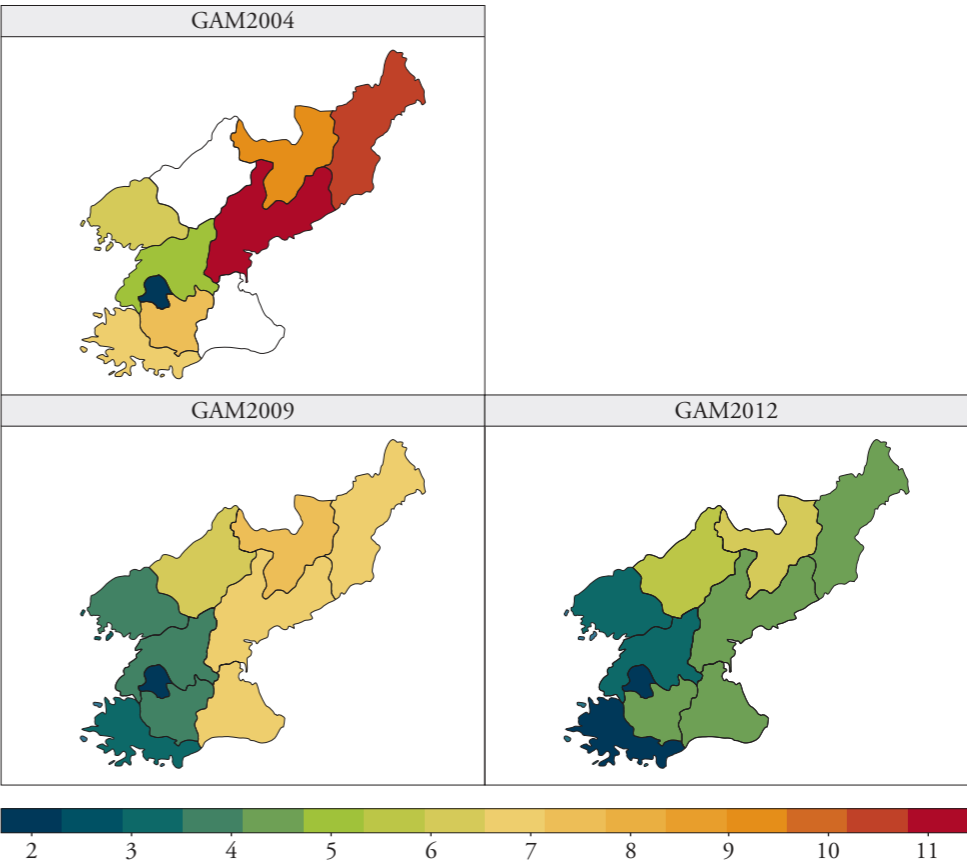


Source: Central Bureau of Statistics (2012). *Democratic People’s Republic of Korea preliminary report of the national nutrition survey 2012*.

The WHO considers GAM prevalence of five percent and below to be an acceptable severity of malnutrition, and based on the above graph, North Korea has reached this threshold.

There have been three surveys. In 2004, there were two provincial emergencies. There are 10 provinces in North Korea and two of the provinces had a GAM above 10 percent in 2004, but none in 2012. In 2004, only two provinces were under the acceptable threshold, Pyongan-namdo and Pyongyang. However eight years later, there were only two provinces above the acceptable threshold. What happened?

Figure 2.3: GAM Prevalence by Province (2004-2012)

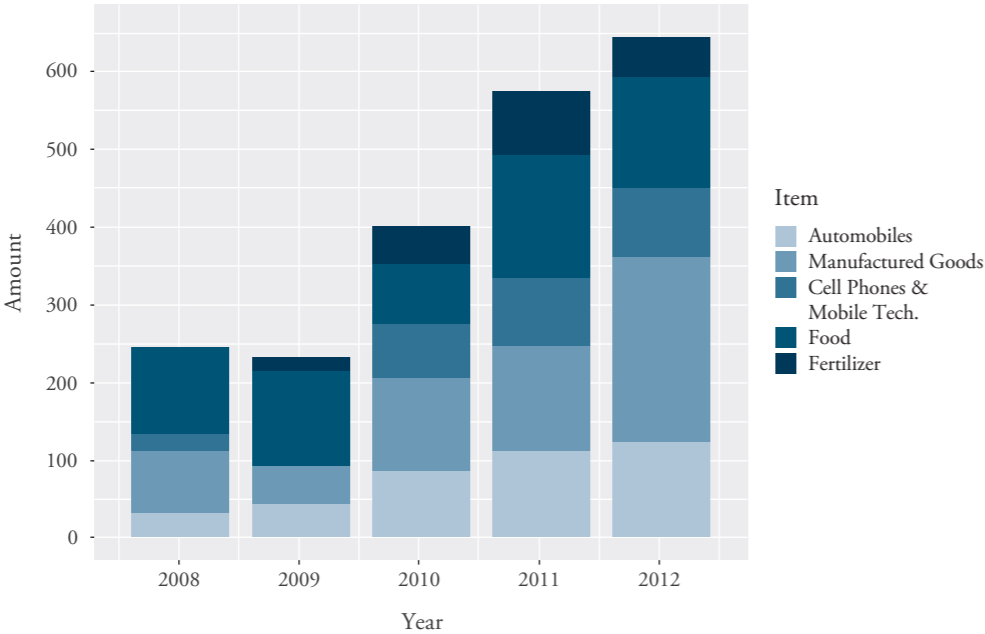


Source: Central Bureau of Statistics (2012). *Democratic People’s Republic of Korea preliminary report of the national nutrition survey 2012*.

Above is a map of North Korea that uses different shades of colors to indicate the percentage of children suffering from malnutrition. As seen in the 2004 map, the province that suffered the most is Hamgyong-namdo. Those provinces suffering from child malnutrition are usually in the eastern provinces, which are the most mountainous and have low agricultural productivity due to the lack of arable land. Based on the 2009 map, there was a sizable improvement in the malnutrition situation. By 2012, nearly all the provinces in North Korea were much better off.

Considering the uniform improvement across the country, North Korea is better off than eight years before. What is interesting is that these improvements have coincided with the suspension of South Korean and US food aid that began in 2008. The suspicion is that China has made up for the missing food aid. We know that China has long provided North Korea with aid, but China has been reporting to international organizations that they have not given much since 2009, at which point, still wasn't much.

Figure 2.4: Top Import Categories (Excluding Energy): North Korea



Source: KITA-Institute for International Trade (2011, 2012, and 2013). *Trends in North Korea-South Korea and North Korea-China trades* (Korean).

Beginning in 2009, North Korea started importing more manufactured and technological goods, and in 2011 and 2012, they imported large amounts of energy, mobile technology and high quantities of automobiles. The overall volume of food imports from China, however, has remained pretty constant.

Given the evidence from China’s export data, economic growth in North Korea is actually occurring and this runs counter to typical views that economic growth in North Korea only benefits the elites. What are the implications of these findings? Sanctions will not work without Chinese help. This is obvious. But North Korea is much better off economically now than it was eight years ago.

North Korea is therefore provoking South Korea and the US not because it is desperate and needs more money and food, but for political gains. North Korea does not need humanitarian aid from us anymore. Even when South Korea and the US stopped providing humanitarian aid, the situation in North Korea did not worsen but rather improved. North Korea probably continues to rely a lot more on its trade with China. North Korea is still poor, but it is economically stable. In this regard, the use of food aid in exchange for concessions in North Korea’s nuclear program will not be effective.

Even when South Korea and the US stopped providing humanitarian aid, the situation in North Korea did not worsen but rather improved.

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The Effect of Sanctions on Iran’s Economy:
Solutions and Prospects

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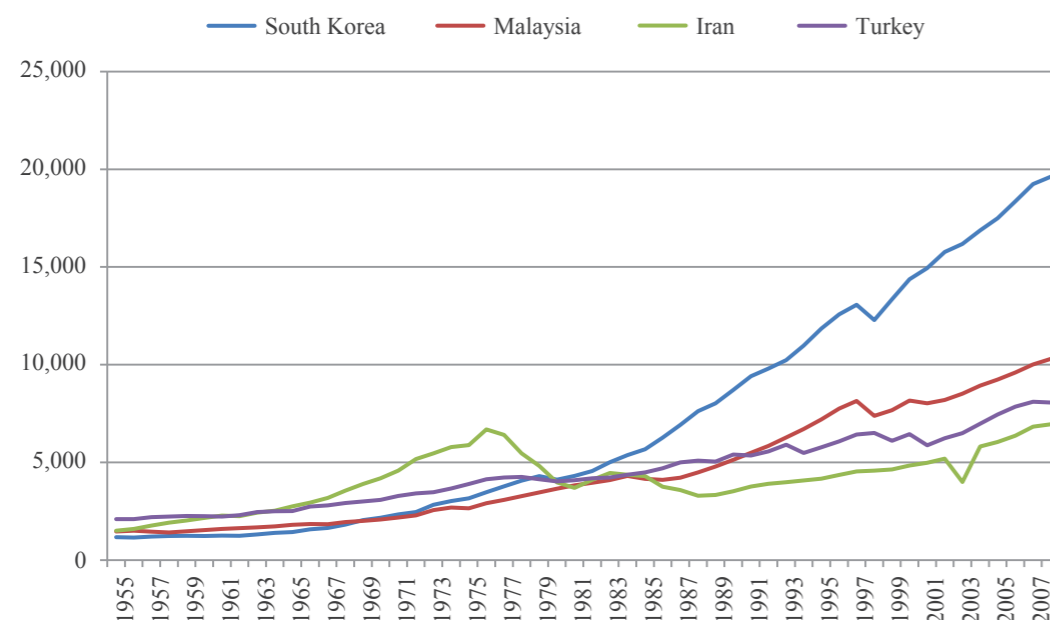


The ongoing international initiative to adopt new and tighten existing trade sanctions against Iran is presenting companies and financial institutions engaged in or facilitating business with Iran with significant challenges. The sanctions are therefore primarily focused on restricting dealings in the energy sector, particularly in the oil, gas and nuclear industries, while also restricting investment and financing of certain enterprises in Iran. The new restrictions are intended to deprive Iran of such imports and stifle the improvement of related facilities in Iran. Nonetheless, the impact of the sanctions will also resonate in the international trade, shipping and financial sectors.

Background

Looking at the macroeconomic performance of Iran, we can classify two phases: before and after the 1979 Revolution. Before the Revolution, Iran, much like Korea, Malaysia, and Turkey, enjoyed rapid growth. Unfortunately, after the Revolution, Iran was also involved in the Iran-Iraq War for eight years.

Figure 3.1: Per Capita GDP Growth between Iran, Korea, Malaysia, and Turkey (1955-2008)



Source: Bolt, J. and J. L. van Zanden (2013). *The First Update of the Maddison Project; Re-Estimating Growth Before 1820*. Maddison Project Working Paper 4.

After the Iran-Iraq War, Iran experienced four five-year economic development plans. The first plan after the war emphasized construction and opening up the economy, but it was not successful. The second plan was not very successful in solving hyperinflation. The most successful economic plan was the plan from 2000 to 2004. This period coincided with the good relationship between Iran and European countries during the presidency of Mohammad Khatami. This plan was successful in inviting foreign direct investment (FDI) toward oil industries in southwest Iran, as well as inviting other countries to invest in and cooperate with Iranian companies in Assaluyeh and other sites. For the fourth plan, Iran experienced problems that were not exactly related to sanctions. According to President Ahmadinejad, during this time, the Iranian economy was not performing well in terms of inflation, the unemployment rate, and several other indicators.

Prior to the revolution, Iran was dependent on oil and gas sales. After the Revolution and after the second plan, Iran tried to diversify the sources of its income and place great emphasis on non-oil exports, especially because Iran is quite capable at producing exports in non-oil sectors, such as handicrafts, metals, and cement. These products are not part of the sanctions. Today, many Iranian private sector businessmen try to improve these manufacturing industries for exporting products to neighboring countries, such as Iraq. After the second plan, Iran was generally successful in promoting non-oil exports.

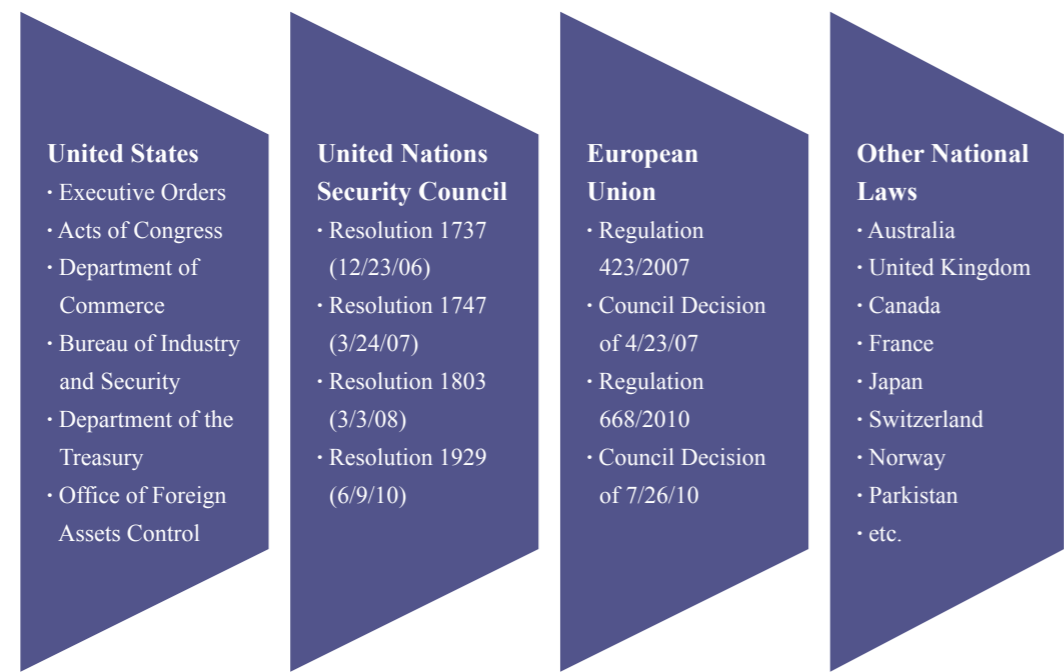
Types of Sanctions

There are four categories of sanctions: United Nations restrictions; European Union restrictions; United States restrictions and national restrictions. In respect of the latter, a number of countries have introduced or are in the process of introducing national legislation to implement international sanctions into domestic law and/or to introduce domestic sanctions packages of their own. Companies which are based in countries not directly subject to EU/US sanctions have to take a view on whether their economic interests are best served

South Korea has apparently caved in to pressure from the US to close down Bank Mellat's Seoul branch.

by maintaining a trading relationship with Iran or foregoing that connection in order to protect their share of the market elsewhere. For example, there have been recent reports that a Japanese carmaker has suspended exports to Iran in order to preserve its primary position in the US car market. South Korea has apparently caved in to pressure from the US to close down Bank Mellat's Seoul branch, albeit this closure is said to be temporary.

Figure 3.2: Four Types of Sanctions on Iran



In addition, countries such as the UAE are seeking to achieve a balance between their international commitments pursuant to the relevant UN resolutions and their legitimate business transactions with Iran. Nonetheless, reports indicate that imports from and through the UAE are already being affected, with ships carrying petroleum to Iran facing greater scrutiny and closer tracking at UAE ports which have previously been used by Iran to transport fuel cargoes. Insurers operating within the UAE are also reportedly not underwriting new risks of Iranian interests which fall within the UN/US sanctions.

How will these Sanctions Impact the Iranian Economy?

1. Shipping Contracts

The sanctions have implications for those involved in the chartering of ships and transfer of negotiable documents. In the first instance, reliable systems will have to be put in place to ascertain the identity of all parties to a transaction or chain of transactions, including the owners of ships, the charterers and the owners and consignees of cargo. Notwithstanding such systems being operational, there remains a risk that blacklisted entities/ships and prohibited cargo might slip through the net not least because blacklisted entities have and will no doubt continue to take steps to try to conceal the ownership or identity of vessels and/or to take whatever steps they can to enable them to continue trading.

2. Insurance

Protection and Indemnity (P&I) Clubs are at risk if cover is inadvertently placed over a prohibited cargo or ship engaged in prohibited activities, and if Members (or their brokers) engage in prohibited activity or contract with a target entity. This potential exposure has led to the insertion of sanctions compliance clauses into policies, for example that cover under the policy will be suspended if the assured is in breach of sanctions and the assured must then indemnify the insurer in respect of loss sustained as a result of such breach. Some Clubs have also changed their rules or are in the process of doing so, with a view to preventing the Clubs being found to be in breach. Such changes include loss of cover or termination of membership as soon as the Club is exposed to the risk of contravention, for example, if a Member’s vessel, whether entered with the Club or not, is employed in a carriage, trade or voyage which will expose the Club to the risk of being or becoming subject to any sanction. A number of the P&I Clubs have been issuing circulars to their Members to keep them updated on developments relating to the various sanctions and advising them

how to proceed and what the potential effects might be. It is recommended that any owner or time charterer entered with one of the P&I Clubs keeps a close eye on guidelines and briefings issued by its Club.

More generally, Lloyd's of London, the world's largest insurance market, has confirmed it will back the US sanctions. Cover for shipments to Iran has consequently been significantly curtailed. Furthermore, the Lloyd's Market Association (LMA) has now produced a sanctions clause for its members which, although designed for the marine insurance market, may also be used in non-marine policies.

Lloyd's of London, the world's largest insurance market, has confirmed it will back the US sanctions.

3. Finance

Given that many contracts provide for transactions to be undertaken in US dollars, there will be an ongoing risk that international trade and financial dealings will contravene US sanctions and incur significant penalties. US lawyers would have to be consulted for specific advice in the event that there is any concern in this regard. However, in broad terms, any US dollar transactions passing through the US banking system may be at risk of being frozen if they can be traced to Specially Designated Nationals under the US legislation.

A number of banks have already paid the price of past non-compliance with US sanctions. One has recently settled a claim for over US\$200 million in respect of breaches that took place in relation to non-US banks outside the US but where funds passed through the US and were related to prohibited transactions. Other banks have also recently been ordered to pay substantial fines in respect of US sanctions violations relating to various countries including Iran, said violations going back a number of years.

Who is Benefitting from the Sanctions?

Iran is one of the richest regions in the world in terms of hydrocarbon resources. A total of 102 fields are oil and the remaining 43 are gas, and there are 205 oil reservoirs and 92 natural gas reservoirs. International sanctions, however, have adversely affected the availability of financing for and international oil company participation in oil field development and oil refinery construction.

Iran is a major supplier of crude oil to China, the world's second largest consumer of oil after the US. In the first half of 2010, Iran was China's biggest supplier of crude oil, with shipments of nine million tons. Whilst China has backed the latest UN sanctions, it is reportedly resisting US pressure to cut back on its existing oil and trade projects with Tehran. China's vice premier was recently quoted as saying that China was Iran's main economic partner. Given that reportedly a number of leading traders and oil companies have stopped selling refined products and frozen gasoline sales, a great opportunity has been created for Chinese oil traders.

In the first half of 2010, Iran was China's biggest supplier of crude oil, with shipments of nine million tons.

Russian oil traders are also expected to benefit. The Russian press has reported that Russian companies are discussing significant deliveries to Iran later this year. One Russian oil company is reported to have resumed gasoline sales to Iran in partnership with a Chinese state-run firm, notwithstanding that it has significant exposure in the US. The company has indicated that these were one-off shipments that took place within the framework of previously concluded contracts.

In March 2013, as South Korea announced that it had dramatically decreased the pace of its crude-oil imports from Iran, Chinese officials said that their Iranian oil imports continue unabated. Imports of oil by South Korea were down 30 percent in

February 2013 compared with February 2012 and down 25 percent versus January 2013. China, meanwhile, saw its imports from Iran rise by 2.7 percent in the first two months of 2013 after rising by 74 percent on year to two million tons (Lee 2013).

It is important to note that Iran is a closed economy. Economic and international trade theory shows that open and closed economies are very different. Iran is not really dependent on trade and can operate without it. In contrast, some economists believe that the current economic situation is a result of former President Mahmoud Ahmadinejad's economic mismanagement, and not necessarily related to the sanctions. According to a report from the International Energy Agency (IEA), Iranian oil shipments grew by 13 percent in February 2013 even as the US implemented additional sanctions (Arnsdorf 2013). Countries purchased 1.28 million barrels a day from Iran that month, compared with 1.13 million barrels daily in January 2013.

It is important to note that Iran is a closed economy [...] Iran is not really dependent on trade and can operate without it.

Conclusion

While a scarcity of reliable data on Iran's economy makes it difficult to assess its current status, according to recent reports by the IMF, it is not about to collapse in the face of sanctions (IMF 2011). Sanctions have created pressure on Iran, but Iran is also a large regional economy with a relatively diversified structure. Oil is very important, but it's not entirely dependent on oil.

Opinion is divided on how seriously sanctions are impacting the economic situation. And it must be remembered that before sanctions began to bite, the domestic situation in Iran was such that there were factions within the government, which actually welcomed sanctions. They argued that being more disengaged from the international economy is actually beneficial to Iran's economy, because it gives the

domestic sector the protection that enables it to grow and prosper.

There are two mechanisms that exemplify how sanctions might impact official policy. One is that creating hardships places pressure on people who would then try to bring about change in their government and behavior. But that doesn't quite stand up to scrutiny. The uprisings in the Middle East in recent times haven't always coincided with the business cycle. People don't rise up against their governments whenever there is a recession or downturn. In fact, some of the more notorious uprisings have happened when the economies have seemingly been doing well.

For a very strong ideological state like Iran, maybe the pain threshold is very high.

The other and more serious mechanism is that sanctions by design are meant to alter the balance between costs and benefits of certain types of foreign policy, and they're meant to raise the costs to the target government and reduce the benefits of pursuing a particular course of action (in this case, pursuing nuclear ambitions). Now, if we look at, again, historical experiences of sanctions, this sort of psychological and rational thinking does not always seem to work. First of all, there's no evidence to suggest that this rational cost-benefit analysis is what ultimately determines foreign policy behavior. Secondly, for a very strong ideological state like Iran, maybe the pain threshold is very high.

Suggestions

There are structural reasons why Iran feels singled out unfairly in this equation. They would not back off from certain positions simply because the economic equation has changed. And any meaningful negotiations will also have to make clear what criteria would have to be met by Iran for sanctions to be lifted. It's not just the punitive measures of sanctions; it's what positive way would allow Iran to get out of this rather difficult situation.

The Iranian economy is well-resourced by the standards of similar countries elsewhere, but it's badly managed. It needs essential reforms: It needs much better management, greater transparency, and accountability. And a lot of those are internally rooted. Even with sanctions lifted, the challenges for Iran's economy will not go away. But it is up to the Iranians to make sure those challenges are confronted, rather than deflected by the shadow of sanctions.

This will make it difficult for the Iranian government in the short- to medium-term. Certainly, the EU embargo means Iran has to find customers who are at about half a million barrels of oil a day to replace the loss of European oil sales. Secondly, even when it continues to sell oil, it experiences difficulties in laying its hand on the proceeds of the sale of oil because of the expensive nature of the financial sanctions. So this has kind of pushed Iran in three directions: a) find new customers, b) offer discounts to maintain customers, and c) enter into barter arrangements or conduct transactions in terms of local currencies, like the rupee with India, which reduces the range of imports that Iran can get from trading partners.

It creates difficulties. But you have to bear in mind that other regimes have survived even stricter sanctions than the ones we currently see in Iran, and they have lasted. Look at Cuba, Zimbabwe, and North Korea. Three of the four countries that have developed nuclear capabilities

since the 1970s—India, Pakistan, and North Korea—have done so under sanctions. Iranian sanctions are pretty hefty, but Iran's economic structure is relatively diversified. Iran has been expecting these sanctions for quite a while, so they are, in a sense, better prepared than most people might realize.

Other regimes have survived even stricter sanctions than the ones we currently see in Iran, and they have lasted.

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Blessing or Curse? The Unintended Consequences of the Iran Sanctions Regime



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Media coverage would lead a visitor to Iran to expect to find its economy in ruins. Yet, on a recent trip to Iran in late 2012, we found the Iranian economy to be resilient, diversified, and even vibrant. Sanctions seemed to “work” in a way that was unintended in this oil-rich country. If sanctions decrease the importance of oil in an oil-rich economy, the symptoms of the resource curse should diminish. If so, there will be interesting and unintended consequences of sanctions: a vitalization of the manufacturing industry, which oil-rich countries hardly experience. That is, sanctions may promote economic diversification in oil-rich, but sanctions-affected, closed economies. Moreover, if sanctions reduce the significance of oil—the key revenue for a rentier state’s survival—there might be a weakened authoritarianism, which resource-abundant countries rarely possess. In fact, there are two different dimensions to the resource curse: an economy that is not diversified and authoritarianism.

To date, no study has specifically asked, let alone successfully demonstrated, how sanctions affect the relationship between resource endowment and economic performance. In order to understand what sanctions are doing to Iran, this question must

be addressed, and our research may well be the first attempt to combine two so far separate literatures to analyze the effects of recent economic sanctions on Iran. What do sanctions do to the relationship between Iran’s oil industry and the rest of the economy? What do they do to the relationship between oil and the state, and by extension, society? These are the questions we seek to answer.

Our data has not discovered a clear negative relationship between oil exports and the rest of the economy. Economic sanctions may not have a strong impact on Iran’s resource curse without aggravating or alleviating the so-called “Dutch disease” in its economy. Of course, sanctions *did* hurt the economy, as evidenced by Iranians everywhere struggling with economic hardship, but not in a structural way. Instead, sanctions seem to affect politics more than the economy. In the 2013 presidential elections, a reformist, Hassan Rouhani, backed by the reformist-centrist coalition led by former presidents Mohammad Khatami and Akbar Rafsanjani won an overwhelming victory. Yet, this time, the conservative hard-liners could not afford to nullify the election results and repress the reformist movement unlike previous elections. Current sanctions might limit the revenues of the Iranian authoritarian regime. Oil-rich Iran under sanctions has escaped the political curse, but not the economic curse. However, sanctions did not work if denuclearizing Iran was the goal.

The Resource Curse and the Dubious Efficacy of Sanctions

Countries rich with natural resources often, if not always, suffer from what is called the “resource curse.” More generally, a booming sector can often have adverse effects on other parts of the economy. This idea of the resource curse or one of its variants, “Dutch disease,” is a highly controversial one, no less because it appears counter-intuitive to many—at least initially. The Dutch disease is the notion that a booming sector, typically of an extractive kind, puts the manufacturing sector under pressure, often resulting in de-industrialization. It is based on the experience of the Netherlands when it discovered natural gas. Views differ widely on whether, why,

or how an apparent blessing can be a curse in disguise.

A large body of empirical work has examined the relationship between resource endowment and economic performance. For the most part, empirical research appears to support the idea of resource abundance as a “curse.” In other words, many studies have shown that countries may be better off without abundant resources than with them. There are also countries which managed to avoid the resource curse and instead enjoy a “blessing.” The relationship between resource endowment and economic performance may be strong but is far from deterministic.

No less controversial, and arguably no less counter-intuitive, are the effects of economic sanctions. Some enthusiastically argue that sanctions work, while others deny altogether the efficacy of economic sanctions. There are also those who try to find out why and how some sanctions work, while others do not.

Iran as a Resource-Abundant Country

In order to discuss resource abundance and whether it is a curse or blessing, we need to first establish that Iran is abundant in natural resources, which is relatively simple. Iran is the oldest oil-exporting country in the Persian Gulf region, celebrating the 100th anniversary of commercial oil discovery in its soil in 2008. In that year, Iran was the 2nd largest oil producer in the Organization of the Petroleum Exporting Countries (OPEC) after Saudi Arabia. Iran holds the world’s fourth-largest proven oil reserves and the world’s second-largest natural gas reserves. It has 155 billion barrels of crude oil reserves and 1,187 trillion cubic feet (Tcf) of natural gas, second only to Russia (EIA 2013).

Does resource abundance translate into wealth? Certainly. In 2007, the average extraction cost of Iran’s various quantities of crude at the well-head was about US \$4.35 while the average price of Iranian oil was US\$73 per barrel. The size of pure

profit was estimated to be US\$68.65 per barrel (Jahangir Amuzegar 2008). With its huge profits from its immense deposits of oil and gas, Iran is a global energy superpower in every sense of the word. However, economic sanctions on oil and gas have begun to suddenly change its status.

In 2004, about 45 percent of the government’s budget came from exports of oil and natural gas revenues while revenues from taxes and fees were only 31 percent of the government’s budget. Overall, an estimated 50 percent of Iran’s GDP was exempt from taxes in 2004. With the fluctuations in the world petroleum market, these percentages have changed. For instance, today, oil exports account for 80 percent of Iran’s total export earnings and 50-60 percent of government revenue (Economist Intelligence Unit 2013).

Iran is also one of the world’s largest oil consumers, using roughly 1.7 million b/d (barrels per day) thanks to heavily subsidized prices (OPEC 2012). Iran’s per capita energy use is estimated to be 15 times that of Japan, 10 times that of the European Union, and eight times that of the United States. It is also rising at nearly 10 percent a year for gasoline and six percent for all fuel products—twice the world’s average (Amuzegar 2008).

Resource Curse on Economy: Possible Causal Mechanisms

Why might countries suffer from the “resource curse”? At least six causal mechanisms have been identified: 1) a long-term decline in terms of trade; 2) revenue volatility; 3) Dutch disease; 4) crowding-out effects; 5) increasing the role of the state; and 6) the socio-cultural and political impacts (Stevens 2003). The first causal mechanism—a long-term decline in terms of trade—derives from the now classic idea that, over time, oil, gas and mineral export revenues would be able to buy less imports of capital goods, thereby inhibiting development-creating investment in an economy. While a long-term decline in terms of trade may be relevant for most

primary products, it does not apply to oil and gas, particularly since the 1970s. In other words, Iran is an unlikely victim to the first causal mechanism.

The second mechanism—revenue volatility—is based on the idea that primary product revenues are very volatile, creating problems in the economy ranging from aggravating investor uncertainty to “stop-go” spending policies to an erratic macro-economic environment. While revenue volatility is common among primary products, oil and gas are relatively less subject to it. If anything, oil and gas have been subject to upward trends in revenue in recent years.

The third mechanism—Dutch disease—points to the appreciation of the exchange rate due to a sectoral boom and the resulting decline in competitiveness of other sectors, particularly manufacturing. Implicit in this explanation is that non-boom sectors such as manufacturing are more crucial to economic development. Consequently, growth in a single sector, energy or otherwise, crowds out others and prices the manufacturing industry out of the international market. While it is debatable whether and why the manufacturing industry is still more important than other industries or sectors in the current post-industrial, information age, this mechanism is more relevant than the two mechanisms examined above, which is apparent in the large number of studies that look into Dutch disease in the Iranian economy (Ladan Dabir 2010; Eghtessad Energy 2010; Rahman Khoshakhlagh and Reza Moosavi Mohseni 2007).

The fourth mechanism pertains to crowding-out effects. This is in fact a variation of the “resource movement effect,” which is a feature of Dutch disease. This points to the danger that investment in oil, gas, or mineral production effectively stakes first claim on scarce resources, be it capital or labor, making the rest of the economy struggle to secure the factors needed to develop. This becomes a particularly serious problem if the economy is small relative to investment projects in oil, gas, or mineral production.

In many countries, oil, gas and minerals are the property of the state. As a result, the revenues from their exports accrue to the government. This inevitably invites greater government intervention in the economy and together with it, greater chances of corruption, policy failures, and even authoritarianism. The fifth mechanism—the increasing role of the state—refers to such dangers. Iran is certainly not free from such dangers, if public protests against government are any evidence.

The last mechanism—the socio-cultural and political impacts—is not as clear or coherent as the previous explanations, and often overlaps with the fifth mechanism—the increasing role of the state. Much of the discussion about the last mechanism revolves around the rentier state. When the economy relies heavily on an external rent, and the government is the principal recipient of the external rent, the consequence is the underdevelopment of civil society and democracy. This mechanism is often invoked to explain the prevalence of authoritarian regimes in resource-abundant economies.

Sanctions and Dutch Disease in Iran

According to the Dutch disease explanation, a booming sector—in the case of Iran, the oil sector—would draw resources away from other sectors; petro-dollars would increase monetary supply, causing inflation; trade surpluses would cause currency appreciation, making Iranian products less internationally competitive. The combined result of these symptoms would be a depressed manufacturing industry. In fact, other industries are also affected, even though the manufacturing industry receives the lion’s share of attention in the Dutch disease literature.

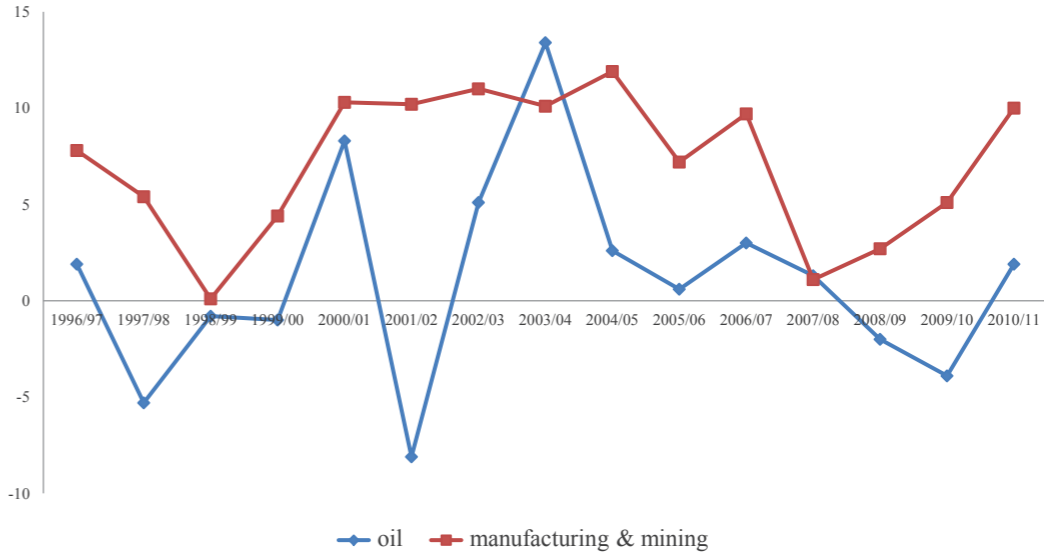
Indeed, because of sanctions on Iran, the share of Iranian exports from oil-products has been declining from mid-80 percent range (84.9% in 2006/07, 86.5% in 2007/08, and 85.5% in 2008/09) to below 80 percent (79.8% in 2009/10 and 78.9% in the first three quarters of 2010/11) in recent years (Central Bank of Iran 2010). The IEA

estimate, mentioned earlier, is more recent, and it suggests an even bigger decline in Iranian oil exports.

From the point of Dutch disease, if sanctions decrease the importance of oil in the Iranian economy, symptoms of the Dutch disease would diminish if not disappear altogether. If symptoms do diminish, there would be an interesting unintended consequence from the US and EU-led economic sanctions: a vitalization of industries of tradable goods, in particular, the manufacturing industry. In other words, economic sanctions may promote industrial diversification in the traditionally oil-dependent economy as an unintended side-effect.

Figure 4.1 compares the annual growth rates of the oil sector and the manufacturing and mining industry. As recent data are not available, it does not say anything about the impact of recent economic sanctions. We can see, however, that the relationship between the oil sector and the manufacturing and mining industry is inconsistent with what the Dutch disease thesis would predict. Rather than moving in opposite directions as predicted by the thesis, the oil sector and the manufacturing and mining industry seem to grow and fall in a similar pattern, possibly with some varying time lags. In other words, an informal examination of the growth rates of the oil sector and the manufacturing and mining industry does not suggest a clear negative relationship between the oil sector and the rest of the economy. An implication that follows is that economic sanctions may not have a strong impact on Iran’s resource curse, as the latter either does not exist or is limited.

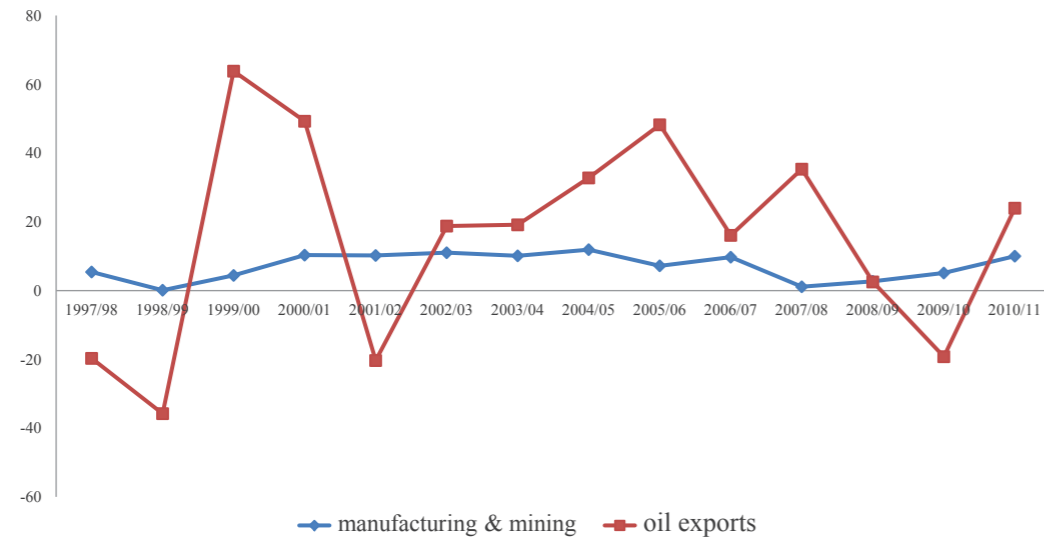
Figure 4.1: Oil Sector vs. Manufacturing & Mining: Growth Rates at Constant Price



Source: Central Bank of the Islamic Republic of Iran (1959 - 2010).

In case that the growth rate of the oil sector was not a good measure, we chose a different indicator. Figure 4.2 Compares the annual growth rates of oil exports and the manufacturing and mining industry. Again, as recent data are not available, it does not document the impact of recent economic sanctions. We can see, however, that the relationship between oil exports and the manufacturing and mining industry is inconsistent with what the Dutch disease thesis would predict. Rather than moving in opposite directions as predicted by the thesis, oil exports and the manufacturing and mining industry seem to grow and fall in a similar pattern, possibly with some varying time lags. In other words, an informal examination of the growth rates of oil exports and the manufacturing and mining industry does not suggest a clear negative relationship between oil exports and the rest of the economy. An implication that follows is similar: Economic sanctions may not have a strong impact on Iran’s resource curse, as the latter either does not exist or is limited.

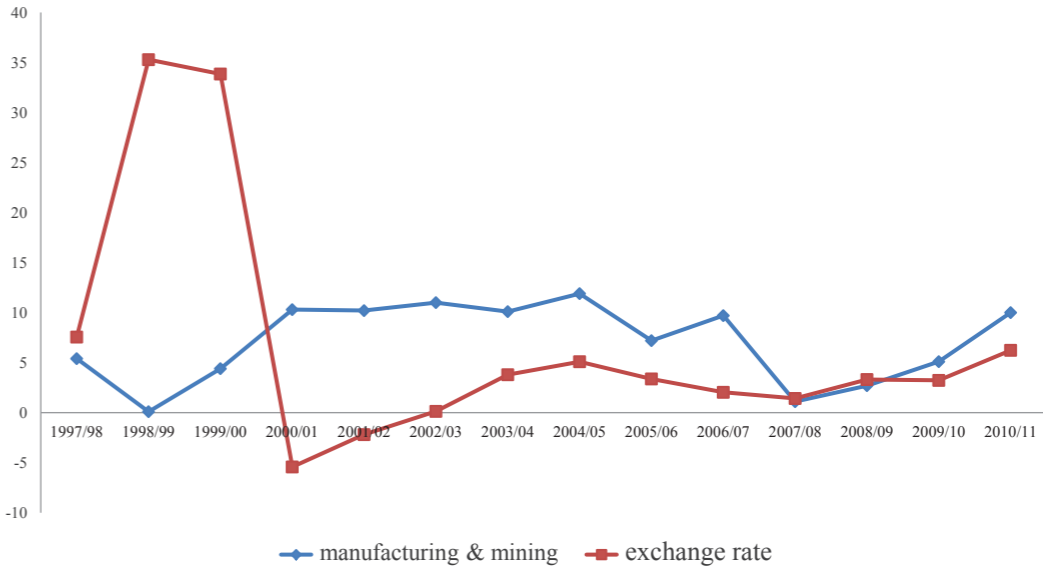
**Figure 4.2: Oil Exports vs. Manufacturing & Mining:
Annual Growth Rates**



Source: Central Bank of the Islamic Republic of Iran (1959 - 2010).

Figure 4.3 traces the movement of the Iranian rial (IRR) against the US dollar (USD) exchange rate and the growth of the manufacturing and mining industry. The value of the Iranian rial has plunged since autumn 2011. It temporarily devalued up to 80 percent after October 2012 following the oil embargo. A positive value for the IRR/USD exchange rate means a depreciation of the rial. Again, recent data are not available but we can see that the relationship between the exchange rate movement and the growth rate of the manufacturing and mining industry is partly consistent with what the Dutch disease thesis would predict.

**Figure 4.3 Exchange Rate Movement vs.
Manufacturing & Mining Growth**



Source: Central Bank of the Islamic Republic of Iran (1959 - 2010).

Though still in its early stage, this and other findings suggest that economic sanctions, while depressing the oil sector, do not go as far to revitalize the manufacturing and mining industry by reducing the dominance of oil in the economy, i.e. preventing or reducing resource curse or Dutch disease. As new data become available, we believe that these results may change. We also argue that the conventional view that Iran suffers from a resource curse, in particular Dutch disease, needs to be carefully re-examined. If anything, our analysis suggests that the resource curse and Dutch disease did not exist or was limited during the period we examined. Consequently, economic sanctions do not seem to promote economic diversification.

Sanctions Do Hurt, but Do They Also Work? Sanctions Blessing on Democracy

Despite the denials by the Iranian government and its officials, recent sanctions on Iran, especially oil embargos and financial sanctions, have taken a toll on Iranians and their economy. In other words, economic sanctions hurt badly this time, as supported by increasing evidence. The IEA, for instance, estimated that Iranian oil exports fell to a record of 860,000 b/d in September 2012 from 2.2 million b/d at the end of 2011, following Western sanctions (Reuters 2012). The output in September 2012 was Iran's lowest since 1988. In the following months, Iran began struggling to halt a decline in oil exports which could plummet further due to sanctions. The results of this fall led to a significant drop in revenues and the value of the rial, the Iranian currency.

Sanctions hurt the economy. They did not neutralize the resource curse. Or instead the existing effects of the resource curse are quite weak. Will they result in denuclearization, the intended consequence, then? Probably not. The self-reliance that nuclear energy and advanced technology will bring is a quite significant factor in Iran's strategic calculation. Furthermore, it is too late for Iran to discard the nuclear program given the time, resources, and political and social capital it has invested over the past decade. As a matter of fact, there are very few domestic forces pushing to give it up, and efforts by the international community to stop the program have rather galvanized public opinion in favor of it. Israel's attempts to slow the program have instead empowered hard-liners that praise the murdered scientists as martyrs for a greater cause. Thus, the official Iranian position will remain that they are not seeking nuclear weapons, but rather nuclear energy for peaceful uses (Jang and Lee 2013).

But speculating on whether or not economic sanctions can denuclearize Iran is neither the purpose nor scope of our research. The purpose of our research is to identify the effects of economic sanctions on the relationship between resource abundance and economic performance. Given our data analysis, economic sanctions do not weaken

any of the causal mechanisms of the resource curse outlined previously.

Then, do economic sanctions strengthen or weaken authoritarianism? Is there any impact of sanctions on the relationship between the resource curse and politics? Will sanctions harm rentier states? Probably. In general, it has been argued that there is a correlation between oil resources and political freedoms. The price of oil and the pace of freedom move in opposite directions in oil-rich countries. Iran's reformists often take to the streets in protest, but their leaders can afford to ignore them thanks to petro money (Friedman 2006).

A rentier state is a country where an overwhelming proportion of its income comes from outside of its domestic industrial activity, such as charges on an easily extractable, exported resource of oil and natural gas. Such a state becomes autonomous from the society because the government does not have to depend on tax revenues. Also, revenues channeled by the state do not go into productive economic investments, but instead into the purchase of modern armaments. As a rentier state relies heavily on distributive mechanisms to assert authority, it eventually erodes its legitimacy (Nasr 2000).

As a matter of fact, Iran under the Shah was a typical rentier state given that the Shah's state was much less rooted in society. Since the mid-1960s, this state did not need to collect taxes from its own people, and the economy was entirely based on oil exports employing only a tiny percentage of the domestic labor force. Furthermore, when OPEC raised oil prices in the early 1970s, the Shah suddenly had huge revenues for military modernization. Along with windfall profits, urban Iranians experienced escalating inflation and an influx of privileged foreign skilled workers and technicians (Skocpol 1994). These symptoms of the resource curse were followed by a series of violent clashes between dissatisfied, pre-revolutionary society and the notorious secret police, SAVAK.

Oil hinders not only healthy diversified industrialization but also a vibrant civil society and democracy. There are two kinds of resource curse: economic and political. The rationale of the political curse is three-fold. First, a rentier state can afford to co-opt civil society and to block the formation of opposition groups. The government uses its wealth to keep the public politically demobilized. This is why civil society in Gulf countries, if any, is so docile and submissive. Second, the state spends its revenues to expand the security establishment from the military to personal guards so that its security forces demobilize the people. Finally, since such a country does not have a diversified industrial structure, it does not provide enough opportunity to facilitate job professionalization and advanced skills. It is highly related to low level of national education and small portion of middle class (Ross 2001).

Regarding the impact of sanctions on the relationship between oil and political economy, Iran seemed to experience a weakened authoritarian state than a weakened oil-dominated economy. Rulers who have pressing fiscal needs often possess short time horizons and may not afford to ignore the dissent of society (Haber, Razo, and Maurer 2003). That is why conservative hard-liners in Iran, who lacked oil money due to sanctions, could not afford to implement another voting fraud and crackdown in the 2013 presidential elections where a reformist candidate won a landslide victory. Until 2009's fraudulent election and violent crackdown against the protestors, Iran was considered one of the region's better democracies along with Israel, Turkey, and Lebanon, having competitive and fair elections. But growing clashes between the reformist movement and the unelected conservative factions witnessed the country backtrack on many of its liberal aspects (Jang and Lee 2013).

Of course, the Iranian economy is more diversified than its neighboring Gulf oil-exporting countries where manufacturing sectors are not exist. Given this clear contrast, there might be a slight impact of sanctions on Iran's oil-dominant economy. Unlike Saudi Arabia, UAE, and Qatar, Iran's closed economy imposed by external sanctions might squeeze the domestic economy to develop manufacturing sectors.

Nonetheless, our data shows that such impact is quite marginal. Our conclusion is that sanctions do not necessarily impede an oil-sector dominant economy.

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Roundtable Proceedings

Program Agenda

Session 1

The Efficacy of Sanctions on Iran and North Korea

Session 2

Sanctions and Korea-Iran Relations

Program Agenda

Wednesday, April 10, 2013

15:00-15:15	Welcoming Remarks	
	Jang Ji-Hyang	Director, Middle East and North Africa (MENA) Center The Asan Institute for Policy Studies
15:15-16:30	Session 1: “The Efficacy of Sanctions on Iran and North Korea”	
Moderator	Go Myong-Hyun	Director, Center for Risk, Information, and Social Policy The Asan Institute for Policy Studies
Speakers	“United Nations Security Council Sanctions on Iran and North Korea”	
	Moon Duk-ho	Director General, African and Middle Eastern Affairs Bureau Ministry of Foreign Affairs, Republic of Korea
	“Redefining Humanitarian Aid to North Korea”	
	Go Myong-Hyun	Director, Center for Risk, Information, and Social Policy The Asan Institute for Policy Studies
16:30-16:45	Break	
16:45-18:00	Session 2: “Sanctions and Korea-Iran Relations”	
Moderator	Jang Ji-Hyang	Director, Middle East and North Africa (MENA) Center The Asan Institute for Policy Studies
Speakers	“The Effect of Sanctions on Iran’s Economy: Solutions and Prospects”	
	Abbas Aminifard	Assistant Professor, Department of Economics Islamic Azad Shiraz University, Iran
	“Blessing or Curse? The Unintended Consequences of the Iran Sanctions Regime”	
	Han Intaek	Associate Research Fellow, Jeju Peace Institute
	Jang Ji-Hyang	Director, Middle East and North Africa (MENA) Center The Asan Institute for Policy Studies
Discussant	Park Hyondo	Senior Researcher, Institute of Middle Eastern Affairs Myongji University

Session 1: The Efficacy of Sanctions on Iran and North Korea

Go Myong-Hyun, The Asan Institute for Policy Studies

What is the scope of the uranium enrichment program in North Korea, specifically the number of centrifuges that North Korea might currently have?

Moon Duk-ho, Ministry of Foreign Affairs, ROK

During my stay at the UN, we had lots of discussions on whether North Korea can indigenously produce those requisites. For example, looking at North Korea's plutonium program at the Yongbyon nuclear complex, the general view is that North Korea acquired all materials indigenously, such as nuclear graphite and turbine generators. Also, there were not many reports on North Korea importing items for its ballistic missile program from abroad.



When we looked into the uranium enrichment program, specifically the gas centrifuge program, we initially thought that North Korea needed many more specialty items and materials from the outside world. So we tracked North Korea's prior procurement. The first point of supply was Germany and Western European coun-

tries because of the past activities of individuals such as Yun Ho-jin, former North Korean Ambassador to the International Atomic Energy Agency (IAEA). When he worked in North Korea's mission in Vienna, he led the procurement of those materials from Germany, Switzerland, and many countries. Until the mid-2000s, there was no control or monitoring in the trade of nuclear materials. Before then, this kind of illicit trade was completely unregulated. That is how North Korea must have acquired all those items over the past 40 years.

Until the mid-2000s, there was no control or monitoring in the trade of nuclear materials.

Most analysts believe that North Korea had established one R&D scale or pilot-scale centrifuge. R&D is about 10 centrifuges, a pilot is about 100 scales, but a small industrial scale is about 3,000. The uranium enrichment workshop shown to Dr. Siegfried Hecker included 2,000 centrifuges. But I think in the time up until North Korea's revelation, Dr. Hecker and many analysts thought that North Korea had just a small number of centrifuges. However, all of a sudden, North Korea showed the world they had 2,000 centrifuges, but I believe they have another parallel facility. They just showed one building of 2,000 centrifuges, but where did they do their conformance or R&D tests? We don't know about potential second or third facilities. I believe that North Korea is almost able to produce those items indigenously.

We have another report on North Korea's support of a maraging steel factory in Syria. This was widely reported in Germany. Maraging steel is widely used in making ballistic missiles. At that time, there was no evidence or smoking gun, but Iran was suspected of providing financial support and North Korea of providing engineers. While this has been widely reported, it cannot be confirmed 100 percent.

Stephane Mot, Seoul Village.com

What should we expect on China's policy towards North Korea for 2013 in terms of cross-border trade?

Go Myong-Hyun, The Asan Institute for Policy Studies

We have very little idea when it comes to the economic situation in North Korea. A common understanding of North Korea was that they are desperate. But we know from these kinds of surveys that they are not. China is not going to cut down on this kind of economic relationship with North Korea so easily. This relationship is ongoing, and part of the trade is not sponsored by the state, but is actually motivated by individual transactions. North Korea's economy will not get worse anytime soon. China could change its policy stance and implement drastic measures against North Korea, but that would be very surprising.



Mohammad Hassan Mozafari, Myongji University

Mr. Moon's presentation only looks at the Western perspective on the Iranian nuclear program and it would be better to judge the value of an issue from all aspects. If we just talk about the probable military dimension (PMD), does it mean that we deprive others from the right of development? Iran has the right to develop nuclear energy and if you talk about this it means you have to deprive one nation from the right to development.

The second point is that most of these sanctions are illegal. When we talk about democracy, we have to talk about international liberalism and the rule of law. So whatever sanctions are imposed by the UN Security Council are okay, but if they are just by the US and EU, it is—according to international law—illegal. According to the UN charter, unilateral economic sanctions against a sovereign nation are not allowed.



Third, while countries have to adhere to duties outlined in international rules and regulations, what about the rights that these agreements give? For example, what type of rights are provided for Iran under the NPT and how are they compatible with its rules and regulations? Many of the world's superpowers have a lot of steps to take in this regard.

Moon Duk-ho, Ministry of Foreign Affairs, ROK

On the right to peaceful uses of nuclear energy, Iran is inside the NPT, but it has violated its NPT obligations. If you are part of the NPT, you should abide by what it and IAEA safeguards agreements have outlined. For example, Iran secretly pursued this uranium enrichment program. If it had initially reported this program to the IAEA, then that would be another story. Until it was revealed by an Iranian resistance group, Iran had been hiding this enrichment program for 20 years. If it is a normal member of the NPT, it can pursue this program—including the gas centrifuge program—so long as it reports all of its designs and plans to the IAEA in advance.

Iran is now abrogating all of its obligations under the NPT system. There are only five official nuclear weapon states in this world. Israel, Pakistan, and India, legally speaking, have nothing to do with the NPT. But Iran is part of the NPT. And while

it was a member, it secretly pursued this enrichment program. When the program was revealed, Iran was asked to fulfill its obligations yet it continues to argue that it has the right to enrich uranium and the peaceful development and use of nuclear energy.



The inalienable right to the peaceful use of nuclear energy sounds good when you read the NPT. But this right should be followed by fulfilling certain obligations. If you abrogate this obligation, your scope for the peaceful use of nuclear energy should be limited. That is why North Korea has no intention for the peaceful use of nuclear energy. It used this slogan to dupe the international community.

They are always talking about how their Yongbyon nuclear program was first designed to produce electricity. Their revealed uranium enrichment program was meant to be used to produce LEU for their future research of light water reactor (LWR). But, after some months, they are now openly saying that these are for military purposes against the US and that this capability constitutes their nuclear deterrence. Nuclear deterrence is for military purposes.

On the legality of sanctions, the UN Security Council resolutions are not illegal. They are legally binding and their universal application and implementation should be carried out. On the point about autonomous sanctions by the US and EU, I am in support of these measures. That is why South Korea is participating, although not fully, in implementing many portions of these sanctions.

On the issue of UN member states' responsibilities, we have two terms: nuclear nonproliferation and nuclear disarmament. Nuclear nonproliferation is the responsibility of non-nuclear weapon states. Once you enter the NPT as a non-nuclear weapon state, you should not go nuclear. This is your prime responsibility. This is

why we are contesting North Korea and Iran. They lied, and once they were asked to stop their illicit activity, they sometimes lied about, reversed, or nullified their prior commitments. Over the past 20 years we can detail and document all of North Korea's lies, reversals, and contradictory statements. When we talk about nuclear disarmament by the five nuclear weapon states, these five states should do more in reducing their nuclear arsenals. That is why Korea is supporting the New START (Strategic Arms Reduction Treaty) process by the US and Russia.

Niv Farago, Sogang University

Looking back, Ayatollah Khomeini was the one who clamped down on the Iranian nuclear program immediately after the revolution. It was the Iran-Iraq war that eventually led Iran to turn to the nuclear option. The fact that Iran stood alone for eight long years against a coalition composed of both the US and Soviet Union, having to face the chemical attacks by Saddam Hussein's army, attacks that were condoned by the international community. But during those eight years of war, Iran didn't break down and back then, the Soviet Union was on the same side of the United States. Also, China wasn't an economic superpower. So from a historical perspective, is it possible that Western sanctions on Iran could be efficacious now that both China and Russia are not cooperating? And if not, wouldn't they merely encourage Iran to go further and escalate instead of compromise?



Vincent-Guillaume Poupeau, Delegation of the European Union to South Korea

Today, sanctions are one thing, but diplomacy is the other part of the picture. The EU has been leading negotiations with Iran to build trust again. Of course, sanctions alone may not work, but together with the sanctions, the EU has made proposals which are very ambitious, but also very daring. We even proposed to lift up a few sanctions on the export of petrochemicals.



We had talks last week with Saeed Jilali, the chief Iranian negotiator, and the result was quite disappointing because he did not stick to the same position and he still asked for the right to uranium enrichment, which was completely unacceptable since this would be in contradiction with the UN Security Council resolutions and IAEA resolutions. We have this diplomatic package and we made a proposal. Again, of course,

Iran has the right to enrichment but this has to be done under particular conditions, as for everybody else.

What we propose to do with Iran as a member of the NPT, like any country, is to give the same rights to Iran, but as far as enrichment is concerned, Iran has to first stop enrichment and there is no reason to enrich and accumulate uranium above 20 percent. We are doing everything possible to build trust with Iran and to be honest and transparent.

Session 2: Sanctions and Korea-Iran Relations

Park Hyondo, Myongji University

We should think not only about Iran, but also North Korea. When we think about the implications of the Iranian sanctions toward the Korean Peninsula, Koreans are not afraid of Iran or anything related to Iran. Iran is far from Korea and only one percent of our exports are dedicated to the Iranian market. What is important for Korea is not just the trade volume itself, but future prospects because Iran is such a huge country and has a lot of potential. Politically speaking, Korea has no political interest or international relationship with Iran besides their economic ties. However, Iran's association with North Korea is a headache and certainly complicates the situation.

On the question of whether sanctions work or not, it is worth quoting an official statement by Ayatollah Khamenei last year. He said, "Sanctions had some impact but caused the positive movement within ourselves, to use our great capacities and talents. With these successes our nation proved that living independent of the USA does not mean being behind others." This statement implies that these sanctions do have some kind of impact, and more than anything else, sanctions against Iran at least revitalized a policy idea that was not strongly considered during the Ahmadinejad regime: an industry without oil in the Iranian economy.



Today, many Iranians are beginning to think about the future of the Iranian economy as one without oil. They are therefore trying to cut down their dependence on oil.

There are two contrasting perspectives from the papers and the views of ordinary Iranians. Is it because of economic sanctions that the Iranian economy is undergoing difficulties, or are they a result of Ahmadinejad's mismanagement of the economy?

Abbas Aminifard, Islamic Azad Shiraz University



It is actually not just because of Ahmadinejad or the sanctions. At least 40 or 50 percent is related to Ahmadinejad's mismanagement. The economics team under Ahmadinejad is not well-informed about the Iranian economy. There is not much professional expertise in managing the economy and the sudden shift in policy has been really bad.

The Iranian economy was getting better after Khatami. He left huge currency deposits which were a very good reserve for Ahmadinejad. Ahmadinejad in the first term delivered high economic performance because the economists that advised him were well-informed about the Iranian economy. But this did not happen in the second term. This was not the result of just sanctions or mismanagement. Both of them had to do with Iran's difficult economic situation.

Park Hyondo, Myongji University

Last year, I visited Iran in May, and this year, I visited in January and there was a huge difference between the two periods. As a tourist, I could not feel any impact of the sanctions on the daily lives of the Iranians. The only stark contrast between the two trips was during my second visit to Iran, The international airport was entirely empty. We were basically the only passengers who were waiting for the flight to Abu Dhabi. Other than that, everything was quite normal for us. The exchange rate was quite high. Usually, the exchange rates in Iranian airports should be official, but they were not. At the time, the official rate was 16,000 rial but at the

airport, we could exchange 36,000 rial, which is normally much better than out in the market. We could exchange for a much better deal in the airport than out in the market. Do you think that the devaluation of the currency is the outcome of the sanctions? Or again, is it due to economic mismanagement?



Abbas Aminifard, Islamic Azad Shiraz University

Actually, this is not devaluation. This is volatility. This high fluctuation in the economy is a sudden shift. The devaluation in the long run cannot promote exports, but the case you mentioned shows that this is due to volatility, which is a bad sign for the economy. Many forecast that the rial will depreciate much in the future. This is bad. If over time the rial is devalued, this is good. Actually, this is mentioned in the fourth plan that the rial be adjusted by the inflation. In this case, the rial is not overvalued or undervalued. I think this situation is just more expected inflation in the future. Many people in Iran now predict that inflation after the elections will be high.

Vincent-Guillaume Poupeau, Delegation of the European Union to South Korea

If sanctions do not work, I am afraid that diplomacy might not work either. We did not invent sanctions just to blame the Iranians. The idea is to convince the Iranian

government that the nuclear enrichment program is a complete failure. If sanctions do not work as our leverage, it is no surprise if diplomacy does not work. But at least we would have done our job to try to find a solution based on diplomacy and negotiation.

Stephane Mot, Seoul Village.com

Sanctions also depend on who follows and implements them, as well as improving the entry points beyond the borders and picking up what is happening outside those countries. How does this impact the situation, considering that natural allies may not be there tomorrow? For example, the fact that China changes its stance has more of an impact on sanctions on North Korea. Do you think that some partners, if there are some changes, might have an impact on the Iranian situation?



Abbas Aminifard, Islamic Azad Shiraz University

Iran's policy tends to be close to Asian countries such as Korea and Japan because it is very difficult for Iran to build a relationship with European countries. In this case, it is important for Iran to consider the cost-benefit analysis in diplomacy or in the evaluation of policy. In this situation, Iran must look to other countries like China and India. But if sanctions or if the pressure of sanctions eases, other countries would also be very interested in investing in Iran. Many European companies find Iran as a very appealing place for investment. Iran, however, does not have many choices. Iran has only India, China, and Russia, so it is very difficult.

Song Il Kwang, Konkuk University

The presenters have argued that international sanctions on Iran are not working, but there has been a lot of news on what is occurring in Iran lately. There are small dem-

onstrations over issues such as the lack of gas, commodities, or prices. Also, Ayatollah Khomeini and many Iranian officials are confessing that the international sanctions on Iran are working. They state that the sanctions are not working well, but they confess that the economic situation is not good, especially after the EU oil embargo and SWIFT sanctions by the international society to impose worldwide financial and telecommunications sanctions on Iran. So to what extent do you think the international sanctions against Iran are not working?



Han Intaek, Jeju Peace Institute

The sanctions hurt, but I do not think they work. There is a difference between hurting and working. If the goal of sanctions is denuclearization, then sanctions do not work. If the goal is economic diversification, the sanctions probably did work, even though it is too soon to tell. If the goal is democratization, yes, the sanctions may work in the future. So for the first goal, which was denuclearization, sanctions did not work. The sanctions most likely worked for democratization and diversification, although we need more time. The question is, if sanctions do not work, then should South Korea join in on imposing sanctions?



Niv Farago, Sogang University

China will not join sanctions on both North Korea and Iran. It had a very lucrative incentive to do so. For example, the Americans and the Saudis offered to sell China oil at prices lower than which China has been purchasing from Iran. The Chinese rejected the offer, though they could have profited from it. Because there is also a political agenda, it is not only about profit or economic motives behind China's elites or policy.

Speaker Biographies



Abbas AMINIFARD is an Assistant Professor in the Department of Economics at the Islamic Azad Shiraz University in Iran. Previously, he was a broker in the Fars Stock Market and researcher on budget and planning issues at the Fars Regional Electric Company. He has also advised the Iranian electricity industry on pricing models and demand estimates, and conducted research for the government on trade and exchange rate policies. Professor Amini-fard's research focuses on macroeconomic modeling, purchasing power parity, financial and trade liberalization, and energy economics. He received a B.S. and M.S. from Shiraz University and a Ph.D. in International Economics from Isfahan University.



GO Myong-Hyun is a Research Fellow and the Director of the Center for Risk, Information, and Social Policy (CRISP) at the Asan Institute for Policy Studies. Previously, he was a Postdoctoral Researcher at the University of California, Los Angeles, Neuropsychiatry Institute (Semel), a Teaching Assistant at the Pardee RAND Graduate School, and a Senior Research Assistant in the Social Intervention Group at Columbia University. Dr. Go's research focuses on social networks, complex social interactions over space, and geospatial modeling of disease. His recent publications include "What Impact will Reducing Concurrency have on Decreasing the Incidence of HIV in Heterosexual Populations?" *Sexually Transmitted Disease* (2012) and "Social Distance and Homophily in Adolescent Smoking Initiation," *Drug and Alcohol Dependence* (2012). Dr. Go received a B.A. and an M.A. from Columbia University and his Ph.D. in Policy Analysis from Pardee RAND Graduate School.



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November 20, 2012: Crowded marketplace in downtown Tehran, Iran

Cover Page (right)

November 21, 2012: Empty stores outside the Naqsh-e Jahan Square in Isfahan, Iran

Back Page

November 21, 2012: Naqsh-e Jahan Square in Isfahan, Iran

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