

Sanctions and Survival: The Iranian Economy under Pressure

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Table of Contents

- **Introduction**
- **Chapter 1** Four Decades of Sanctions: Architecture and Timeline
- **Chapter 2** Channels of Transmission: Trade, Finance, and Expectations
- **Chapter 3** Measuring the Shock: Data, Mirror Statistics, and Nighttime Lights
- **Chapter 4** Inflation under Isolation: Exchange Rates, Pass-Through, and Dollarization
- **Chapter 5** Oil, Budgets, and the State: Revenue Volatility and Fiscal Adjustment
- **Chapter 6** Banking and Payments: Correspondents, SWIFT Constraints, and Workarounds
- **Chapter 7** Rewiring Supply Chains: Trade Rerouting via the Gulf, Turkey, Iraq, and China
- **Chapter 8** Logistics under Pressure: Shipping, Insurance, and Port Bottlenecks
- **Chapter 9** Industrial Policy by Necessity: Import Substitution, Subsidies, and Procurement
- **Chapter 10** Households under Stress: Prices, Rations, and Everyday Coping
- **Chapter 11** Work, Wages, and Informality: Labor Market Responses
- **Chapter 12** Managing Scarcity at the Firm Level: Sourcing, Inventory, and Pricing
- **Chapter 13** Innovation under Constraint: Frugal Engineering and Adaptive Design
- **Chapter 14** Digital Lifelines: E-Commerce, Platforms, and Payments under Sanctions
- **Chapter 15** Food and Agriculture: Inputs, Yields, and Food Security
- **Chapter 16** Health and Pharmaceuticals: Supply Chains, Shortages, and Substitutions
- **Chapter 17** Energy and Petrochemicals: Exports, Downstream Value, and Domestic Demand
- **Chapter 18** Who Survives, Who Thrives: SMEs, Conglomerates, and State Enterprises
- **Chapter 19** Gender, Youth, and Entrepreneurship: Inclusive or Exclusive Resilience?
- **Chapter 20** Borderlands and Gray Zones: Free Zones, Re-Export Hubs, and Informal Trade
- **Chapter 21** Environment and Climate under Sanctions: Externalities and Adaptation
- **Chapter 22** Institutions and Governance: Corruption, Rents, and Rulemaking
- **Chapter 23** International Law and Humanitarian Channels: Carve-Outs and

- Compliance
 - **Chapter 24** Effectiveness and Unintended Consequences: What Sanctions Achieve—and What They Don't
 - **Chapter 25** Paths Forward: Scenarios, Policy Options, and Lessons for Practitioners
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Introduction

Sanctions are often described as tools of statecraft, but in Iran they are also daily weather—an ambient condition that shapes what households buy, how firms source parts, and which ambitions entrepreneurs consider plausible. This book investigates the economic effects of sanctions with a policy-oriented lens, combining macroeconomic indicators with original interviews from across Iran's business landscape. By tracing how pressure travels through prices, payments, and expectations, we seek to understand both the mechanisms that generate hardship and the strategies that sustain activity in spite of it.

The core argument is twofold. First, sanctions work through a bundle of channels—trade restrictions, financial isolation, heightened uncertainty, and the signaling effects that alter private decisions. These channels interact with preexisting vulnerabilities, from inflationary tendencies to fiscal dependence on hydrocarbons. Second, while businesses and households develop genuine capacities to cope—rerouting trade, redesigning products, leaning on informal finance—these adaptations can carry long-term developmental costs: misallocation, underinvestment, technological stagnation, and institutional erosion. Resilience, in short, is real but not free.

Methodologically, the book marries quantitative and qualitative evidence. On the quantitative side, we assemble macroeconomic series relevant to sanctions episodes: exchange rates and inflation, external balances, sectoral output, and budget dynamics. Where official data are incomplete or lagging, we triangulate using mirror trade statistics, price-scraping, and satellite-based proxies such as nighttime lights. On the qualitative side, we draw on interviews with Iranian business owners and managers—from small workshops to large industrial firms—probing how they experience shocks, manage liquidity, negotiate supply chains, and weigh risk against opportunity.

The interviews reveal an economy that adapts through both formal and informal means. Firms experiment with smaller production runs to conserve foreign exchange, redesign products to accommodate available inputs, and diversify suppliers through regional hubs. Households substitute goods, stretch lifecycles of durables, and rely more heavily on social networks. Digital platforms have opened new channels for sales

and remote services, yet payment frictions and regulatory uncertainty remain binding constraints. Across cases, we observe a shift toward short planning horizons and elevated precautionary behavior—rational at the micro level but cumulatively dampening growth.

Policy responses matter enormously. Exchange-rate management, energy pricing, targeted support to vulnerable groups, and efforts to keep humanitarian channels open all shape the distribution of pain and the prospects for recovery. The state's procurement choices create de facto industrial policy under scarcity, while compliance regimes abroad determine which transactions are feasible at all. Understanding these moving parts is essential not just for analysts and advocates, but for officials tasked with minimizing collateral damage and preserving the foundations of long-run development.

The book does not offer a how-to manual for circumventing rules, nor a simple verdict on sanctions' effectiveness. Instead, it evaluates outcomes against stated policy goals and humanitarian principles, highlighting trade-offs and unintended consequences. We ask: Which channels dominate at different moments? How durable are coping strategies once conditions change? What reforms can mitigate inflation and volatility without entrenching rent-seeking? Answering these questions requires humility about data and clarity about ethics, including strict protections for interviewees.

Finally, we preview the structure that follows. Early chapters map the sanction architecture and trace transmission channels through prices, payments, and expectations. The middle of the book turns to sectoral and household impacts, documenting firm-level adaptation, labor market shifts, and the role of digital platforms. Later chapters assess governance and environmental externalities, the legal terrain of humanitarian carve-outs, and the broader question of what sanctions achieve relative to their costs. We conclude with scenarios and policy options oriented toward practitioners—inside and outside Iran—who must make decisions under pressure.

CHAPTER ONE: Four Decades of Sanctions: Architecture and Timeline

The story of sanctions against Iran is not a simple, linear narrative, but a complex tapestry woven over more than forty years, with threads of political upheaval, nuclear ambitions, regional rivalries, and human rights concerns. It began, as many things do, with a bang – or rather, with a siege. In November 1979, following the Islamic Revolution, radical students seized the American Embassy in Tehran and took

diplomats hostage, immediately triggering the first wave of U.S. sanctions. These initial measures included freezing approximately \$8.1 billion in Iranian assets, encompassing bank deposits, gold, and other properties, along with a comprehensive trade embargo. This was a stark introduction to a tool of statecraft that would profoundly shape Iran's economic destiny for decades to come.

While these early sanctions were temporarily lifted in January 1981 after the hostages' release as part of the Algiers Accords, they were quickly reimposed. By 1987, the U.S. had reinstated sanctions in response to Iran's actions against American and other vessels in the Persian Gulf and its alleged support for terrorism. The scope of these restrictions expanded significantly in 1995, when firms dealing with the Iranian government were included, and U.S. President Bill Clinton issued executive orders banning U.S. investment in Iran's energy sector and prohibiting U.S. trade and investment in Iran. This marked a pivotal shift, moving beyond specific incidents to a broader, more comprehensive attempt to isolate Iran economically.

The mid-1990s also saw the introduction of congressional action. The Iran and Libya Sanctions Act (ILSA) was signed into law in 1996, later renamed the Iran Sanctions Act (ISA) in 2006 when sanctions against Libya were terminated. This act aimed to prevent Iran from financing terrorism and its nuclear, chemical, bacteriological, and missile programs. It laid the groundwork for "secondary sanctions," a crucial concept that would later become a hallmark of the sanctions regime. Unlike "primary" sanctions, which target U.S. trade with a foreign country, secondary sanctions aim at non-U.S. entities engaging in trade with the sanctioned nation, leveraging access to the U.S. market as a powerful deterrent.

The early 2000s brought a renewed focus on Iran's nuclear program, which Western governments feared was intended for developing nuclear weapons, despite Iran's claims of civilian purposes. This concern escalated in 2006 when Iran refused to comply with United Nations Security Council Resolution 1696, demanding a halt to its uranium enrichment program. This non-compliance triggered the imposition of the first United Nations Security Council (UNSC) sanctions in December 2006, through Resolution 1737. These initial UN sanctions focused on banning the supply of nuclear-related materials and technology and freezing the assets of key individuals and companies associated with the program.

Subsequent UN resolutions, such as 1747 in March 2007 and 1803 in March 2008, expanded these measures, imposing an arms embargo, broadening asset freezes, and calling on states to monitor Iranian banks, ships, and aircraft. The UN sanctions, while multilateral, were initially modest, consisting mainly of targeted financial sanctions and travel bans. However, they provided a critical international legal framework upon which individual nations and blocs, particularly the United States and the European Union, would build far more extensive and impactful restrictions.

The period between 2010 and 2012 witnessed a significant intensification of sanctions. The Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) was adopted by the U.S. Congress in June 2010, targeting firms investing in Iran's energy sector or selling refined petroleum to Iran, as well as foreign banks doing business with designated Iranian banks. This period also saw the EU dramatically increase its restrictive measures, targeting Iran's economy with prohibitive measures aimed at its trade and financial sectors. In January 2012, the EU agreed to an oil embargo on Iran, which became effective in July of that year, and moved to freeze the assets of Iran's central bank. This was a significant step, cutting off a major revenue stream for Iran.

The cumulation of these measures by 2012 was drastic, leading to the disconnection of Iranian banks from SWIFT, the electronic messaging system that facilitates global money flows. This act effectively isolated Iran from the international financial system. The aim of these comprehensive sanctions, particularly those related to Iran's nuclear program, was to confront Tehran with a clear choice: comply with international demands or face severe economic consequences. However, sanctions were also imposed for other reasons, including human rights abuses, ballistic missile development, and support for terrorist groups.

A temporary reprieve came with the Joint Comprehensive Plan of Action (JCPOA), often known as the Iran nuclear deal, finalized in Vienna on July 14, 2015. This landmark accord, signed by Iran and the P5+1 (the five permanent members of the UN Security Council—China, France, Russia, the U.K., U.S.—plus Germany) along with the European Union, aimed to limit Iran's nuclear program in exchange for significant sanctions relief. Under the JCPOA, Iran agreed to dismantle much of its nuclear infrastructure, restrict enrichment levels, and allow extensive international inspections. In return, UN sanctions were lifted on January 16, 2016, and the United States and the EU also eased their nuclear-related sanctions.

This period of easing, however, was short-lived. In May 2018, U.S. President Donald Trump announced the United States' withdrawal from the JCPOA, claiming it failed to adequately curtail Iran's missile program and regional influence. Following this withdrawal, the U.S. promptly reinstated all sanctions that had been lifted under the nuclear deal in November 2018, embarking on a "maximum pressure" campaign. These sanctions were further expanded in 2019 and 2020 to encompass Iran's financial sector and key sectors of its economy, including iron, steel, aluminum, and copper.

The snapback of U.S. sanctions had profound implications, effectively nullifying the economic benefits Iran had hoped to gain from the nuclear deal. While the EU enacted an updated blocking statute to nullify U.S. sanctions on countries trading with Iran, the chilling effect on international businesses was undeniable. Many foreign companies, fearing repercussions from the U.S. Treasury, significantly curtailed or ceased their

operations in Iran, illustrating the powerful extraterritorial reach of U.S. sanctions.

Beyond the nuclear file, sanctions have consistently targeted Iran's alleged support for terrorism. The U.S. designated Iran as a state sponsor of terrorism in 1984, a designation that remains in place and triggers a host of ongoing sanctions, including restrictions on foreign assistance and arms transfers. Executive Order 13224, issued in 2001, specifically targets entities accused of supporting terrorism. This aspect of the sanctions architecture means that even during periods of nuclear de-escalation, a significant portion of the U.S. sanctions regime remains firmly in place.

Human rights abuses within Iran have also consistently been a target of sanctions. Executive Order 13553, issued in 2010, applies to Iranian officials responsible for serious human rights abuses. The EU also introduced a regime of restrictive measures specifically targeting human rights violations and abuses in Iran in 2011, which have been renewed annually. These measures include asset freezes and travel bans on listed individuals and entities. The breadth of these human rights-related sanctions underscores the multi-faceted nature of the international pressure on Iran.

The architecture of sanctions also includes restrictions related to Iran's ballistic missile program and its activities concerning chemical, biological, radiological, and nuclear (CBRN) weapons. Executive Order 13382, issued in 2005, targets entities accused of supporting Iran's nuclear proliferation and missile-related activities. Recent developments, such as sanctions imposed in July 2024, specifically targeted Hakiman Shargh Research Company for its involvement in Iran's chemical weapons research and development. Concerns persist regarding Iran's compliance with the Chemical Weapons Convention (CWC), with assessments from 2018 and 2024 suggesting non-compliance due to undeclared activities and the development of pharmaceutical-based agents as part of a chemical weapons program.

In October 2020, the UN arms embargo on Iran, agreed upon in the 2015 nuclear deal, expired, theoretically allowing Iran to import foreign military equipment. However, other sanctions frameworks continued to target Iran's military capabilities. For instance, in May 2024, the European Union expanded the scope of its sanctions regime against Iran, banning the sale of components for missiles in addition to unmanned aerial vehicles (UAVs). The U.S. has also consistently sanctioned individuals and entities linked to Iran's drone sales and missile procurement networks, often under Executive Orders 13382 and 13949, which target proliferators of weapons of mass destruction and Iran's conventional arms activities.

Looking ahead, the landscape of sanctions continues to evolve. In September 2023, France, Germany, and the UK announced their decision to retain certain sanctions on Iran, which were originally slated for removal under the JCPOA, to deter Tehran from selling drones and missiles to Russia. Furthermore, since October 2024, Iran has once again been placed on the official blacklist of the Financial Action Task Force (FATF) due

to its failure to implement laws against terrorist financing. In February 2026, the U.S. imposed new sanctions on thirty individuals, companies, and vessels connected with Iranian oil, escalating economic pressure.

This chronological overview reveals a sanctions architecture that is anything but static. It has grown in complexity, moving from initial responses to specific provocations to a multifaceted, layered system addressing nuclear proliferation, terrorism, human rights, and regional destabilization. The instruments have also diversified, from comprehensive trade embargoes and asset freezes to targeted financial sanctions, export controls, and the potent leverage of secondary sanctions. Each layer, each new executive order or legislative act, adds another brick to a wall that has, over four decades, profoundly reshaped the Iranian economy. The next chapters will delve into how this formidable architecture transmits its pressure, and how Iranians, in turn, have navigated its intricate design.

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