THE IMPACTS OF FINANCIAL SANCTIONS
ON POLICY SPACE:
THE CASES OF IRAN AND RUSSIA

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ABSTRACT

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ON POLICY SPACE: THE CASES OF IRAN AND RUSSIA

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As a foreign policy instrument, economic sanctions intend to change the current policies of the target and to persuade the target to implement policies in accordance with the form that is imputed appropriate by sanctioning parties. To that end, they aim to narrow or to destroy the policy space of the target by using commercial and financial channels. With the globalizing world order, sanctions have evolved and have begun to be implemented using more financial channels. This thesis aims to reveal the impacts of financial sanctions on the policy space. For that purpose, the cases of Iran and Russia are examined, and separated into different episodes, then the dominant sanction mechanism of each episode is revealed. There are two basic findings of this thesis. First, sanctions have gained a financial dimension with the globalization and financialization. That finding is observed both in Iran and Russia. Second, financial sanctions substantially narrow the policy space of the target and cause great damage to the target's economy.

Keywords: Financial Sanctions, Policy Space, Iranian Sanctions, Russian Sanctions.

ÖZ

FİNANSAL YAPTIRIMLARIN POLİTİKA ALANINA ETKİLERİ:
İRAN VE RUSYA ÖRNEĞİ

Cundu Kaya, Gözde
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Bir dış politika aracı olarak ekonomik yaptırımlar, hedef ülkenin mevcut politikalarını değiştirmeyi ve sözkonusu ülkeyi yaptırım uygulayan taraflar tarafından uygun görülen politikalar uygulamaya ikna etmeyi amaçlar. Bu amaçla, ticari ve finansal kanalları kullanarak hedef ülkenin politika alanını daraltır ya da bu politika alanını ortadan kaldırmayı hedefler. Küreselleşen dünya düzeniyle birlikte, yaptırımlar evrimleşmiş ve daha çok finansal kanallar kullanılarak uygulanmaya başlanmıştır. Bu tez, finansal yaptırımların politika alanına etkilerini ortaya koymayı amaçlamaktadır. Bu amaçla, İran ve Rusya'ya uygulanan yaptırımlar incelenmiş, dönemlere ayrılarak, her dönemin baskın yaptırım mekanizması ortaya konulmuştur. Bu çalışmanın iki temel bulgusu vardır. Birincisi, yaptırımlar küreselleşen ve finansallaşan dünya ile birlikte finansal boyut kazanmıştır. Bu bulgu hem İran hem Rusya örneğinde gözlemlenmektedir. İkincisi, finansal yaptırımlar hedef ülkenin politika alanını önemli ölçüde daraltmakta ve hedef ülke ekonomisine büyük zarar vermektedir.

Anahtar Kelimeler: Finansal Yaptırımlar, Politika Alanı, İran Yaptırımları, Rusya Yaptırımları.

To Ferda

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BTI	Binding Tariff Information
CBR	Central Bank of Russia
CHIPS	Clearing House Interbank Payments System
CISADA	Comprehensive Iran Sanctions, Accountability, and Divestment Act
DPR	Donetsk People's Republic
EIA	Energy Information Administration
EU	European Union
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
IAEA	International Atom energy Agency
IEA	International Energy Agency
ISA	Iran Sanctions Act
IMF	International Monetary Fund
JCPA	Joint Comprehensive Plan of Action
JPA	Joint Plan of Action
LPR	The Luhansk People's Republic
MICEX	Moscow Interbank Currency Exchange
MOEX	Moscow Exchange
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NAUFOR	Russian National Association of Securities Market Participants
NPT	Non-Proliferation Treaty
RTS	Russian Trading System

OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OSCE	Organization for Security and Co-operation in Europe
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TRIMS	The Agreement on Trade-Related Investment Measures
TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSC	United Nations Security Council
US	United States
USSR	Union of Soviet Socialist Republics
WB	World Bank
WTO	World Trade Organization
VAR	Vector Auto Regression

CHAPTER 1

INTRODUCTION

Since ancient times, governments, states and societies have employed several methods to make others behave in the direction of their wishes. They have also used those methods to reach their goals in international system or to achieve their foreign policy objectives. While doing this, they have chosen to contract or destroy the policy space of the others. Hence, the target countries have been prevented from acting within their foreign and domestic policy spaces.

The era in which we live has been subject to changes and those changes result in shifting methods used to attain foreign policy goals. However, the most common methods are diplomacy, foreign aid (economic and military aid), military force, alliances, and economic sanctions. All of those tools and methods can be implemented as ways to make an impact on the target's foreign and domestic policy space. While diplomacy is the softest method, the use of military force is the hardest. Hence, it will not be wrong to place economic sanctions between those ends.

Economic sanctions aim to induce a target country to change its policies, and make it behave in accordance with the form that is imputed appropriate by the sender countries. To that end, sender countries harness tools to break off the commercial and financial ties or they threaten to break off those ties.

In the past, military force has been widely used in order to achieve foreign policy goals, and economic sanctions have been employed as a companion to military force. However, nowadays economic sanctions have arisen as a separate tool in foreign policy. The content of the economic sanctions have diversified over time, but they have generally taken form of restrictions on trade and financial channels.

Countries establish relations with the outside world mainly through trade and financial channels. The stronger these channels are, the greater the effect of their absence. Recently, the use of those channels are started to increase in order to affect policy space of others with an increasing global integration and interdependence. Hence, economic sanctions have appeared as the most direct and explicit way to contract or destroy the policy space by using those channels.

While the debate over the efficiency of sanctions continues, globalization has increased the importance of financial channels and financial sanctions. The countries which dominate the financial and economic system have become the ones which use relevant financial instruments extensively and effectively. Ultimately, sanctions have increased in variety by gaining financial dimension over time.

In the evolution of economic sanctions, there are two important experiences: the failure of sanctions in Iraq and the 9/11 terrorist attacks. Those events led the US change and improve its sanctions policy. Iraq sanctions resulted in shift from conventional sanctions to smart sanctions whereas 9/11 terrorist attacks caused an increase in the implementation of financial sanctions.

On the one hand, the conventional sanctions applied after the 1991 Gulf War failed and proved the inefficiency of those sanctions when invoked against an authoritarian regime. Those sanctions targeted all segments of the country. They were comprehensive and included cutting all ties connecting the target country with the outside world. The humanitarian damage to innocent civilians reached great dimensions, and hence world leaders were obligated to take initiatives for mitigate this damage. As a result, smart or targeted sanctions were designed to target the regime and the political elites by freezing their assets and putting travel bans. In this way, undesirable effects on innocent civilians were tried to be prevented.

On the other hand, 9/11 terrorist attacks made the US trace the terrorist financing through legislations and using its dominance in the financial and payments system. The US claimed that their aim was to protect the international financial system from the threats of terrorist or illegal activities. Hence, after this milestone, sanctions have gained a financial dimension. In the past, sanctions were applied from one country to another, and they were more direct. Today, sanctions are indirectly implemented by means of financial system and private sector. Financial institutions become unwilling to involve in illicit activity because of reputational costs. Even though financial sanctions have some limitations, they were used in the cases of North Korea and Iran extensively and are being used against Russia lately.

This thesis is built on three important topics: financial sanctions, policy space and the impacts of the former on the latter. On the one hand, the importance of financial sanctions have increased with globalization and financialization. Nowadays, trade is also financialized, and countries have begun to connect with each other through financial channels. On the other hand, it has become debatable with globalization that independent states can freely set policies within their policy space. Global integration has brought certain limitations that affect foreign and domestic policy space. As a result, states have begun to influence each other's policy space with harnessing financial channels.

One of the main motivations of this thesis is to discuss how sanctions have evolved from conventional to financial. It is useful to discuss the motives behind the appearance of financial sanctions in order to observe the effects of those sanctions on the policy space. To that end, the other motivation is how financial sanctions influence policy space of the target countries. Financial sanctions affect target countries' economy as a whole by contracting foreign and domestic policy space either through reducing the number or effectiveness of policy instruments. In this framework, Iranian and Russian cases will be examined with respect to economic sanctions, especially financial sanctions. In a globalized world, financial sanctions have become more effective than conventional sanctions in order to contract policy space of the target. For this purpose, the mechanisms behind the functioning of financial sanctions are elaborated, and demonstrated by the examples of Iran and Russia.

The case of Iran is chosen since it demonstrates well the evolution of sanctions from conventional to financial. Iran has been exposed to sanctions over decades, started with trade and energy sanctions in 1979, following the hostage crisis. More recently, nuclear-related sanctions on Iran were lifted by the sender countries. Iran decided to cease the nuclear program in cooperation with the International Atom Energy Agency (IAEA).

The case of Russia exemplifies a recent and ongoing process. Russia, as the successor of the Soviet Union, had been familiar to the both sides (sender and target) of the economic sanctions. The recent tensions between Russia and Western countries started with the Russian-Georgian conflict. Recently, this tension has increased even more due to the economic sanctions imposed on Russia by the EU, the US and the other countries such as Canada, Japan and Australia. The annexation of Crimea by the Russian Federation in February 2014 and subsequent Russian military intervention in Ukraine resulted in a set of economic sanctions on individuals, businesses and officials of Russia. The EU and the US imposed several sorts of sanctions on Russia: asset freezes, travel bans, and financial sanctions on the key sectors of the Russian economy. In reply to sanctions, Russia banned food imports from sender countries.

The political and economic effects of financial sanctions on Iran and Russia are still controversial and ongoing. While Iranian sanctions were partially waived, Russian sanctions continue. For this reason, this thesis aims to demonstrate how policy spaces of Iran and Russia are affected by sanctions rather than reaching a clear result such as whether sanctions on those two countries are successful or not. Additionally, this thesis intends to compare and contrast those two cases even though they have different dynamics. It may be beneficial to note also what this thesis is not intended to do. This thesis does not discuss whether sanctions policy on Iran and Russia is right or wrong. For this reason, the discussion focuses on economic results rather than the reasons behind sanctions policy.

One of the findings of this thesis is the evolutionary process of sanctions. This process is both recognized through Iranian and Russian cases even though they have lasted different length of periods. The other finding is the effect of financial sanctions on the contraction of policy space. Especially, economic data shows in this thesis, both economies have been negatively affected by financial sanctions. For example, the reason why Iran was convinced to sit down to negotiate was the strong effects of financial sanctions on the Iranian economy. Moreover, Russia has undergone financial crisis due to both economic sanctions and the fall in oil prices.

In the literature, the main discussion on sanctions has been shaped on the efficiency of sanctions. There are many studies aiming to answer whether sanctions work or not, and under what conditions they work. Indeed, there are many studies on the subjects of this thesis, evolution of sanctions, financial sanctions, and the cases of Iran and Russia. However, those studies in the literature deal with those subjects separately, and do not aim to compare and contrast them. Moreover, they do not approach economic sanctions from the perspective of policy space. On the other hand, policy space discussion has been shaped on the development objectives of developing countries within the global restrictions, and does not interest in economic sanctions. In fact, economic sanctions can be treated as such global constraints.

In this context, there are three distinct characteristics of my thesis. The first one is the demonstration of the evolution seen in sanctions policy from conventional to financial. This evolutionary process is recognized in both Iran and Russian cases, but has not been much more underlined enough in the literature by comparing and contrasting two different cases. The second one is the establishment of the relation between policy space and financial sanctions. Additionally, I demonstrate how financial sanctions contract policy space of target country. This linkage has not been pointed out before in the literature. The third contribution is the historical classification of economic sanctions imposed on Iran and Russia. I divide the sanctions against those two countries into episodes in order to easily demonstrate the evolutionary process of sanctions. Then, I define the dominant feature of those episodes according to three logic proposed by Giumelli (2013). Hence, this thesis is an extension of Giumelli's work.

This thesis is organized as follows: Chapter 2 aims to demonstrate the evolution of economic sanctions. Herein, several definitions of economic sanctions are given with intent to show this evolution. Then, historical overview of economic sanctions is made with reference to the main discussions behind them. Moreover, the types of economic sanctions, the most used terms of this thesis like conventional sanctions, smart sanctions and financial sanctions, are explained with historical overview of economic sanctions. Since the main purpose of this Chapter is to demonstrate the evolution of economic sanctions from conventional to financial, the motives of this evolution are explained.

Chapter 3 intends to answer the question how financial sanctions affect policy space of target countries. First, I define the concept of policy space, and explain the general restrictions on it. In this context, I claim that economic sanctions can also be considered as such restrictions. Then, I investigate how policy space is shrunk by economic sanctions, especially by financial sanctions.

Chapter 4 explains the case of Iran. First, background information about sanctions on Iran is given, especially, Iran's alleged nuclear program. Then, nuclear program related agreements, Joint Plan of Action (JPA) and Joint Comprehensive Plan of Action (JCPA), are discussed. Second, I examine the international sanctions on Iran historically with special emphasis on financial sanctions. Third, I demonstrate the impact of sanctions on the Iranian economy with the available economic data. Then, the Iranian case is re-examined with respect to policy space and financial sanctions perspective.

Chapter 5 examines the case of Russia with the same direction in Chapter 4. First, I discuss the background of Ukraine and Crimea crisis. Second, the international sanctions on Russia are introduced historically. Third, the impacts of sanctions on the Russian economy are evaluated through economic data. Then, the Russian case is re-assessed with reference to the discussions made on policy space and financial sanctions.

Chapter 6 concludes with the comparing and contrasting of Iranian and Russian cases. Herein, further prospects on the use of financial sanctions are presented.

CHAPTER 2

THE EVOLUTION OF ECONOMIC SANCTIONS

Economic sanctions, as a foreign policy tool, should be placed between the use of military power and diplomacy. The issues that are not possible to solve with the "silver tongue" of diplomacy, and that do not require rifles and tanks either, are handled mostly with economic sanctions.

There are several motives behind the imposition of economic sanctions, which have evolved according to the circumstances. Those range between weakening the enemy in the battleground to preventing terrorist activities, "illegal" invasions to "scary" nuclear developments, human rights abuses to destabilization efforts. However, those explicit motives may be the tip of the iceberg, and aim to conceal the original purposes.

On the other hand, the types of sanctions and the economic grounds fundamental to sanctions have evolved with the motives and time. Before the 2000s, mostly trade-based, comprehensive, and broad economic sanctions were imposed[1] while today, more targeted, finance-based, and smart economic sanctions are imposed[2].

The incentives behind the evolution of conventional economic sanctions to financial sanctions are as follows: First, the obvious and explicit motive is the failure of conventional economic sanctions. Second is the motive to establish a new form of

[1] Hereafter, this type of sanctions will be called conventional sanctions, which are interchangeably used as conventional, comprehensive, traditional, extensive and broad sanctions.

[2] Hereafter, by using the term financial sanctions, I also mean that they are targeted and smart since those sanctions target mostly financial sector, and assets of certain actors in the target.

sanctions that will be supported by the international community. Third is the deepening of globalization in the twentieth century.

The sanctions against Iraq are mentioned predominantly as a failure in the literature even though economic sanctions curtailed the proliferation of weapons of mass destruction in Iraq. The reason is the collateral damage deriving from conventional sanctions, and subsequent human drama in Iraq (Gottemoeller, 2007: 99). Finally, this failure has initiated discussions on how sanctions can be made smarter, and made sanctions aim to target actors that determine the policies causing the sanctions without leading to collateral damage.

It is clear that sanctions are not supported by the international community when they deviate from their aim, and harm innocent citizens. Additionally, it is clear that the success of economic sanctions depends on multilateral or unilateral implementation. Hence, new type of sanctions that have appeared since the 2000s, aims to take the support of international community, and with this support, they may be implemented in a global scale. Here, international community does not only refer to foreign governments, it includes international organizations, foreign companies, and financial institutions.

Globalization has encouraged economies to open free trade and capital flows. Today, global capital flows increase more rapidly than global trade (UNCTAD, 2012). Hence, trade-based sanctions have become inadequate, and have evolved into financial sanctions. Globalization causes both challenges and opportunities for world economy, and the use of economic sanctions. On the one hand, proliferators and terrorists may hide their illicit activity into the global financial system, and may exploit that system for this purpose. On the other hand, the technological developments, integration and interdependence may lead to occurrence of financial intelligence that denounces the illicit activities and their supporters (Paulson, 2007).

In this evolution of sanctions, the remarkable event is the 9/11 terrorist attacks. The US, as a prominent implementer of sanctions for years, has taken the lead again.

There are several reasons behind this trend: First, the US is the global economic power and has used its primacy of currency and financial system. Second, as a permanent member of the UNSC, the US may take the support of the UN. Third, the US has been the direct target of terrorist attacks. In addition to those reasons, Gottemoeller (2007: 100) mentions that the US desire to new type of sanctions, is originated from military disaster in Iraq and disillusion related to policies of unilateral regime change.

In the US, after 9/11 terrorist attacks, national security has become the first priority of the US government, and effacing any treats to national security has proven indispensable. As a matter of fact, the US Treasury, previously harnesses only for the stability of financial system, has become the center of the US national security after the attacks. The provision of security to financial system has been added to the objectives of the Treasury (Zarate, 2013).

Up to now, Al Qaeda, North Korea, Iran, Syria, and Russia have been sanctioned financially. Even though the principal case studies of this thesis are Iran and Russia, North Korean case will be partly touched upon in this Chapter.

The motivation of this Chapter is to construct the evolutionary path of economic sanctions. Since the main issue of this thesis is to demonstrate the impacts of financial sanctions on policy space, it is necessary to examine the types of sanctions as far as applied and to reveal their impacts on policy space and shortcomings.

The findings presented in this Chapter demonstrate that economic sanctions has evolved throughout history. The studies about this evolution handle the issue separately by focusing on comprehensive sanctions, smart sanctions, and financial sanctions or their evolution from conventional sanctions to smart sanctions. However, Gottemoeller (2007) constructs this evolutionary path by touching upon cornerstones like Iraqi case and 9/11 attacks. As a contribution to previous studies, in this Chapter, my aim is to bring the pieces placed in other studies together and to classify the motives behind this evolution. In order to classify the motives, I propose three reasons why sanctions have evolved from conventional to financial sanctions. While doing this, the main point the thesis stands is the impacts of sanctions on policy space.

In this respect, this Chapter is organized as follows: The discussion starts with a general definition of economic sanctions. Those definitions are given chronologically in an attempt to demonstrate the evolution of sanctions definitions, and to show that definitions over time have been reshaped by eliminating the shortcomings. Then, historical overview of economic sanctions is introduced by providing several studies on the use of them. In this part, types of economic sanctions are defined. Especially, the most used terms of the thesis, comprehensive sanctions, smart sanctions and financial sanctions, are defined with a historical overview. The aim is to demonstrate the evolution of comprehensive economic sanctions to financial sanctions. Second, the motives of this evolution are discussed. In this part, shortcomings of previous applied sanctions are discussed, and the reason why the support of the international community is needed, is given. As a third motive, the impacts of globalization on the use and evolution of economic sanctions are addressed. This Chapter is concluded with discussing the future of sanctions.

2.1. GENERAL OVERVIEW OF ECONOMIC SANCTIONS

It is worth exploring the ways in which economic sanctions are defined, their types and the previous studies and discussions so far done in order to understand the evolution of this foreign policy tool. To that end, this part starts with the definitions taken from substantial studies. Then, main discussions about the use of sanctions are introduced. In this part, before going into details on evolution, different types of sanctions are examined in order to get the intuition on this process.

2.1.1. The Definition of Economic Sanctions

It is not possible to define economic sanctions by putting them into certain patterns since their use dates back to very old times, and they have evolved over time. Thus, in the literature, they are no specific definition of "economic sanctions", but I provide here several definitions of this concept chronologically.

Galtung (1967) defines sanctions as "actions initiated by one or more international actors (the 'senders') against one or more others (the 'receivers') with either or both of two purposes: to punish the receivers by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important". This definition gives us two important features of sanctions that are still valid in recent implementations: punishment, and compliance. The punishment may be in the form of either coerce or constraint. The working mechanism behind those features is to narrow or destroy the policy space of target by making target be deprived of "some values", and/or making it act according to the wills of sender. However, this definition is lack of the signaling feature of sanctions for the third parties, and restricts sanction relation into two parties: the receiver and the sender.

According to Galtung (1967: 381, 383), sanctions can be classified according to the types of values that the receiver is deprived of: diplomatic sanctions, communication sanctions, and economic sanctions. Even though diplomatic sanctions and economic sanctions have still importance, communication sanctions have lost its significance with globalization. Hence, this definition has become inadequate for today's use because it reflects the conditions and characteristics of that period. It is not possible to deprive target of communication opportunities in the present technological development.

On the other hand, Pape (1997: 93-4) defines economic sanctions by focusing on its trade side and their economic costs on target. He claims that "Economic sanctions seek to lower the aggregate economic welfare of a target state by reducing international trade in order to coerce the target government to change its political behavior". This definition is also lack of the signaling feature of sanctions, and focus on just trade channels, and their economic costs. However, it gives the clues of how sanctions constrain policy space of target by mentioning their negative effect on economic welfare of target. If economic welfare is considered as a source of undesirable policies, a reduction in the prosperity of the country will constrain the policy space for the implementation of those undesired policies.

According to Hufbauer et al. (2007: 3), economic sanctions are “deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations”. This definition possesses two important features about today’s use of economic sanctions that are missed in the previous definitions. One of them is the financial relations in addition to trade relations. Nowadays, the importance of financial channels has increased, and sanctions are increasingly imposed through those channels. The other feature is the signaling feature that is the threat of sanctions for the potential targets and/or for the third parties. In addition to coerce and constrain the target, sanctions now are used effectively in order to signal “the threat of sanctions”, and consequently restricts future policies of third parties. Moreover, this definition states that sanctions are “government-inspired” implementations. Even though sanctions are imposed through international organizations like the UN, and EU, they are “government-inspired”, and based around “national security concerns”. However, they are no longer government-based imposed, and the targets are no longer states. Regimes, and non-state actors involved in undesired policies may be the target that is why the implementation of sanctions have evolved from government-based to private sector-based implementation. Zarate (2009: 43) describes this evolution as “deeper involvement of the private sector in areas previously confined to the halls of governments, with a commensurate and widening appreciation within governments of the power of markets and the private sector to influence international security”.

Although above-given definitions possess negative side since they imply withdrawal of economic possible activities, and are mostly described as penalties, economic sanctions may be used in relation with the economic incentives; for example, in carrot and stick approach. In addition, everyday usage of the word “sanctions” has multiple meanings: “the granting of official permission or approval” and “penalty or punishment for disobeying a law or rule”. In the literature, there are several descriptors of economic sanctions: “economic statecraft”, “economic diplomacy”, “economic coercion”, “economic warfare”, “economic leverage” (Taylor, 2010:11).

2.1.2. Historical Overview of Sanctions

The use of economic sanctions is based on the prior of World War I. The earliest known example is Pericles’s Megarian decree which was enacted in 432 B.C. At that time, Megara attempted expropriation of territory and kidnapped three Aspasian women. In retaliation, Pericles enacted Megarian decree to limit the products of Megara to enter in Athenian markets. Before and during World War I, economic sanctions accompanied warfare. For example, during World War I, the UK used economic sanctions against Germany to obtain military victory; and the US imposed sanctions on Japan to restrain Japanese influence in Asia and to induce Japan to deflect shipping to the Atlantic. As a separate policy instrument and as a substitute for warfare, they emerged in the international diplomacy after World War I. After World War I, economic sanctions arose as a stand-alone foreign policy tool and were used without warfare. Between 1918 and 1920, the UK wanted to destabilize the Bolshevik regime in Russia and to renovate the support of its allies in World War I, hence imposed sanctions against Russia. In addition, this period witnessed the multilateral use of economic sanctions in order to solve border disputes. For example, the League of Nations sanctioned Yugoslavia in 1921 to prevent initiatives to obtain territory from Albania, and Greece in 1925 to step back from the invasion of Bulgarian border. The parties of the Chaco War, Paraguay and Bolivia, between 1932 and 1935, were sanctioned by the League of Nations in order to settle the war. Moreover, Italy was sanctioned by the League of Nations between 1935 and 1936 with the aim of drawing back Italian troops from Abyssinia (Hufbauer et al., 2007)[3].

[3] The first two paragraphs of this part are heavily drawn from (Hufbauer et al., 2007).

During World War II, the use of this instrument was related to warfare. That is, they were closely used to “disrupt military adventures” or “to complement a broader war”. Alliance powers and the US targeted Germany and Japan between 1939 and 1945 to impoverish and win the war. After World War II, the imposition of sanctions retained mostly expropriation issues. The main motives after the World War II is “to impair the economic capability of the target country, to limit its potential to wage war, to limit the target state’s foreign policy options, to impair its military potential (Hufbauer et al., 2007). During this period, bipolar world system caused sanctions to concentrate on two poles, the US and USSR, as a target and sender.

Before the 1990s, the UN did not often apply economic sanctions except a few cases in which the targets were South Africa, Portugal, Rhodesia, and Somalia. After 1990s, sanctions imposition of UN increased severely. According to Tostensen and Bull (2002: 373), this increase is related to the end of Cold War. The ideological divisions in the UNSC were removed with the end of Cold War, and the members became able to take international action with one accord.

As a result, the implementation of economic sanctions have increased drastically since the 1990s. There are 52 cases of economic sanctions during 1990s, whereas in 1980s economic sanctions were applied in 31 cases, and in 1970s they were imposed in 37 cases.

Besides all these practices throughout history, the discussion on economic sanctions has focused on whether they work or not. The conventional wisdom of the 1960s and 1970s was that economic sanctions are as effective as military force. However, it morphed into an optimist path about their utility in the mid-1980s. The supporters of economic sanctions were aware the limitations and that they do not always work, but represent them as an important tool in achieving critical foreign policy objectives (Pape, 1997: 91).

Hufbauer et al. (2007) disagree with the “sanctions never work” approach. They provide policy prescriptions to use economic sanctions as an effective tool of international relations. They studied 174 case studies of economic sanctions episodes plus four summary case, one state/local level case and they identified 13 new case studies since 2000. They found that in about a third of the cases, sanctions succeed. However, they warn about the fact that the level of success depends on several factors like the foreign policy goals sought, the economic and political variables in the target country and the way in the imposition of sanctions.

However, the database constructed by Hufbauer et al. (2007) is defined by Pape as an indicator of sanctions’ success. The first edition of this database was published in 1985, second one in 1990, and the last one in 2007. They examined 115 cases, and found that there are 41 success cases, but Pape counts 40 success (They count the US sanctions on Egypt in 1963 as two successes, but Pape counts only once.), and a rate of 34 percent rate of success. Pape also states that there was academic optimism about the future of economic sanctions after the increase in the international economic cooperation after Cold War. However, Pape challenges the database of Hufbauer et al. and the optimism about the effectiveness of economic sanctions. The main question he asked whether economic sanctions are an effective tool in global politics. He is not interested in whether economics sanctions are substitutes of warfare, or whether economic sanctions increase the effectiveness of military force, or the usage of sanctions in the case of economic goals (Pape, 1997: 91-3).

He reconsiders the cases presented by Hufbauer et al. and tries to indicate the role of modern nation states, and uses those implications in order to refute the future optimism about the effectiveness of economic sanctions. He states that actually there are only five successes in the database of Hufbauer et al. (Among the 40 successes, 18 success obtained by force, 8 success have no implication of concessions made by the target country, and 6 success have no imposition of economic sanctions, and 3 success are not determined.) (Pape, 1997: 93).

He claims that the optimism about the future of economic sanctions depends on the consideration of sanctions will dissuade the target country of the political goals. However, he says this will not be the case of modern nation states. He says that there will be resistance by modern states, and nationalism will make the target country resolute to challenges coming from external players, and they will maintain the policies inappropriate to sender country. Additionally, countries with advanced managerial abilities relieve the harm of sanctions through substitution or using other. Even if there are no such abilities and non-popular ruling elites, countries can protect themselves by forwarding the burden on the "opponents and disenfranchised groups" (Pape, 1997: 93)[4].

On the other hand, some scholars like Galtung (1967: 384) tries to propose requirements in order to implement efficient economic sanctions. He expresses that there are several conditions to damage the target country's economy without jeopardizing the sender's situation:

- The prominent sectors of the target country should have a great part from the imports,
- It is not possible to substitute the imports from domestic production,
- The sender country should be the important exporter to the target country,
- It is not possible to substitute the imports from external markets,
- The imports of the target country should have a little part in the exports of sender country,
- The exports of the target country should have a great part in imports of the sender country,
- The exports of the target country should be easily substitutable by the sender country,
- The trade relations should be easily controlled.

[4] This discussion can be traced by Pape (1997), Pape (1998), Elliott (1998), and Hufbauer et al. (2007).

More recently, the other discussion in the sanctions literature is the impact of sanctions on human rights and humanitarian consequences. On the one hand, Peksen (2009) discusses the question whether sanctions promote or worsen human rights conditions in target country by using time series, cross-national data for the period 1981 and 2000. He finds that economic sanctions deteriorate “government respect for physical integrity rights”. In addition to that result, he concludes that comprehensive and multilateral sanctions are more detrimental on human rights, and he defines economic sanctions as “counterproductive policy tool” because of their inattentive effects. On the other hand, Allen and Lektzian (2012) focus on the sanctions effect on public health. They claim that when sanctions have substantial economic impact, they may be as detrimental as military interventions on public health.

In addition to humanitarian effects of sanctions, Andreas (2005) focuses on the criminalizing effects of sanctions in and around target country during and after sanctions period. He examines Yugoslavian case, and concludes that sanctions not only criminalize the target state, its citizens, and economy, but also have negative similar impact on the neighbors of target state.

Since last almost 15 years, economic sanctions have begun to be implemented more by using financial channels as a result of deepening globalization and financialization, hence sanctions evolved into a new form, financial sanctions. Not only states but also non-state actors are sanctioned by financial sanctions. The logic behind the financial sanctions is to cut the ties of the target country from the global financial system, and make the target devoid of capital flows used in trade and investment. The other dimension of financial sanctions includes asset freezes. Parallel to the increase in use, studies about financial sanctions have also increased. Those studies mostly examine the cases of North Korea (Kwak and Joo, 2007), Iran (Brewer, 2016; Torbat, 2005; Carter and Farha, 2013), and Russia (Orlova, 2016; Gurvich and Prilepskiy, 2016).

Carter and Farha (2013) examine the US financial sanctions on Iran by focusing on the mechanisms behind financial sanctions, especially on regulatory basis, and key payments systems like Fedwire, CHIPS and SWIFT. Torbat (2005) demonstrates the episodes of sanctions imposed on Iran by the US. He separately discuss the impacts of trade and financial sanctions by using economic data. Moreover, Brewer (2016) focus on the UN sanctions against Iran. He especially examine the impact of asset freezes, exemptions of this policy, and the role of Iranian Financial Entity.

Orlova (2016) demonstrates the impact of sanctions on Russia's banking sector using economic data, and examines sanctions by dividing into three groups. She defines the first group sanctions as sectoral sanctions. In this group, the designated entities are denied to the access of the US and European credit markets. The second group includes the private banks that are no longer handle foreign exchange payments. The third group is the "soft" sanctions that are not directly imposed, but felt by increasing transactions costs, and the change towards Russian capital, and issuers (Orlova, 2016). According to Gurvich and Prilepskiy (2016), international financial sanctions on Russia constrained policy space of designated entities like banks, oil, gas and defense companies by reducing foreign funding, and consequently worsening their investment conditions.

On the other hand, Arnold (2016) takes a different approach to financial sanctions by examining their true costs, and consequently forecasts for the future use of sanctions, and global economic order. He claims that financial institutions may give up compliance with sanctions policies, and jurisdictions due to increasing economic costs and risks. Besides, he states that countries may want to decrease their dependence on the US-dominated global financial system, and try to find alternatives to this system. Hence, all those initiatives may downgrade the dominance of the US, and it may no longer possess the ability to impose sanctions by using its dominance on this system.

2.1.3. The Types of Economic Sanctions

There are several types of sanctions. According to imposition area, sanctions may be comprehensive including trade and financial measures as well as travel restrictions and asset freezes, or selective, targeting certain fields, like financial sanctions. According to sanctioning entity, they may be unilaterally or multilaterally applied. They may also be mandatory by a resolution of the UNSC and/or the EU or voluntary (Tostensen and Bull, 2002: 374).

Tostensen and Bull (2002: 373, 374, 378) suggest two distinctive features of smart sanctions. First, smart sanctions target political elites that design and responsible of undesired policies. Hence, smart sanctions are effective in targeting and punishing. Second, smart sanctions prevent the exposure of collateral damage to innocent citizens. Additionally, they claim that the operative mechanism behind the conventional sanctions is “pain-gain” formula, in other words “transmission mechanism”. This approach bases on the assumption that the more pressure felt by the citizens because of sanctions, the more pressure citizens impose on the political elites to change their behavior. This mechanism can work in the existence of strong internal opposition. The other mechanism behind conventional sanctions is the cost-benefit analysis which do not operate well due to its changing weight for the target and sanctioning states. The conventional sanctions sometimes result in backlash, and they turn into accusatory to sanctioning country. Actually, to some extent, transmission mechanism depends on whether the state is democracy or authority. However, smart sanctions are difficult to construct and implement since they require detailed information about the internal forces of target state such as economic, military and political support groups that shape the target regime.

The distinctive features of financial sanctions are their dependence on private sector, banks or financial institutions whereas traditional sanctions require direct government action. The financial institutions are forced to provide the security of global financial system since if they do not and engage in illicit financial activities, then punishments are on way. Hence, the sender country indirectly sanctioned the target in comparison to that traditional sanctions involve direct relationship with the sanctioning and target country. The target can be exposed to sanctions even if there is no direct economic ties with the sanctioning country. However Western-dominated global financial system form the base of financial sanctions (Arnold, 2016: 78).

After 9/11 terrorist attacks, financial sanction imposition increased since non-state actors and rogue states involved in transactions supporting illicit activities, and sometimes those can be beyond the reach of US legislation (Arnold, 2016: 79). In the global system, the place of government shifted to private sector, and the policy arena changed to global financial system. US used private sector to accomplish its foreign policy goals.

The first US legislation is USA PATRIOT Act of 2001. The Act requires financial institutions to report any suspicious transaction or record, and due diligence. The Act prohibits US banks from opening correspondent or pass-through accounts for designated institutions. US plays central role in correspondent banking, hence when US banks are prohibited to open correspondent accounts, the target exiled from US financial system. The driving force for banks is not to lose the access to the US financial system. US used banks commercial interests to provide the security of financial system. Hence, they do not engage to any transactions supporting terrorism or illicit activity for their reputations, and bad actors are dismissed from the financial system (Arnold, 2016: 79-80). The Act was first applied to North Korea. Banco Delta Asia, Macau-based bank, was sanctioned due to its involvement in North Korea's illicit activities.

Arnold (2016: 88) demonstrates the costs of financial sanctions. Since banks tend to reduce "their exposure to high-risk jurisdictions and increasing compliance costs", they want to decrease their dependence on US-dominated financial system, and maybe "establish a legitimate alternative financial system". Finally US may lose its power to impose financial sanctions. Arnold (2016: 88) claim that "many in the financial industry view de-risking as a direct consequence of financial sanctions". Financial institutions that do not any more want to be exposed to risk and compliance costs, leave the market, and de-risk. There is no adequate guidance for financial institutions to monitor and report the illicit activity, and they do not want to risk the business. As well as states will follow de-risking attitude by producing alternatives to Western-dominated financial system. The success of financial sanctions use by US will be affected by the shake of US domination in global financial system.

2.2. THE MOTIVES BEHIND THE EVOLUTION OF ECONOMIC SANCTIONS

Up to now, economic sanctions have undergone two transformations: First, at the end of the 1990s, they shifted to smart or targeted sanctions. Second, at the beginning of the 2000s, they gained financial dimension. Hence, the recent examples of sanctions in North Korea, Iran and Russia are mixture of those two, targeted financial sanctions.

The aim of this Part is to demonstrate the motives behind the evolution of economic sanctions. There are several motives, but I gather in three main headings: The shortcomings of conventional sanctions, the support of international community, and globalization. First, it is obvious that this evolutionary process is the result of the effort to make sanctions more effective in constraining policy space of target by removing shortcomings and failures of conventional sanctions. In some cases, conventional sanctions were effective in constraining policy space of target, but they resulted in collateral damage to citizens, and corruption. Hence, targeted sanctions arose as a candidate to be as effective as conventional sanctions in the constraining policy space of target, but not leading to negative externalities. Correspondingly, this evolutionary process is also the result of remodeling of world economic order. This order which was previously controlled through governments and countries, now is generated by transnational and international corporations. In addition to domination of this organizations, the world economic order is reshaped through financial channels. It will not be possible to narrow the policy space of the target by imposing trade sanctions in an environment that is dominated by financialization. Hence, sanctions have been reshaped by the fact that the commercial channels have lost importance relative to financial channels.

2.2.1. The Shortcomings of Conventional Sanctions

The 1990s witnessed both the success and the failure of conventional sanctions. Even though in the literature it is claimed that some of the results are failures with respect to human rights, they may be evaluated by the senders as success. However, in the consideration of economic data, it is clear that those sanctions were effective in constraining policy space of targets through resulting in a vast scale of economic costs on regimes, and citizens.

In the transformation of economic sanctions to smart sanctions, the remarkable case is Iraq sanctions. Conventional economic sanctions were imposed by the UNSC against Iraq after Iraq's invasion of Kuwait in August 1990, and were lasted even after the Gulf War ended. The sanctions were so comprehensive and long-lasting including trade, oil, and arms embargo, and freezing assets of Iraqi government officials, and ban on financial transactions. The sanctions restricted the recruitment of food and medicine, and resulted in huge increases in food prices. The sanctions were effective in constraining Iraqi policy space, as claimed by the US government in 1990 that 90 % of imports, and 97 % of exports were prevented. The country lost two-thirds of its GDP, and it was unable to earn foreign currency (Alnasrawi, 2001). The sanctions were so far-reaching that Iraq was no longer able to maneuver.

Drezner (2015) proposes two policy problem in the implementation of conventional sanctions. Those problems are well-suited to discuss through Iraqi case. The first problem is the negative externalities that are results of comprehensive trade sanctions. As seen in Iraqi case, the immediate negative impact was on the food supply. Since Iraqi economy was so dependent on oil sector to earn its foreign currency, it was no longer able to import essential goods like food, medicine, and industrial and agricultural inputs. Accordingly, infant and child mortality increased, and life expectancy decreased during the comprehensive sanctions (Alnasrawi, 2001). Drezner (2015) proposes corruption as a second policy problem. He claims that black market activities increase with sanctions. Public officials, and private sector are prone to engage in criminal activities in order to earn high profits. Alnasrawi (2001) confirms this issue thorough Iraqi case by claiming that the oil-for-food program[5] was handled though government channels, and it increased the government control over citizens. He also mentions that the regime generated discriminatory policies, and elite groups close to the regime engaged in foreign transactions, and parallel economy arose. Hence, this resulted in further widening of income gap.

As a result, in spite of the fact that comprehensive sanctions imposed on Iraq were effective in constraining policy space of Iraq, the substantial damage on innocent Iraqi citizens, and spreading of corruption caught the attention of international community and led to interrogation of the success of comprehensive economic sanctions.

On the other hand, Andreas (2005) examines political, economic, and social criminalizing effects of sanctions. As political side effects, he claims that target regime may engage in criminal activities to earn profit, assure supplies, maintain its power, and cooperate with underhanded transnational organizations resulting in symbiotic relations. As economic side effects, he mentions that sanctions may increase the underground economic activity. As social side effects, he proposes that the society may be uncivilized, and the rule of law expires. He applies this analytical framework to Federal Republic of Yugoslavia (It is now called, Serbia and Montenegro). In the 1990s, comprehensive sanctions including trade, financial transactions, and asset freezes, imposed on Slobodan Milosevic's Yugoslavia. Yugoslavian case is also a remarkable case to demonstrate the evolution of sanctions to targeted sanctions. The comprehensive sanctions on Yugoslavia was

[5] In 1995, the UNSC implemented oil-for-food program in Iraq. The program made Iraq sell a limited quantity of oil to buy food and humanitarian goods, and those earning were the only resources of income (Gordon, 2012).

effective in creating economic costs, and constraining policy space of the target regime. According to the data estimated by the US State Department, the economy shrank 26 % in 1992, and 37 % in 1993. However, Andreas (2005) claims that the groups close the regime got richer by war conditions, and sanctions evasion. Correspondingly, smuggling, underground economy, and state control over the economy increased.

As a result, comprehensive sanctions were effective in generating economic costs on the target, the evasion methods may lead to illicit activities, and criminalization of both regime, and groups within the target. Hence, Yugoslavian case can also be a milestone in sanctions debate evolving to targeted sanctions.

On the other hand, conventional sanctions were proven to be “counterproductive” because of their humanitarian damage, resulting support for “errant” regimes, and empowering their position (Rajendran, 2013: 87). The regime can easily play the victim and impose its citizens that the damage is not a result of their undesirable policies, but the result of exposure of external powers. This can also lead the nationalism in the target country, and support for the target regime.

2.2.2. The Support of International Community

Beside the discussion on the success of economic sanctions, the role of multilateral cooperation in sanctions imposition is always interrogated. Even though the general intuition among the policymakers’ side is that multilateral implementation of sanctions is more successful than the unilateral imposition, there are several studies showing the opposite.

On the one hand, it is obvious that sanctions will be more effective when they generate more costs on the target. As the number of sanctioning countries increases, the narrowing effect of the policy space by the senders will increase. Additionally with globalization, there are many opportunities to find other partners, and sanctions evasion. Thus, as the senders increase, the remaining partners for the target will decrease.

On the other hand, most of the empirical studies show that unilateral sanctions are more successful. Those studies mostly use Hufbauer, Schott, and Elliot dataset. Bapat and Morgan (2009) uses a different dataset, Threat and Imposition of Economic Sanctions, confirm the intuition of policy makers. However, Miers and Morgan (2002) explains why multilateral sanctions may not be effective more effective than unilateral sanctions by using multidimensional spatial models. Drezner (2000) examine why cooperation and sanctions imposition is not correlated.

Additionally, because of their humanitarian damage, conventional sanctions sometimes did not find the support of international community.

As the discussion on multilateral or unilateral sanctions imposition continues, a third side has arisen. Nowadays, the support of other countries and international or regional organizations like the UNSC, EU, NAFTA, ASEAN, and African Union were not sufficient to successful implementation of sanctions. With financial globalization, governments gave place to transnational and international corporations. The importance and the place of those corporations increased, and for the success of sanctions implementation, taking the support of those institutions become inevitable. Hence, US used private sectors for its national security after 9/11 attacks. This is also strongly related to “diffusion of powers” which is defined by Nye[6] as movement of power from states to non-state actors.

Globalization has de-emphasized national powers of states, but emphasized the importance of trade blocs and unions with regards to improvement of regional and global interests. The senders now need the support of global community in order to pursuit the imposition. For example, even though the US has implemented unilateral sanctions for a long time, it has recently brought extra-territorial dimension to its sanctions policy. The senders are now not allowed to impose sanctions without economic costs on their own economy due to increasing economic interdependence.

[6] http://www.ted.com/talks/joseph_nye_on_global_power_shifts/transcript?language=en#t-50589

This economic interdependence is created through the provision of natural resources, the entrance to markets, and external borrowing (Thieler, 2009).

The senders have shifted from governments to those corporations mostly in financial sector. Since those institutions handle their business with cost and benefit calculations, the decision to comply with sanctions is made according to that calculation.

2.2.3. Globalization

Chase-Dunn et. al. (2000: 77) define globalization as alterations in communication and transportation technology, growing international financial flows and global trade, shift of national markets to global markets for economic competition.

There are different approaches to globalization: First approach asserts that since the 1960s with the appearance of transnational economy, national economies have become interdependent and integrated in trade and labor division. Second approach views that there is a trend of global integration that has lasted centuries with the help of decrease in transportation and communication costs. Third approach asserts that there is a cycle of growing global integration and (Chase-Dunn et. al., 2000: 77).

Ever-mounting economic integration is a result and a characteristic of globalization. Everything that matter in the economy, goods, services, factors of production, assets, and information, can move beyond national borders easily and swiftly with technological improvements. The world first witnessed the trade globalization and then since the 1980s, the financial dimension.

In this context, the utilization of trade sanctions drastically decreased with the diverging of trade and financial globalization since World War II. The role of dollar gained strength in global banking system, and that led to increase in the efficiency of financial measures. Additionally, banking measures allow to pursue imposition of sanction to curtail counter-sanctions by means of their flexible design. Hence, the implementation becomes able to answer changing global actions and efficient as a tool of foreign policy (Rajendran, 2013: 88).

On the one hand, in the context of General Agreement on Tariffs and Trade, trade globalization was achieved by decreasing tariffs, quotas and regulatory restrictions of goods and services. Trade globalization is the sum of global exports as a percentage of global product that is the sum of all national gross domestic products. Since the 1950s, there is an upward trend in trade globalization. Global trade networks have become diversified, and this process deepened with the end of Cold War. The globalization of trade made unilateral trade sanctions inefficient and ineffective since the relations between countries have become increasingly connected. If one country is exposed to trade sanctions, then it diversifies its trade relations with others. It is not hard to find other trading partners because the business opportunities that the sender dismisses becomes for the others advantage (Rajendran, 2013: 89, Chase-Dunn et. al., 2000: 79).

On the other hand, financial globalization followed a different path since the 1970s. The globalization of financial networks have centered and depended on Western banking sectors, and dollar has become the major element of financial globalization. The place of dollar in global banking system has been constructed since World War II. Europe needed to import from the US for the reconstruction after the war, and hence needed dollar to import. The imports were financed by the dollar loans from US Treasury Department and Marshall Plan. In the Bretton Woods system, the dollar was set as the only convertible currency (Rajendran, 2013: 89-90). Bretton Woods institutions supported the US Dollar to be the global reserve currency. The US financial system became the central point of global financial system. Hence, the US used recently its global position to punish rouge states like North Korea, Iran, Russia, and Syria (Arnold, 2016: 78).

In spite of the collapse of Bretton Woods, and subsequent oil crisis, the ascendancy of dollar continued. There was no usable, liquid currency to serve to store value, other than dollar. Germany and Japan did not want their currency to serve as a reserve currency due to its inflationary impacts. As a result, dollar become the reserve currency of not only advanced Western world, and also the world reserve currency. Before the collapse of Bretton Woods, the cross border dollar flows actualized through central banking channels, and there was capital controls. After the end of fixed exchange rate regime and withdrawal of capital controls, capital was mobilized internationally. The flow of dollar actualized by means of “private, commercial and investment” banking in addition to central banking channels. The “dollarization” of global banking system deepened with the capital control liberalization in developing countries in the late 1980s and early 1990s, and with the General Agreement of Trade in Services in 1995. As a result, the US can easily exert exposure to “rogue” states through its financial dominancy and harnessing dollar as a “tool of geo-economic warfare” (Rajendran, 2013: 90, 91, 92, 100).

The US accounts for 12 % of global trade, whereas 35 % of international transactions occur in dollars. Hence, the use of dollar in financial system is a better way to punish “rouge” states. In addition, there will be costs of punishing through trade measure for the US economy and citizens. However, many of the international transactions in dollar do not involve the US firms[7].

On the one hand, the “recent wave of financial globalization” that began in the mid-1980s with the removal of capital controls in some countries, aims to obtain “better growth outcomes” and “increased stability of consumption” with cross border financial flows. Those were the benefit of developing countries since those counties did not have enough capital and had volatile income growth in comparison the developed countries. Additionally, the composition of international capital flow have changed from debt flows to equity flows and foreign direct investment. The indirect advantages of financial globalization is domestic financial market

[7] http://www.economist.com/node/21557346

development. “The larger the presence of foreign banks in a country, the better the quality of financial services and the greater the efficiency of financial intermediation”, and “As for equity markets, foreign entry increases efficiency”. As a result, stock market becomes more liquid and larger with equity market liberalization (Kose et. al., 2005: 1, 2, 3).

Additionally, since US Dollar is a global reserve currency, the countries that are rich in natural resources, sell their resources not in their national currency, but mostly in US dollar. Hence, the exile of a firm from the US financial system means that this firm has no longer the opportunity to offer dollar account and actualize its payments in dollar since this firm handles those operations with the help of US correspondent banking.

2.3. CONCLUSION

Along with the changing and globalizing world, economic channels are increasingly used in order to coerce, constrain and signal. The interdependence that is emerged as a result of this process, called globalization, is actually based on economic links and channels. Countries have become more dependent on each other through economic channels. Hence, it is clear that these channels will continue to be used predominantly in the future. However, it is not clear that these channels will continue to be used as they are today. Historically, there is an evolution of tools used in economic coercion. The main reason behind this evolution is the changing economic channels. With globalization, economic channels have evolved from trade to financial channels. Indeed, trade is also financialized. It is necessary to use financial channels to earn revenue from the sales of natural resources and to acquire technology necessary for its development.

The other motive behind this evolution is the shortcomings of previous applied tools. In order to remove the shortcomings of comprehensive sanctions, smart sanctions are proposed. Moreover, along with the shortcomings of previous sanctions, the importance of international community and non-state actors arises as an important motive behind this evolution.

As mentioned in Chapter 1, this thesis has three main components: financial sanctions, policy space, and the impacts of the first on the latter. In this context, the purpose of this chapter is to obtain an intuition about the financial sanctions and their alternatives. To that end, in this Chapter, my aim is to show how economic sanctions has evolved to financial sanctions. In doing so, I discuss and enlighten the motives behind this evolution.

The findings of this Chapter demonstrate that financial sanctions have extensively been using since the 2000s. Even though before the 2000s, there were also financial sanctions, but those sanctions were not effectively handled in a global context. After 9/11 terrorist attacks, the US government started to a new war on terrorism with harnessing this tool. Since the targets were non-state actors, the support of states or international institutions would not be enough. This was an all-out attack with using financial channels, and dominance in global financial markets.

This Chapter barely explains how financial sanctions have arisen. However, the impact of financial sanctions on policy space is the topic of Chapter 4 and 5.

CHAPTER 3

THE DISCUSSION OF POLICY SPACE AND FINANCIAL SANCTIONS

The world has witnessed the greatest economic integration since the 1980s, when the capital accounts were liberalized, and financial markets were deregulated. By the end of the 1980s, the global integration entered a new phase, which was recognized by the increase in foreign direct investment in mostly capital- and technology-incentive sectors, in addition to other flows. Those developments were followed by the improvement in information and communication technologies. Global production networks proliferated, and multinational enterprises appeared. However, global integration has both advantages and disadvantages, and that is not my aim to discuss here, but it is clear that the disadvantages have severely emerged for the developing countries, mostly for the poor and underdeveloped countries. Hence, those developing and underdeveloped countries need more flexibility to construct national economic polices than the past, and need to waive traditional and insufficient means of development (Akyüz, 2007: 1, Ostry, 2000: 52-3). However, they have been constrained by the global rules and commitments, and their policy space is getting narrower by the time, which is necessary field to construct on their national policy objectives, and gives the necessary flexibility to attain those objectives.

It is known that countries carry out their relations with the external world through using trade and financial channels. Accordingly, those channels may be used to shrink policy space of the countries. For example, Chang (2005) claims that developed countries use their dominance in construction of the WB and IMF, and target the policy space of developing countries via their Structural Adjustment Programs, “promised” grants and loans, but connect those grants and loans to strict conditions. Either, under cover of foreign aid, they may increase developing countries dependence on the developed ones. In addition, they use WTO commitments or bilateral and regional free trade agreements. Either recently, they use financial channels that they can. As a result, his ultimate conclusion is that developed countries' aim is to make developing countries not to follow the similar development policies that make developed countries successful.

The restrictions on policy space of developing countries are not only imposed through global rules and commitments, but also through economic sanctions. While policy space is implicitly constrained through multilateral/bilateral agreements, international organizations and even through foreign aid, it is explicitly and directly constrained by economic sanctions. Even though those restrictions and economic sanctions work differently, they have some common points. One of them is their evolution through global integration and financialization. Both global restrictions on policy space and economic sanctions have evolved to have financial dimension. In Chapter 2, I demonstrated that economic sanctions have obtained financial dimension over time, and trade channels have given its place to financial channels in international relations. Indeed, trade channels are also financialized. Second, they have used similar means: trade and financial channels throughout history.

In the literature, the discussion of policy space has been shaped by the UNCTAD scholars, and its relation with the national development goals of developing countries. Policy space discussion with its address to development perspective, is supportive and in accordance with my claims on economic sanctions. Since my focus point in this thesis is the financial sanctions, I mostly discuss how financial channels, and financialized trade channels, restrict policy space.

The aim of my thesis is to bring financial sanctions in the discussion of policy space in developing countries. Up to now, policy space discussion is lasted with reference to national development strategies. I would like to include financial sanctions in this discussion. The contribution of this thesis is to demonstrate how financial channels have become ways to constrain policy space of countries through sanctions.

In order to understand the discussion which is shaped by the four pillars -policy space, development, financialization and financial sanctions -, this Chapter is organized as follows: First, I will discuss the concept of policy space and restrictions on it. Second, I will investigate how policy space is shrunk by economic sanctions, especially by financial sanctions. Finally, I conclude the discussion with further prospects.

3.1. THE CONCEPT AND RESTRICTIONS OF POLICY SPACE

3.1.1. The Concept of Policy Space

Recently, the effectiveness of national policies in the development process is handled by the context of policy space. In the framework of globalization, a dilemma occurred between the available policy space or policy autonomy, and the international integration and interdependence. This dilemma is well-explained by Cooper (1968: 5) that "how to keep the manifold benefits of extensive international economic intercourse free of crippling restrictions while at the same time preserving a maximum degree of freedom for each nation to pursue its legitimate economic objectives".

Behind this discussion, there were two motives: First, the development polices taken in the 1980s and the 1990s, were not enough to result in desired levels of development. Second, the effectiveness of national development policies was diminished by the internationalization of markets and increasing impact of foreign or international factors on national development process, since the number of instruments used in this process is declined (Mayer, 2008: 1-2). Policy space, the term with its recent usage appearing in UNCTAD documents and mostly referred in those documents, is defined by UNCTAD as '"the scope for domestic policies, especially in the areas of trade, investment and industrial development" which might be "framed by international disciplines, commitments and global market considerations"' (ODI, 2007: 1). On the other hand, Akyüz (2007: 2) defines policy space by its relation with autonomy on national policy instruments: "The autonomy of national economic policy refers to the effectiveness of national policy instruments in achieving national policy objectives."

I provide an alternative definition: Policy space is the field in which governments can create and apply their own policies without any pressure. In this definition, no pressure refers to nonexistence of any kind of policies imposed through other governments or organizations restricting the desired policies of the other. Those restrictions may emerge implicitly or explicitly from international obligations even though the commitments are made voluntarily.

On the other hand, it is beneficial to treat policy space as the adjunction of internal and external policy space. The external space is restricted with international obligations, conditions and rules. However, the internal space is confined to national resources and structural capacity (Mayer, 2008: 4). In this thesis, my policy space definition includes those two points, since I discuss first how external policy space is restricted by economic sanctions, and then what are their effects on internal policy space. In other words, I consider that the effect of the sanctions is moving from the external to the internal space. For this reason, when I mention policy space, I also mean external and internal policy space.

Policy makers use fiscal and monetary policies and their various instruments to attain their economic policy objectives. The constraints of policy space target those instruments, and prevent their effective usage for the national policy objectives. Akyüz (2007: 2-3) contends that the number of instruments that are used by the policy makers decreases with the "liberalization of domestic markets and deregulation of economic activities" and hence the policy space to attain national economic objectives gets narrower. He also claims that the economies that open up with the withdrawal of borders, remain under the influence of foreign economic policies, and their control over instruments and the impact of those instruments decrease. He asserts that the main mechanism behind this process is global integration which results from integration to "international governance systems" and increasing "international obligations".

In comparison to Akyüz (2007), Mayer (2008: 4) claims that international integration may work in opposite direction through its effects on national policy space. On the one hand, the national policy space may shrink since the number and the effectiveness of instruments may reduce due to international rules, commitments and conditions. On the other hand, the national policy space may be enlarged by the global integration. First, global rules and legislations respond coordinately to global distortions, and stop implementation of discriminatory and beggar-thy-neighbor policies in economies that have large impacts on other economies. Second, the effectiveness of structural policies may increase through scale economies and international competition.

This mechanism that work in opposite directions, is also valid for the economic sanctions. On the one hand, economic sanctions decrease national policy instruments and their efficiencies. Either use of certain instruments are constrained, or these instruments are removed, by prohibitions. In addition to that, the efficient use of those instruments decrease with the banned supplementary instruments. On the other hand, sanctions mean disappearance of opportunities for both sender and the target country that results from their bilateral trade and financial relations. This situation may present opportunities for third countries that do not impose or support sanctions policy of others. In addition, the target country may easily find other partners by courtesy of global integration, and international competitiveness.

3.1.2. The Restrictions on Policy Space

Recently, economies face some constraints due to trade and financial globalization. Those restrictions are the results of not only global rules or commitments, but also global market conditions and the decisions made by other economies to increase the effectiveness of national development policies (Mayer, 2008) especially developed economies. Below, I provide some restrictions of policy space using multilateral lending, trade and financial channels. Those channels are important since they are also used in the design and implementation of economic sanctions.

First, under the leadership of the US and UK, the agreement on creating an international institution that also include international economic system, was held in the Bretton Woods town in 1944. In this meeting, two main economic institution, IMF and WB, were constructed. Even though those institutions provide lending to low income countries in the case of instability in the balance of payments, those institutions narrow the policy space of developing countries by connecting multilateral lending to strict conditionality. In addition, credits and loans provided by those institutions may be used as a way of imposition sanctions due to their hegemonic structure. For example, in early stage of Iran sanctions, multilateral lending is forbidden for Iran, directly by the sender country, the US, and indirectly by its secondary effect on other countries. However, the significance of multilateral lending for some countries has decreased over time, and their use as a sanction also reduced.

Second, trade channel have been extensively used in the policy space contraction of developing countries. In the policy space literature, the restrictions through trade channel focus on the commitments and rules under WTO, and related agreements like GATS, TRIMS, and TRIPS. However, in the design of sanctions, trade channel is mostly used in the dominant export earning sector in order to constrain policy space of target. The more dependent the target country on export earnings in national development, the more the policy space of it is contracted. For example, in Iran case, the US and the EU banned import of Iranian oil, and prevented to exportation of related technology. Hence, they aimed to prevent its oil earnings and further development of energy sector. In Russian case, energy sector have been also targeted by the EU and the US. In addition to energy sector, defense and military sector related sanctions have been imposed since their importance in Russian trade. Over time, trade channels become financialized since the payments of trade are made through financial system. In addition to export earnings, trade credits and insurances are transferred through financial system. Hence, financial channels have suppressed trade channels.

Third, at the present time, financial channels are more and more employed in order to contract policy space. The reason is that capital account liberalization and integration to global financial markets prevent developing economies to design self-governing and efficient monetary policy. Financial markets, as a main source of instability, lead to further macroeconomic instability through their pro-cyclical movements. Developing countries may face sudden private capital flows, and have not much policy space to fix the instability with external financing (Akyüz, 2007: 17). In the case of sanctions, the target country may face sudden stop of capital inflows, and hence it may deprive of external financing. Even, it become unable to make transactions in non-sanctioned areas because of the increased risks related to target country. Those risks affect not only public sector, but also private sectors in the target.

3.2. ECONOMIC SANCTIONS WITH THE DISCUSSION OF POLICY SPACE

In the previous part, how policy space may be constrained by using multilateral lending, trade, and financial channels is demonstrated. In this part, my aim is to show how policy space of target countries is constrained by the economic sanctions, especially by the financial sanctions. Since economic sanctions consist different types of channels like aid, trade, finance, and their impact differs among different channels, I prefer to disaggregate sanctions, similarly the one in Kirsher (1997).

Kirshner (1997: 33, 36) claims that the aggregate discussion of sanctions limits evaluation, and disaggregating sanctions and targets will improve the understanding how sanctions work. In this context, he disaggregates sanctions into areas such as trade, aid, finance, currency, and assets of target. Additionally, he claims that the groups in target are differentially affected by the different sanctions. Hence, he disaggregates the groups in the target country.

As mentioned in Chapter 2, throughout history, different types of sanctions were imposed. Each of those sanctions has limited the policy area of the target country differently. While the effect of some is great, some have not worked out in spite of their application for many years. Certain sanctions have been dominant in some periods, others have disappeared or become ineffective.

According to (Giumelli, 2013: 7), sanctions affect targets by “coercing”, “constraining”, and “signaling”. Economic sanctions should also have those features, and their manifestations appear on the sanctioned entity’s policy space. Here, the discussion of economic sanctions and policy space is made upon those features.

3.2.1. “Coercing” Feature and Types of Sanctions

The purpose of “coercing” feature is to make behavioral change in the target. In order to do this, sender changes cost and benefit calculations of target compatibly with the senders’ desire. Coercive sanctions should also be imposed with other foreign policy tools in order to increase the costs for target, and target should be awarded in the case of compliance (Giumelli, 2013: 9).

In the case of coercive sanctions, target loses its space and instruments that lead to desired policies. The policy space/instruments, the aim of target and sender are directly related and nested in this logic, and when the sender is winner, the policy space of the target and the instruments contributing to desired policy of target are all burned out.

Aid sanctions may be classified in this feature since they behave like “positive” sanctions. Aid is mostly given in areas like economic and military. In both cases, the targets devoid of some amount of source that may be used in the “undesired” policy. In the case of compliance of target, it is awarded by the “promised” aid. Hence, aid sanctions work in order to directly change the behavior of the target.

In addition to foreign aid, foreign lending, and credits may be used as foreign policy tools. Those sanctions may also be defined coercive, and aim to change the policies of target. They also constrain the policy space of target since it become deprived of the source that will contribute to its development. The extent to how this deprivation will affect the policy area depends on how much the country needs and depends on foreign lending and credits.

3.2.2. "Constraining" Feature and Types of Sanctions

The purpose of "constraining" feature is to narrow the policy space and/or decrease the policy instruments used in desired policy, even though those space and instruments are not directly related to the desired policy of target.

In the theory of economic policy, Tinbergen (1952) defines the basic concepts of economic policy making by instruments, targets and a model that links instruments and targets. Mayer (2008) uses this conceptualization to demonstrate the working mechanism behind the policy space. This instrument and target approach may be useful to understand the "constraining" feature of economic sanctions. Using Tinbergen's (1952) conceptualization and Mayer's (2008) demonstration of policy space, I can explain "constraining" impact of economic sanctions on policy space.

The theory of economic policy has the following factors (Mayer, 2008: 3): a set of instruments that are controlled by the policy makers, a set of targets (or sometimes intermediate targets) that altogether leads desired national development, and a model that construct the relationship between instruments and targets.

Those factors are essential in understanding the working of both policy space and economic sanctions since economic sanctions attain its aim by targeting of those mentioned three factors.

First, in the case of economic sanctions, those instruments may not directly controlled by the policy makers or they may be indirectly controlled by the sender country, or the number of instruments may be decreased, or the instruments may be removed in order to avoid usage.

Second, the national development is formed by some ultimate targets or intermediate targets. The economic sanctions may damage those targets by directly/indirectly. On the one hand, the sanctioned country may change its targets voluntarily since it may be impossible to employ the instruments needed to attain the targets, because of the sanctions. On the other hand, the sanctioned country may be obliged to change its targets due to harmful effects of economic sanctions on all the components of the economy. The targets may also be correspond with the sender's aim, but it is obvious that the sender wants to change or remove those targets.

Third, a model that links instruments and targets, may be impossible to construct due to after-sanctions environment.

Additionally, in the theory of economic policy, one of the significant rule is that the instruments should be at least as great as the number of targets if all targets are attained (Mayer, 2008: 4). In the case of economic sanctions, it may be impossible to implement this rule since the number of instruments may be decreased.

As a result of economic sanctions, the economy may become isolated and closed. However, even in such a case, the policymakers may not have the full control over the instruments and targets. Mayer (2008: 4) explain this case by three factors. First, there may be trade-offs between the effectiveness of instruments or targets, and hence it may be difficult to form the instruments in a way that leads all targets attained in the same time. Second, those instruments may be used within certain constraints. Third, the relationship and the information about this relationship between instruments and targets are not certain.

With economic sanctions, the target country's integration to international markets is either decreased or removed, and it may not benefit from the advantages provided by the international integration. International integration can increase the effectiveness of some prominent national structural policies. This effectiveness may be the result of increasing returns to scale, and technological improvements, and hence the outward-oriented polices constructing competitive sectors. Developing countries mostly need imports of capital goods used in technological upgrading, and international integration may ease the access of foreign technologies. Additionally, they may earn foreign currency by exporting, and may solve balance-of-payments problems. By means of financial integration, they can finance investments in international markets, with internationally competitive conditions.

3.2.3. "Signaling" Feature and Types of Sanctions

The "signaling" feature aims to give the message to target country and third countries, and hence make them change behavior by shrinking their "field of play". Sender country poses two effects according to its willing. First, it may want other countries to act belong its side, and want other countries to implement sanctions in the same direction. Hence, sender country may narrow the policy space of third countries, and prevent them to act independently or according to their own interests. Second, sender country may want to prevent the unwanted policy that may be applied by other countries in the future, and it may threaten other countries by saying that if you do the same, your end will be the same. Hence, sender country may narrow the others' policy space by signaling the "threat of sanction".

The "signaling" feature is more related to sender country's hegemony, and its economic and military power to change other country's behavior in the direction of its willing and national goals.

It is obvious that the US has influential power in the economy and military, in spite of its recent decline. It obtained this power aftermath of Cold War, by establishing a new international economic system with its new institutions, and rules. It made policies to construct ties across Atlantic in place, for example NATO, where their importance increased with regionalization and ever-increasing integration across the World. The US sees itself as the only super power to implement and sustain "western principles of democratic capitalism and supporting US-inspired international institutions to resolve transnational disputes". Hence it is able to influence and take active action (measures like economic sanctions) in places even far from its territories, in the case of its hegemonic power is hurt by targeted states and terrorist organizations (Alexander, 2009: 51). In order to do that, US adds extraterritorial features to its sanctions legislations.

The extraterritoriality of US sanctions first appeared in the Iran and Libya Sanctions Act of 1996, in which Libya was later removed, and the Act was renamed by Iran Sanctions Act. The Act target persons that engage in conducts with Iranian and Libyan petroleum sectors. The aim is to prevent foreign entities to engage in any conduct with the targeted countries. Hence, sanctions gained "secondary" dimension, and target transactions that do not have any connections with the US or US persons, but its designated entities (Meltzer and Ross, 2013). However, this Act was not enough and hence, Comprehensive Iran Sanctions, Accountability, and Divestment Act was enforced in 2010.

3.3. CONCLUSION

It is obvious that the target country can be easily dismissed from the internationally integrated system because of economic sanctions, and it can be no longer able to benefit from the advantages of this system. Additionally, it may have no longer sufficient policy space or national policy flexibility due to economic sanctions. Hence, the target may not able to move beyond those external and internal pressure.

The effects of economic sanctions on third countries are the results of globalization and increasing international interdependence. Economic sanctions may be implemented as "global rules" by sender countries, and result in threat of dismiss from international integration. Hence, the policy space of the third countries may shrink as well as the target country.

As mentioned in Chapter 1, this thesis has three main bases: financial sanctions, policy space, and the impacts of the first on the latter. In this Chapter, the second base of this thesis, policy space discussion, is constructed. In Chapter 4 and 5, third base will be constructed by the cases of Iran and Russia. Moreover, the discussion made in Chapter 2 and 3 will be lasted and exemplified by those cases in following chapters.

CHAPTER 4

IRAN SANCTIONS

Financial sanctions are the results of the evolutionary process of economic sanctions. From the start of their application, costs/benefits, efficiency/inefficiency, and effectiveness/ineffectiveness discussions have made economic sanctions evolve and take the latest form of targeted financial sanctions which mostly target key sectors and entities of the economy. Until this point, the negative outcomes of previous sanctions policies were tried to be eliminated. In the past, economic sanctions policy generally did not achieve the principal objectives. The measures either damaged the innocent citizens or cause ruling elites to take advantage of sanctions.

It is obvious that the purpose of sanctions are to contract the policy space of target country, make it not to move against sanctioning country's inclination. It is also clear that target countries try to find different ways of sanctions evasion in the progress of time, either doing illegally/implicitly or publicly/just to spite of sanctioning country. Moreover, globalization presents challenges and chances to economic sanctions. Economies are now more integrated to each other with globalization. Operations, transactions, and deals are now more transparent and traceable. Hence, that makes easy to isolate target country and unplug its economy if it is an integrated economy.

Economic sanctions have been applied across the world for a long time. Iran is chosen as a case study for this thesis since it has been exposed to sanctions regime for almost 35 years, hence it is easy to observe the evolution of sanctions. In Chapter 2, I demonstrated that conventional sanctions have evolved to financial sanctions. In this Chapter, I will show this evolution by focusing on the Iran case. Additionally, sanctions imposed on Iran were partially terminated. For this reason, one can observe the results of sanctions and the subsequent process. Actually, before anything else, Iran case is very contemporary, and open to discussion.

In this Chapter, my aim is not to decide whether Iran or sender parties are right. My main motive is to show the effects of sanctions on Iranian economy, and how policy space of Iran is contracted. When I show those effects, I will refer to related economic data in this Chapter. Moreover, I will use policy space discussion made in Chapter 3. Sanctions will be disaggregated into episodes, and types of sanctions applied in different episodes will be evaluated in each episode according to how they constrained the policy space of Iran. While doing so, three logic behind sanctions, “coercing”, “constraining”, and “signaling” features of sanctions proposed by (Giumelli, 2013) and introduced in Chapter 3, is expressed in each episode.

International sanctions on Iran targeting persons, entities and sectors have been the response of international community to Iran’s alleged nuclear program, terrorism support, human rights abuses, proliferation activities, and regional instability. The sanctions policy that is led by the US and the UN, is supported by many other countries. On November 2013, the first step towards a comprehensive agreement was taken with an interim agreement called JPA. Iran partially halted its nuclear program in response to partially decreased sanctions. On July 2015, with the agreement of JCPA, long-term agreement was made, and sanctions on Iran’s nuclear program were decided to be lifted. Finally, on January 2016, the implementation of JCPA was started, and sanctions on nuclear program were lifted. In the context of JCPA, only nuclear program-related sanctions were lifted, and other sanctions still continue to be applied.

In order to investigate Iran case, this Chapter is organized as follows: First, I discuss the background of Iran sanctions. Iran have been exposed to sanctions due to many reasons, but in this Chapter, I will barely focus on alleged nuclear program. In accordance with this, agreements made on nuclear program, and nuclear-program related sanctions will be introduced. Second, the international sanctions on Iran are given historically. In this Part, financial sanctions are explained in detail. Third, impacts of sanctions on the Iranian economy are discussed through economic data. Herein, economic data about economic growth, foreign borrowing, inflation, trade, manufacturing sector, is used. Then, Iran case will be re-examined with respect to policy space and financial sanctions perspective. The main discussion of this thesis, the contraction of policy space by financial sanctions, is introduced in this Part. Finally, Iran case will be concluded by further remarks on sanctions implementation.

4.1. BACKGROUND OF IRAN SANCTIONS

The US has been the leader of the international community that imposes economic sanctions on Iran. The main objectives of the sanctioning are to change the behavior of Iran in areas like terrorism, human rights, proliferation, regional instability, and nuclear development. The relations between Iran and the US deteriorated in 1979, Islamic Revolution of Iran, while the worsening ties between Iran and the countries other than the US were a recent phenomenon more related to human rights abuses, nuclear program and proliferation concerns (Rennack, 2014: 39). The US sanctions policy on Iran started to be supported by the UN and other countries in 2006. The sanctions on Iran had been applied by the US since 1979, however, there was no substantive support for Iran policy of US by the international institutions and other countries (Kerr, 2014: 5).

9/11 terrorist attacks were the major event that changed the perception of the US citizens and the US authorities on international terrorism. After several months of the attacks, the US invaded Afghanistan for its support of terrorist organization Al-Qaeda. President George W. Bush used the term "axis of evil" to describe the countries, Iran, Iraq and North Korea, involved in supporting terrorist activities. When it comes to 2006, North Korea was already isolated from international system by the sanctions, Iraq was occupied by the US due to the same reasons, but the US was not successful enough to destroy Iran. Warfare was an option, but the US decided to continue its sanctions policy in a different path, and needed international support. Because of the public opinion arisen by the wars in Afghanistan and Iraq, the US did not want to interfere the other country, Iran, which is placed in the “axis of evil”.

The US sanctions have several objectives as mentioned before, and those objectives, altered by years due to the perceived threats from Iran, have evolved. In mid-1980s, the US claimed that Iran put support behind terrorism. Therefore, the US wanted to constrain Iran’s regional power in Middle East. Since mid-1990s, the objective of sanctions was to prevent Iran’s nuclear and missile program, and consequently the US wanted to reduce Iran’s military power. Since 2006, especially 2010, the scope and the degree of sanctions have increased with the participation of international community (Katzman, 2014: 71-2). In this period, the place of comprehensive trade sanctions were supported by the international targeted financial sanctions, and the main objective of the international community was Iran’s alleged nuclear program.

4.1.1. Iran’s Alleged Nuclear Program

There are two opposite views about the Iran’s nuclear program: Iran declares that the purpose of the program is to obtain nuclear energy, whereas Western countries claim that the ultimate purpose is to develop nuclear weapons. However, Iran’s nuclear program had started with the support of the US in the 1950s, in the context of “Atom for Peace” program. Until 1979, Islamic Revolution, the program had taken the support of the US and European countries.

According to Bahgat (2006), the forces that shaped Iran’s nuclear program are the treats from Pakistan, Iraq, Israel, and the US; the domestic economics and politics; and national pride. Additionally, Iran lost its confidence in international community when Iraq used chemical weapons against Iran and international community was silent.

Since the mid-1980s, Israel, the US and European countries have concerned about the Iran’s capability of nuclear weapons, but this concern intensified with the declaration of National Council of Resistance on Iran, an Iranian group. In 2002, the group declared in Washington that Iran was pursuing nuclear-related facilities, in Natanz and Arak, that IAEA was not aware of it.

Afterwards, IAEA started to investigate the allegations on Iran's nuclear program, and decided that Iran violated IAEA's safeguards[8] in 2005. There are two components, construction of gas centrifuges[9] and construction of heavy water reactor[10] of Iran's nuclear program that generated international concern that Iran will produce nuclear weapons (Kerr, 2014).

In 2006, first Iran declared that it would not suspend the nuclear program, and continue nuclear R&D program at Natanz. Afterwards, IAEA Board of Governors transmitted the case to the UNSC. At the end, Iran cancelled the Additional Protocol. Until that time, France, Germany and the UK, called E3, negotiated with Iran, but did not proceed. Additionally, in 2007, Iran and IAEA agreed to cooperate to enlighten the questions and concerns about the nuclear program of Iran, but Iran did not obey the obligations about the safeguards. Iran did not suspend its nuclear program until the JPA was signed. It is not clear that Iran violated NPT, but it is stated by the UNSC and IAEA Board of Governors that Iran violated its safeguards (Kerr, 2014).

Finally, on 11 November 2013, Iran and IAEA signed a joint statement to clarify the further cooperation to reveal the actual aim of Iran's nuclear program. According to the IAEA, Iran succeed in the context of this agreement, and on 9

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8 Iran approved Nonproliferation Treaty (NPT) in 1970, and accepted IAEA's comprehensive safeguards agreement in 1974. Article III of NPT requires the acceptation of IAEA's safeguards by the non-nuclear-weapon states. Iran signed Additional Protocol in 2003, but did not ratify, and in 2006, it cancelled the Protocol.

9 Gas centrifuges enrich uranium, and produce low-enriched uranium which can be used in nuclear power reactors, and highly enriched uranium which can be used in nuclear weapons and nuclear reactors.

10 The reactor's spent fuel has plutonium that is used in nuclear weapons.

February 2014, the parties decided that Iran would provide additional information about the outstanding issues by 15 May 2014.

4.1.2. Joint Plan of Action and Joint Comprehensive Plan of Action

The election of President Hassan Rouhani in June 2013 created an opportunity to negotiate (Rennack, 2014: 39). The first direct contact between President Obama and Rouhani occurred by a phone call in September 2013 (Kerr, 2014: 34). In October 2013, the diplomats of the permanent members of the UNSC (The US, Russia, China, France, and Britain) and Germany, that is called P5+1, held talks with Iran. In 7-9 November 2013, a draft of interim deal was made, and finally in 24 November 2013, the P5+1 and Iran agreed to JPA that led Iran to extensively constrain its nuclear program and "provided Iran with limited, targeted, and reversible sanctions relief" for a six month period (Rennack, 2014: 40).

JPA was the first step to negotiate on a comprehensive nuclear deal, and had a clue in its texture, "The goal for these negotiations is to reach a mutually-agreed long-term comprehensive solution that would ensure Iran's nuclear program will be exclusively peaceful" (JPA, 2013). The implementation of JPA started in January 20, 2014, and ended in July 20, 2014.

This interim agreement includes the sanctions mostly invoked by the US on the oil, finance and the banking sector, while it does not contain the relief of sanctions imposed in the 1980s and the 1990s due to claims on terrorism support. After the deal on JPA, several business delegations from the European countries like France and Italy, visited Iran to conduct formally or informally talks with the Iranian business actors (Katzman, 2014: 135)[11].

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11 The EU had not quickly responded to the US sanctions on Iran (In 2012, the EU involved in effectively). The final agreement is favor of both Iran and EU because of the stagnation in the EU. Iran offers new business opportunities as its being a new market. Hence, the EU was not so willing to cooperate with the US. After the interim and final agreement, the EU wanted to take piece from the Iranian market (Katzman: 2014, 135).

JPA provided sanctions easing in several areas. However, the oil exports would be constant at its past level, 1 million barrels per day (In 2011, it was 2.5 million barrels per day, hence it resulted a 60 % fall.) in the JPA period. It means that Iran's oil customers would not reduce and increase their purchase "significantly". The oil customers had reduced their purchases in order to not to be penalized under the related regulations. With the JPA, the US issued waivers to allow the transactions with Iran's National Oil Company, and the EU allowed shipping insurers to provide insurance for the ships that carry oil from Iran (Katzman, 2014: 136-7).

During JPA period, Iran would earn about $18 billion from oil sales, and be able to access $4.2 billion hard currency in oil sales proceeds. Additionally, $400 million of the oil earnings could be used to pay tuitions of Iranian students abroad. The hard currency would be installed in eight parts according the compliance of Iran to the interim agreement. Iran also retrieved the sales of petrochemicals and trading in gold and other precious metals, and transactions with the foreign firms involved in Iran's automotive sector. The US issued the waivers to permit foreign companies to trade such goods with Iran, not the US companies. The benefit of this changes would be $2 billion for Iran. Moreover, JPA allowed the sales of medicine, which was already permitted but not financed by many banks. It also enabled sales of aircraft parts. Boeing and General Electric applied for licenses to export such aircraft parts and equipment (Katzman, 2014: 136-7).

The discussion behind the interim agreement was developed according to the construction of a safer world, and safer Middle East region. Iranian side perceived the agreement as if they were given the right to develop nuclear program, but the Western side was happy to halt warning nuclear progress of Iran. JPA only eased sanctions applied due to Iran's nuclear program. Other sanctions related to claimed terrorism support and human rights abuses are still in force.

On the way of long-term and comprehensive agreement, the talks started in February, 2014 continued up to July, 2015. The detailed and comprehensive nuclear deal, namely, JCPA was finalized on July 2015, and the implementation period started in January 2016.

The parties of JCPA guarantee that “Iran’s nuclear program will be exclusively peaceful”, and JCPA is expected to “contribute to regional and international peace and security”. Iran has once again acknowledged that it will not endeavor to develop or possess nuclear weapons. In the context of JCPA, the UNSC Resolutions about Iran’s nuclear program, 1696 (2006), 1737 (2006), 1747 (2007), 1803 (2008), 1835 (2008), 1929 (2010), and 2224 (2015), were terminated. The EU ended all the sanctions related to nuclear and proliferation issues, and the US ceased the nuclear-related sanctions (JCPA, 2015).

The benefits of the JCPA are summarized as follows:

- The increase in oil exports,
- The re-gaining access to SWIFT by the Central Bank of Iran and Iranian financial institutions,
- The procurement of insurance and reinsurance,
- The financial assistance for trade with Iran,
- Favored loans, financial support for Iran (WB: 2016, 9).

4.2. INTERNATIONAL SANCTIONS ON IRAN

As mentioned previously, the US first sanctioned Iran during the US-Iran hostage crisis which began in 1979, and resolved in 1981 by Algiers Accords. 52 American hostages in the US Embassy were taken by a group of Iranians. At that time, Iranian assets in the US were blocked, and the US claimed that it removed the freeze on Iranian assets after the agreement (Iranian leaders still claim that the US holds assets dates back to that crisis). The arbitration of the cases related to this crisis under Algiers Accords was replaced in the US-Iran Claims Tribunal at The Hague. Moreover, some prominent cases which are not resulted yet are based on Foreign Military Sales which occurred between the US and shah’s regime. Iran claims that it paid for and did not obtained the military equipment. In addition, Iranian diplomatic property and accounts in the US were blocked, oil imports from Iran and exports (except food and medicine) to Iran were banned, and aid and military assistances were halted because of that crisis (Katzman, 2014, Torbat, 2005).

When it comes to the 1980s, sanctions focus on more serious issues like terrorism. The first event was the bombardment of the US Marine barracks in Beirut by Islamic elements that based later Lebanese Hezbolllah in 1983. Afterwards, the US designated Iran as a “state sponsor of terrorism” and added to the list of international terrorism supporters, hence Iran was sanctioned again, in areas such as foreign aid, grants, credits, aircraft equipment and ammunition. The sales of the US dual use items and arms to Iran were restricted, and direct financial assistance of the US (loans, credits, insurance, Ex-Im Bank credits) was banned. Additionally, the US could vote against multilateral lending to Iran, and could withhold the aid to any country that assists Iran with financial aid or arms (Appendix, Table A.1).

Those listed sanctions (Appendix, Table A.1) show that the sanctions may cut off foreign assistance, and with its secondary manner, they may affect the relationship of the target country with the third countries. Those sanctions were done under Export Administration Act of the US, and gave the clues of sanctions imposed in the 2000s. They aim to squeeze foreign assistance and leave the country with its own resources that will lead development, and since their “secondary” manner, they affect negatively the policy space of the third countries. Therefore, Iran was deprived of the US direct foreign aid as well as the US aid through international organizations.

The second event was the Iran’s actions against the US flag vessels. The US banned import of Iranian goods and services including crude oil, excluding petroleum products. Moreover, in the Iran-Iraq War, the US claimed that Iran had negative position in the peace process, and then, restricted export and re-export of several goods to Iran (Appendix, Table A.1). Those sanctions are the precursors of targeted sanctions that negatively affect the primary imports of Iranian economy, crude oil.

When it comes to the 1990s, proliferation concerns added to the terrorism support sanctions. At the end of the 1980s, the US claimed to find evidence of Iran's capability to produce chemical and biological weapons, hence banned the export of crucial elements used in the production of those weapons. Afterwards, the US aimed to sanction foreign entities that provide Iran weapons of mass destruction with Iran-Iraq Arms Nonproliferation Act in 1992 (Appendix, Table A.1).

In 1995, all the concerns of the US about Iran were intensified, and the sanctions on Iran were correspondingly enhanced, hence trade and investment sanctions were imposed. Consequentially, in 1996, Iran Sanctions Act (ISA)[12] were entered into force. The aim of the Act was to prevent the opening of energy sector to foreign investment[13]. Since energy sector is the main engine of Iranian economy, the US wanted to suppress this sector to collapse the economy, as a result of this, Iran would not be enable to develop military and nuclear program. Since 1996, the US have tried to induce other states deciding whether they engage in the US markets or continue its relations with Iran in energy sector. In response to sanctions, Iran implemented "buy-back" investment programs to control its national resources and develop its investment in this sector[14]. The other important feature of this Act is its being "secondary" sanctions on Iran which aims to punish third countries (Appendix, Table A.1). Those sanctions are called "secondary" since they also target companies that are not in the US. If one company chooses to do business with Iran, it will no longer engage in business with the companies in the US. EU called those sanctions "extra-territorial", and claimed that they would refer this issue to WTO. Afterwards, they agreed to waive of a violation according to ISA. The Act sanctions entities that invest in Iran's energy sector more than $20 million in one

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12 This Act was previously called "Iran and Libya Sanctions Act", after sanctions were terminated with Libya in 2006, this Act was retitled.

13 This issue may be evaluated in the context of the US restriction of policy space in a developing country.

14 Islamic Republic Constitution does not allow foreign ownership of natural resources. "Buy-back" contracts are determined to circumvent the constitution (Torbat, 2005: 420).

year (Samore, 2015). More importantly, ISA sanctions entities that involve in transactions in Iran’s currency, Rial (Katzman, 2014).

The countries can grant an exemption from sanctions if they “significantly reduce” their oil imports. However, Iran was unable to obtain hard currency earned by exempted transactions by Iran Treat Reduction Act of 2013. As a result, Iran was prevented to transfer its oil earnings, and that forced Iran to import the products of oil customers (Katzman, 2014: 91, 94).

When it comes to the year 2001, after the 9/11 terrorist attacks, Executive Order 13324 was issued. The Order aims to freeze the US-based assets of entities that support terrorism, and to prevent the US transactions with those entities. Even though this Order was essentially targeted to Al Qaeda entities, Iran-related entities took part in the list of designated terrorist entities. Indeed, in 2002, President George W. Bush declared Iran as “an axis of evil”. Additionally, in 2005, with the Executive Order 13382, the assets of suppliers and supporters of weapons of mass destruction are decided to be frozen (Appendix, Table A.1).

On the other hand, the UN continued its efforts to hamper Iran’s uranium enrichment with Resolution 1803 that restricted R&D associated with the centrifuges and uranium enrichment. In 2010, with the Resolution 1929, the UN aimed to freeze assets of the designated entities in the Resolution, and impose travel bans, halt Iran’s any development of ballistic missiles technology which assist nuclear goal, and withhold Iran’s investments in abroad in regard to uranium mining. More importantly, the transactions with Iranian Banks, namely, Bank Melli and Bank Saderat, were restricted, international financial system was warned about any lending, financing, credit provided to Iran, shipping and cargo activities of Iran (Appendix, Table A.1).

Correspondingly, the US strengthened its sanctions in 2010 with Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). The ban on the US trade with Iran was based on CISADA. The exemptions in CISADA were exports of food and medical products, information technology, civilian aircraft and stuff to support democracy in Iran. There were no restrictions on personal communication items, remittances and publishing to support Iranians access to communication technology and support democracy and free expression[15] (Katzman, 2014: 77-9).

4.2.1. Financial Sanctions

Globalization enhanced the importance of financial system. Trade volumes increased significantly with the globalization. The countries and institutions were engaged each other with the financial ties. The financial relations mean that one entity can easily affect the other positively or negatively, but quickly. With the globalization, the means of sanctions changed. In the past, the sanctions were imposed from one country to another, directly. Today, financial sanctions were imposed through financial institutions and private sector in an indirectly way.

In order to control Iran's regional power, the US and the EU benefitted from financial system by means of their dominance in financial and monetary system. The US did not bring to heel Iran with trade sanctions. Hence, the financial sanctions have been started to be used since 2000.

Therefore, in 2006, the US authorities banned international transactions of Iran's Bank Saderat, because of the US Treasury Officials found significant proof of transferring millions of dollars to terrorist groups (Arnold, 2016: 83).

The US wanted to hamper the hard currency payments of oil imports to Iran. This aim resulted in the isolation of Iran's Central Bank from international financial system. The other reason of this isolation was to prevent the assistance of Central Bank of Iran for other Iranian Banks that are pressed by the US and the UN sanctions. Hence, in 2011, the foreign banks involved in Iran's Central Bank started to be sanctioned. The sanctions included the prohibition of foreign banks to open

[15] The aim may be to prevent Iranians to become like North Koreans. The US wanted Iranians to express their feelings and opinions which are discussable issues in Iran. The movements against regime may serve the purpose of the US.

bank accounts in the US or restricting its current account in the US (Katzman, 2014: 92). The financial sanctions that sped up in 2011, actually started in 2006, the Treasury Department of the US tried to convince foreign banks not to be involve in transactions between Iran. In 2008, the US banks were restricted to handle indirect transactions like U-turn transactions with Iranian banks. The Treasury Department penalized the banks that assist Iran to evade the US financial sanctions. Additionally, they wanted to hamper Iranian traders to acquire “letters of credit” to buy and sell goods which ultimately resulted in collapse in the economy. The US banks were banned to open new “correspondent accounts”[16] or “payable-through accounts” for foreign banks that involved in transactions in any sanctioned entity or any entity designated under the UNSC resolutions or to make transactions with Iran’s energy, shipping and shipbuilding sector. Iran’s banking sector was also isolated by Iran’s designation as a “jurisdiction of primary money laundering concern”. In 2008, Financial Action Task Force and IMF designated Iran because of its little effort to prevent money laundering and terrorist financing situations (Arnold, 2016: 83). With the intent of isolation of Iran internationally, the US wanted that firms that invested before in Iran’s energy sector in sanctionable amounts to divest shares. Hence, Iran’s financial system including its banks and Central Bank became a treat to any entity dealing with (Katzman, 2014: 99-101).

4.2.2. International Community

Priory, the European countries did not want to endanger their economic interests in the region, and did not sanction Iran. Indeed, in 1992, the EU conducted “critical-dialogue” policy with Iran that meant the EU would criticize Iran’s regime, but would not cut economic and diplomatic ties with it (Torbat, 2005: 412).

If the US did not take other countries support in the imposition of sanctions, this would lead loopholes and inefficiency in the sanctions application. That US

[16] Foreign banks that do not operate in the U.S. open correspondent accounts or payable-through accounts to access U.S. financial system.

withdrew from the Iranian market resulted in new investment and trade opportunities for other countries. Hence, the US issued extra-territorial sanctions in 1995 with Iran-Libya Sanctions Act.

The international cooperation among the use of sanctions on Iran has increased since 2010. In 2012, President Obama issued Executive Order 13608, which gave Treasury Department the authority to designate and sanction foreign entities which would help Iran or Syria to evade international sanctions (Katzman, 2014: 107).

European countries were less worried about the Iran's strategies than the US, and hence, they were not willing to sanction Iran. However, the attitude of those countries changed with the Resolution 1929 of 2010, and EU banned oil and natural gas imports from Iran in 2012[17]. Additionally, EU banned insurance for shipping oil and petrochemicals from Iran in 2012, trade with Iran in gold, precious metals, diamonds, and petrochemical goods. Consequentially, EU prohibited transaction between European and Iranian banks in 2012, export credits and insurances, and exports of products used in manufacturing (According to the interim agreement, only exports related to automotive sector were allowed). It froze the assets of Iran's Central Bank and several Iranian firms related to arms support in Syria (Katzman, 2014: 107).

More importantly, EU requested SWIFT[18] (Brussels-based electronic payments system, Society of Worldwide Interbank Financial Telecommunications) cut off sanctioned Iranian banks from the system. The access of 14 Iranian banks were rejected even though the US designated about 50 Iranian banks. However, some

17 In 2011, EU bought approximately 600,000 barrels per day, and the most vulnerable economies of EU like Spain, Italy, and Greece bought from Iran more than 10% of their oil. Since JPA requires constant oil exports of Iran, the oil and natural gas imports of EU did not change with the interim agreement.

18 According to the website of SWIFT, it provides its users "a platform for messaging, standards for communicating", products and services to facilitate access and integration; identification, analysis and regulatory compliance". It connects more than 11,000 banks and securities organizations, market infrastructures and corporate customers. Global and local financial flows are processed safely, and it support trade and commerce all over the world.

Iranian banks used another electronic payments system called "Target II" to carry out transactions with European Central Bank (Katzman, 2014: 108).

4.3. THE EFFECTS ON IRANIAN ECONOMY

According to IMF's April, 2015 World Economic Outlook, Iran is the eighteenth largest economy in the world. One of the main dynamics of the Iranian economy is its rich natural resources. Iran is a unique country due to its both having oil and natural gas reserves. It has fourth largest oil reserves and second largest natural gas resources in the world (Amir-Mokri and Biglari, 2015).

The diversification of Iranian economy differs from other oil producer countries due to its less dependence on oil revenues. 30% of government revenues come from oil, and oil and gas accounts for less than one-fifth of the Iran's GDP, according to the unofficial estimates[19] (Amir-Mokri and Biglari, 2015; WB, 2016).

Iranian economy has some strengths and weaknesses before and after the sanctions. Despite the fact that Iran has high level of oil and natural gas reserves, high human capital and enrollment rates, high levels of university graduates, Iran has also some problems regarding to corruption, mismanagement, favored elites, lacking infrastructure and human rights abuses (BTI, 2016). On the other hand, sanctions lasting years, have affected economy negatively. The international sanctions on Iran have hit the Iranian economy in two main areas: the energy sector and the isolation of Iran from international financial system.

4.3.1. Economic growth

The sanctions imposed on Iran since 1979 and the Iran-Iraq War during 1980-88 were the key factors behind the volatility of the GDP growth in between 1979-1989 period. The impact of oil production in GDP could be observed by the significant ups and downs. The process that started with the Iranian revolution and ended with

[19] Iran has unreliable statistics. Because of this reason, WB, IMF, OPEC and some other unofficial estimates are referred.

the Iran-Iraq War resulted in contraction in the GDP growth average by 2.6%. With healing the wounds of the War, the economy grew with average 4.8% between 1989 and 2011 even though there were still economic sanctions imposed by the US. However, in 2012, the sanctions on oil and financial sector were tightened by the US, the EU and international community, and the economy contracted by 6.8% in 2012 and 1.9% in 2013. In November 2013, the JPA was signed and reflected in the economy with 3% GDP growth in 2014. The uncertainty behind the signing of a comprehensive agreement regarding the lifting of sanctions resulted in estimation of 0.5% growth rate in 2015 (WB, 2016: 8). Additionally, crude oil prices started to decline in the beginning of the 2015 and it affected oil dependent economies, hence the moderate increase in growth rate can be attributed to low oil prices.

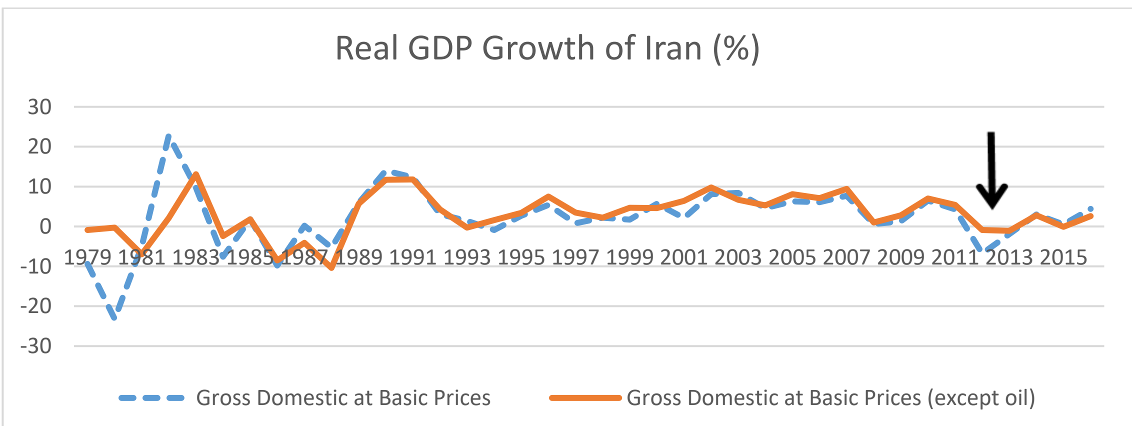

Figure 4.1 Real GDP Growth of Iran

Source: Central Bank of Iran, WB.

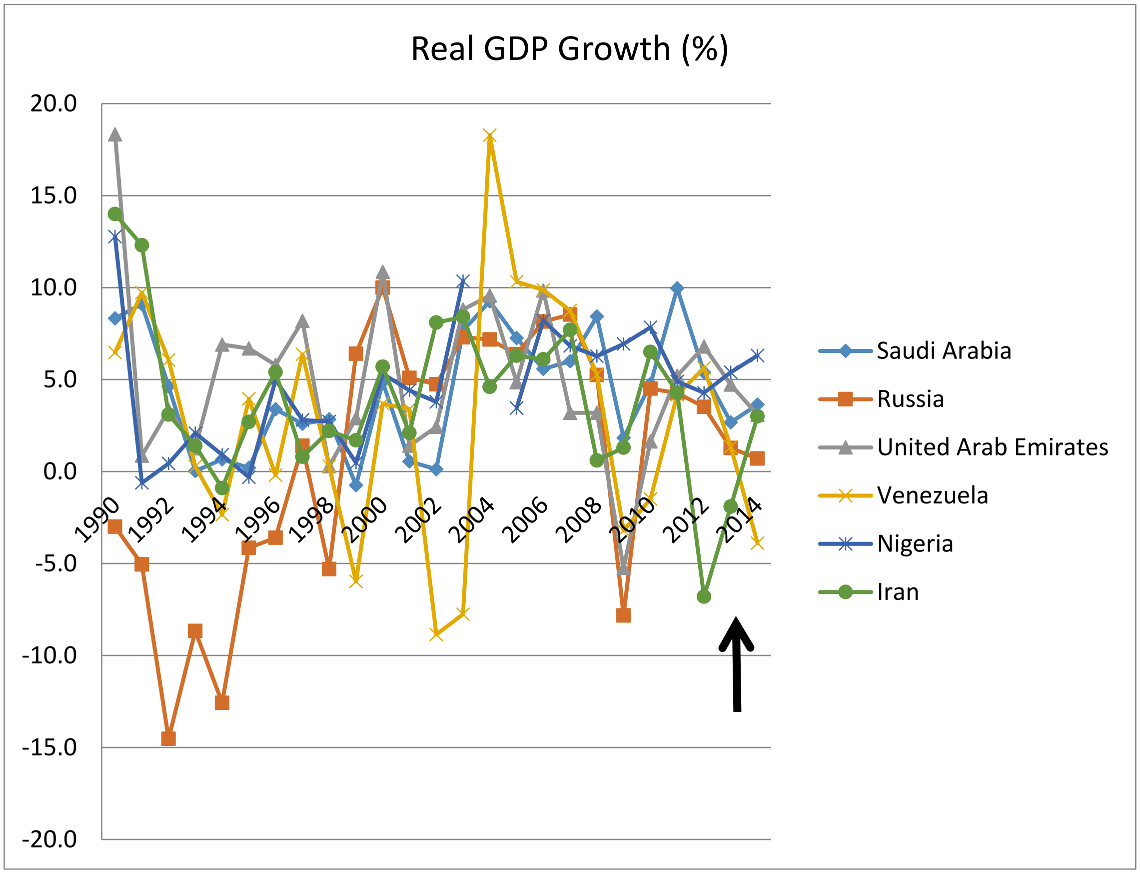

Figure 4.2: Real GDP Growth of Major Oil Exporter Countries

Source: WB.

As one can observe from the Graph 4.2, real GDP growth rates of the major oil exporters[20] have similar trend except Venezuela[21]. For example, all countries were affected by the global financial crises but some of them like Russia, were deeply affected. One can observe the effects of international sanctions impacts on Iranian economy through Graph 4.2. Iranian economy is clearly separated from other oil exporting countries between 2012 and 2013 because of the tightening international sanctions.

20 Saudi Arabia, Russia, United Arab Emirates, Venezuela, Nigeria and Iran are the top 10 oil exporter countries.

21 Venezuela has a political turmoil more than other countries, because of coup and other political mass.

In July 2015, the JCPA was signed and the implementation of the agreement started in January 2016, hence the estimation of GDP growth increased by average 4.4% between 2016 and 2018 (WB, 2016).

The general assessment among the real GDP growth shows that the sanctions become successful when they are imposed on key sectors of Iranian economy, energy and finance, and when they are invoked through international cooperation.

4.3.2. Foreign Borrowing

As mentioned above, Iran has been faced with financial sanctions since 1984 (Appendix, Table A.1). Iran was deprived of the financing opportunities from Ex-Im Bank, export credits, loans and insurance, and the US officials possessed the right to vote against financial assistance to Iran giving by international financial institutions. Hence, Iran was in a difficulty to finance its developing oil sector.

However, the Iranian economy desperately needed financing in order to cover the destructions of Iran-Iraq War and at the times when oil prices fell, the foreign debt burden increased, and the hard currency in the economy was not enough. On the other hand, Iran's oil and gas plants which are capital-intensive, were not modern and need investments.

4.3.3. Currency and Inflation-Consumer Price Index

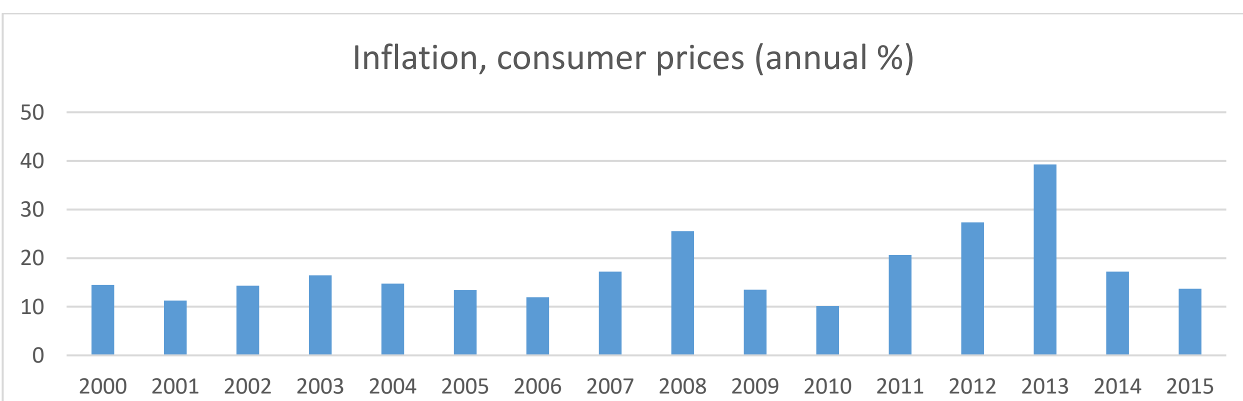

Figure 4.3: Inflation Rate of Iranian Economy

Source: Central Bank of Iran.

The other sector deeply hit by the sanctions was financial sector. The impacts arose with the foreign exchange rate and inflation rate. The average inflation rate was 15.3% between 2000 and 2011. It increased to 27.3% in 2012 and 39.3% in 2013. The peak in inflation rate was recorded in June 2014 with 45.1%. However, it comes full circle in period between 2014 and 2015, with average 15.4%. In February 2016, it declined to single-digit figure, 8.9%.

One can observe from Figure 4.4, Iran follows a trend similar with the other countries in general, but there are two exceptions. First, the increase in inflation in Iran is greater than the other oil exporting countries in 2007. The other one, and the most important one is the drastic increase in inflation in 2012. There are no such an increase in other oil exporting countries. The increase in inflation rates in Iran is due to the strengthening international sanctions.

The reason behind the high inflation rate was the strict sanctions applied by the US, EU and other international community. The high cost of living which resulted by the high inflation rates, does not only affect the economic figures, but also it had impacts on society. The domestic pressure among public restricted the policy space of Iranian government. Hence, one of the reason behind the priory negotiations of final agreement may be the unrest among public.

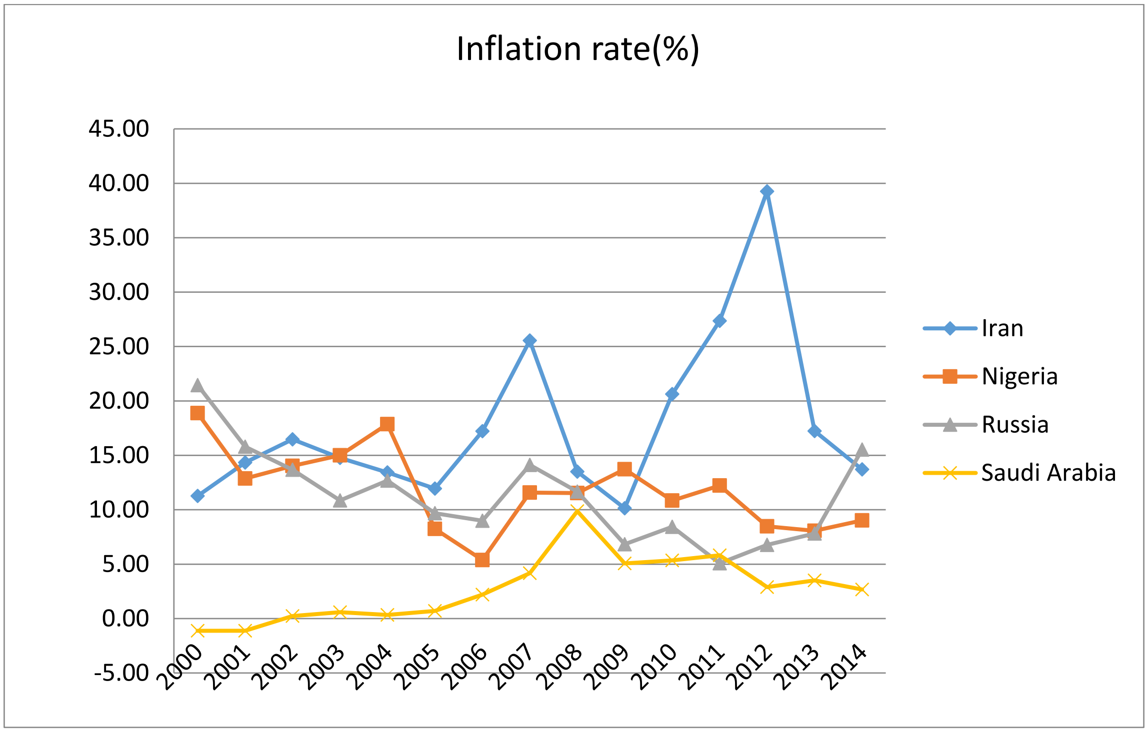

Figure 4.4: Inflation rates of some oil export countries

Source: WB.

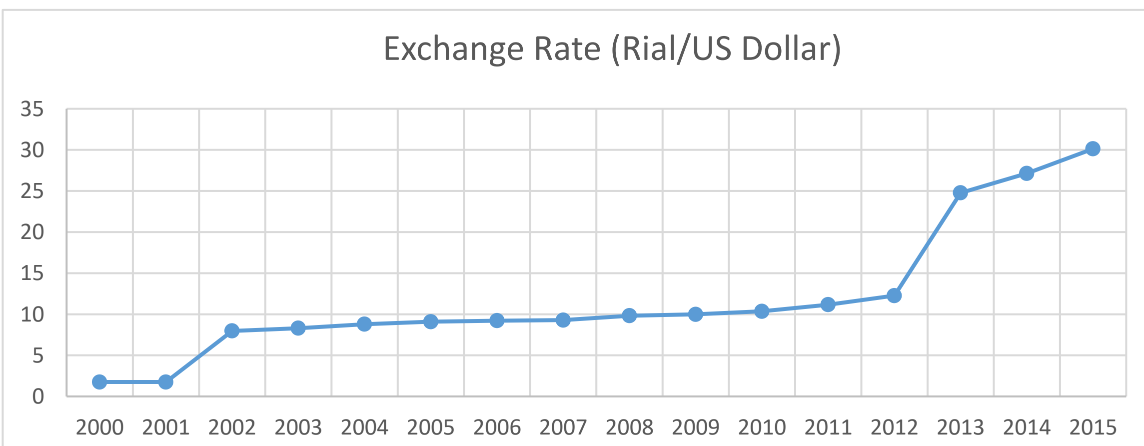

Figure 4.5: Exchange Rate (Rial/US Dollar)

Source: Central Bank of Iran (The values represent the data of last day of the year.).

Iran’s rial fell down 17 percent on one day (1 October 2012) when the strict sanctions started to be applied. The US officials declared that the sudden decline of the rial is the proof of international sanctions are useful.

The rial lost value more than 80% in the first ten months of 2012, the year with tightened sanctions imposed by the US and EU. The fall in the oil prices and the fruitless nuclear negotiations resulted in currency crisis again. In the start of 2013, government canceled the “two classes currency category”, namely currency room. The importers and the exporters relaxed with the low exchange rates (25,000 rial to the dollar, while in the free market 35,000). However, the entities close to ruling elite benefited from the currency room (BTI, 2016).

It is clearly seen that sanctions hit the rial in a harmful ways. Depreciation of Iran’s rial coincide with the sanction period. In the theory, depreciation may help increase the volume of export. In the Iran case, export did not increased, moreover pressure over Iranian economy was accelerated.

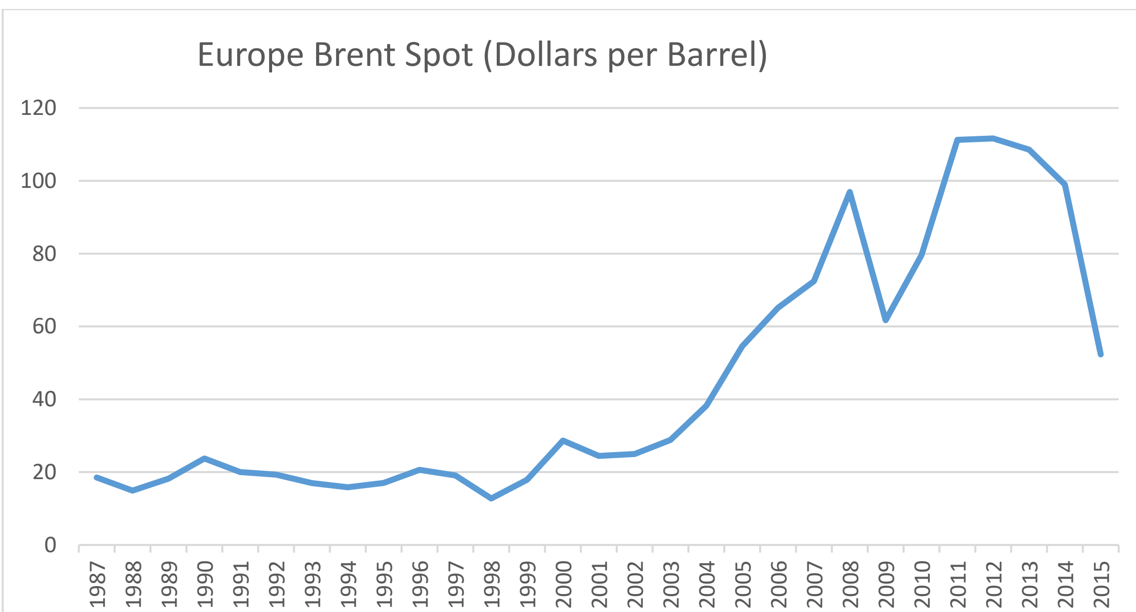

Figure 4.6: Europe Brent Spot Price in Years

Source: The US Energy Information Administration.

4.3.4. Trade

After 1979 crisis, thr US imposed export embargo on Iran, and Iran put embargo on the US made products, which was ended in 1991. According to the data taken from the US Census Bureau, before 1988, there were high level of imports from Iran and modest exports to Iran. However, in 1987, October, Iran attacked against American forces and Kuwaiti vessels flying the American flag in the Persian Gulf, and did not accept cease-fire agreement of the UN, lasted its aggression toward neutral parties in Persian Gulf, and supported terrorism. Hence, the US banned import of Iranian goods and services including crude oil, and there was significant drop of level of imports by the US to Iran. Between 1992 and 1999, the imports of the US was negligible, especially in 1995, with the comprehensive sanctions.

The exports of the US to Iran includes machineries, electronics, foodstuff, oil drilling and oil field equipment, which are inelastic demand in the short run. Some of the items can be bought from other countries in high price for low quality (Torbat, 2005: 415).

Before the 1979 crisis, the US was the major importer of Iranian oil. In 1987, the US banned direct import of Iranian oil even though some US companies continue to import Iranian oil to export other countries. The other export items of Iran to the US were Persian rugs, jewelries and handicrafts, which are elastic in demand, and highly substitutable. Indeed, in 2000, the sanctions on some of non-oil exports were lifted (Torbat, 2005: 416).

In 1994, Iran’s oil exports was 2.6 million barrels per day, while the US imports 600,000 barrels per day. In 1995, the oil imports of the US were banned with the comprehensive sanctions. However, this oil import embargo was not effective for the US and Iran since Iran’s oil export was highly elastic and the price of oil is determined by the Saudi Arabia dominated OPEC (Torbat, 2005: 417).

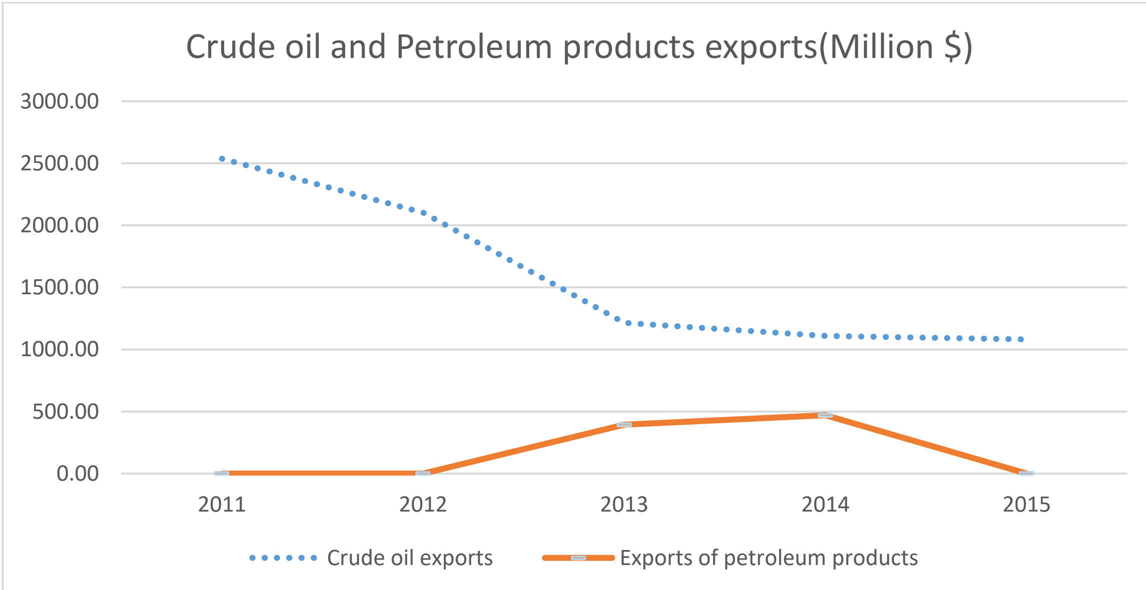

Figure 4.7: Iran's Crude Oil and Petroleum Products Exports

Source: OPEC.

Sanctions make oil sales hit the bottom (Figure 3.4). According to the data taken from OPEC (2012-4), in 2011 crude oil exports were 2.5 million barrels per day, whereas it decreased to 1.2 million barrels per day in 2013. Even though, JPA rules that the oil sales will be constant at 1 million barrels per day in the 6-mounth period of the interim agreement, Iran sold 1.1 million barrels per day in 2014.

Additionally, the exports of petroleum products reduced from 441.3 (1,000 b/d) to 394 (1,000 b/d) between 2011 and 2013. The value of petroleum products also diminished, in 2011, the sales amounted 114.75 million $, in 2013, it decreased to 61,923 million $. Actually, the fall in the value of exports and petroleum exports continues due to low oil prices started in the beginnings 2015.

4.3.5. Manufacturing sector

The interesting feature of Iranian economy is the strong side of the automotive sector. Before the tight sanctions (in 2011), Iran was the thirteenth largest producer of automobiles, with manufacturing annually 1.65 million cars, more than car giants, UK and Italy (Amir-Mokri and Biglari, 2015).

The manufacturing sector of Iran relies on the imported parts, and it becomes hard to finance the imports in the sanctions era. The value of the currency hit the bottom, and there was financing restriction on the sector, mostly in automotive sector. The production of automobiles decreased 40% from 2011 to 2013 (Katzman, 2014: 124).

4.4. THE IMPACTS OF FINANCIAL SANCTIONS ON POLICY SPACE OF IRAN

Iran has been exposed to sanctions for long years, and thus, Iran case is a good example to follow both the evolution of sanctions and the contraction of policy space in the progress of time. To that end, the evaluation of Iran case is made by separating sanctions episodes. The reason behind this separation is that different episodes have different dominant features, and this separation may be helpful to understand all different episodes of sanctions and their impacts on policy space of Iran. Additionally, it is also coherent with my argument in Chapter 2 that sanctions have become more financial over time.

In this framework, I define first episode as the period from 1979 to 1996, until the ISA, and second episode, from the ISA to 2010, UNSC Resolution 1929, and the third episode, from this Resolution to the JPA. The last episode is all about how the sanctions focused on financial and energy sector. Indeed, it demonstrates how financial channels were used to contract energy sector, and thus entire economic policy space. In this period, the sanctions become more financial, international, and powerful. More importantly, fatal blows were hit to Iran’s economy.

First Episode of Sanctions

The first episode of sanctions is dominated by the coercive feature, and partially signaling feature. In this period, generally, the areas where sanctions imposed were aid, and trade.

First, the sanctions imposed in this episode by the US were implemented through preventing foreign aid, grants and credits. Those sanctions can be evaluated early forms of financial sanctions. However, they were not capable to exclude the target country from the international financial system, which was also not possible in the 1980s. If the case is evaluated with “carrot and stick approach”, Iran was devoid of “carrots”, and it is left alone with own resources. If Iran changes its policies according to US willing, it will be rewarded by the “carrots”. In other words, coercive logic behind the sanctions aims direct behavioral change of the target. Herein, Iran did not benefit from both direct US assistance, and foreign assistance of US through international banks. Hence, it is clear that the first sanctions against Iran have coercive feature, and this logic targets directly policy space of Iran, and aims to destroy this space. Herein, the sanctions started to have “secondary” dimension, since US prevented foreign assistance to countries that supported Iran. Hence, US also sanctioned Iran in an indirect way, thorough third countries. Therefore, US both prevented other countries support of Iran, and other countries that may act like Iran in the future. Hence, it is obvious that those sanctions have the signaling feature. As a developing country, foreign loans, credits, and insurance provided by US were not available for Iran.

In order to demonstrate the impacts of aid sanctions on policy space, one need to understand how much the target country need the sender’s foreign aid. According an US Report titled “Unnecessary Dollar Grants to Iran under the Foreign Assistance Program”, US started to support Iran with foreign aid with a technical assistance program in 1951. This aid increased in 1952, when Iran encountered problems with the nationalization of Iran’s oil industry. Additionally, Iran used dollar grants for wheat exports from Australia, in 1961. Hence, the US did not restricted how the grants would be used. According to the data of InsideGov[22], the greatest part of foreign aid of US to Iran is military aid, and in comparison to military aid, the economic aid is limited. In addition to that fact, the foreign aid

22 http://us-foreign-aid.insidegov.com/l/81/Iran

sharply decreased in the 1970s. As mentioned previously, because of sanctions, Iran was deprived of foreign aid between 1979 and 1991. It may be noted that before the start of sanctions, 1979, the dependency of Iran on US economic and military aid was reduced. Since its dependence on foreign aid is decreased, the negative impacts on the policy space will be limited.

Second, in addition to foreign aid, US used trade channel. The US prohibited oil imports from Iran and exports (except food and medicine) to Iran. In 1995, trade and investment sanctions were enhanced. In this episode, aid and trade sanctions were imposed altogether in order to enhance sanctions policy, and increase costs for Iran, and hence make it change its “undesired” policies. In this episode, sanctions started to target the key sector of the economy. Iran may compensate the lack of foreign aid by the earnings from oil exports. However, Iran no longer exported to the US. Herein, to demonstrate the impact on policy space, it is important to determine the trade relation between Iran and the US.

Before the 1979 crisis, the US was the major importer of Iranian oil. In 1987, the US banned direct import of Iranian oil even though some US companies continue to import Iranian oil to export other countries. In 1994, Iran’s oil exports was 2.6 million barrels per day, while the US imports 600,000 barrels per day. In 1995, the oil imports of the US were banned with the comprehensive sanctions. However, this oil import embargo was not effective for the US and Iran since Iran’s oil export was highly elastic and the price of oil is determined by the Saudi Arabia dominated OPEC (Torbat, 2005: 416-7).

Hence, the dominant feature of sanctions in the first episode is coercing feature, and it is supported partially by signaling feature. To understand the impacts on policy space, it is needed to define the relations between Iran and US, and their interdependence. According to above discussion, in order to attain its development goals, Iran was devoid of financial aid, and export earnings from the US, but this effect was not enough to change its behavior, since its negative impacts on policy space were limited. It can be also observed from the GDP growth data in Chapter

3. Even though the economy contracted in war time, it later built up and continued in this way until 2012. Still, Iran would be engaged to trade and investment relations with other countries, except the US. Hence, sanctions second episode focuses on the relation of Iran with third countries, and destroy those trade ties.

Second Episode of Sanctions

The second episode of sanctions is dominated by the signaling feature. In this period, generally, the areas where sanctions imposed were trade and investment. Additionally, sanctions started to have "extra-territorial" feature, and they become more international.

The second episode of sanctions starts with the ISA. The aim of the ISA was to prevent the opening of energy sector to foreign investment. The other important feature of this Act is its being "extra-territorial sanction" on Iran which aims to punish third countries. In this episode, in addition to coerce feature of sanctions, signaling feature also become dominant. In the previous episode, the sender country, US, was able to only prevent its companies, and individuals not to have trade and investment relation with Iran. It is recognized that unilateral sanctions were not enough to narrow the policy space of Iran. With global integration, Iran was able to find other trading partners. The Iranian market, abandoned by the US, offered the opportunity for other countries. The existence of other countries in Iranian economy decreased the efficiency of US sanctions. For this reason, US needed to reform its sanctions policies by adding "secondary" or "extra-territorial" dimension, and signaling feature of sanctions is enhanced by the US. However, this reformation was not successful to narrow policy space. Iran, and other countries, find to evasion methods.

The other important part of this episode is the participation of the UNSC, in 2006. However, UNSC Resolutions (1737 of 2006, 1747 of 2007, and 1803 of 2008) in this episode have coercing feature, and focus on nuclear and missile program of Iran. Hence, sanctions imposed through this resolutions aimed to prevent the development of nuclear and missile program of Iran, and Iran's export of weapons of mass destruction. By means of those resolutions, assets of designated entities were frozen, and travel bans were imposed. These sanctions are more likely to restrict political space than economic policy space since they target Qods Force Officers, and political elites. Hence, their effects on the behavioral change of Iran depend on the place and importance of those designated ones in the Iranian government. Therefore, it is obvious that sanctions of UNSC are coercive, and signaling.

Third Episode of Sanctions

The third episode of sanctions is dominated by the constraining feature. In this period, generally, the areas where sanctions imposed were energy and finance. Additionally, the sanctions were applied through financial channels in accordance with the deepening financial integration of Iran.

The third episode of sanctions started with the UNSC Resolution 1929 of 2010. This Resolution, in a similar way with other resolutions, aimed to freeze assets of designated entities, and impose travel bans. In addition, it restricted the transactions with Iranian Banks, namely, Bank Melli and Bank Saderat, and attracted notice of international financial system to any lending, financing, credit provided to Iran. In 2012, US sanctioned Iran Central Bank and other entities involved in the government of Iran, with Executive Order 13599. According to that Order: US-based assets of Iran Central Bank or other entities involved in government of Iran would be seized by US financial institutions, US citizens would not be involved in dealing with Iranian entities, US financial institutions would reject transactions with those entities. Additionally, US, with Executive Order 13608 of 2012, aimed to designate and sanction foreign entities which help Iran to evade international sanctions. However, the fatal blows were first hit by the EU's SWIFT cut of Iran from the system. The second blow was hit by the US's Iran Treat Reduction Act, which made Iran be unable to obtain hard currency earned by exempted transactions.

The important features of the last episode are as follows:

First, the place and the significance of financial sanctions increased in this episode. As Iran has become more integrated to global system, the usage and the effectiveness of financial sanctions increased. In parallel with Iran's financial integration, globalization has deepened in this episode.

Second, in this episode, 30 Iranian banks designated by the EU were cut off from SWIFT in 2012. Iran was able to make cross-border transactions with foreign banks through SWIFT. The payments and letters of credits were transmitted through this system. Iran was able to obtain its oil earnings with means of the system. With its exile from the system, Iran could no longer make foreign trade and transactions using the system. In a kind of way, those sanctions are trade sanctions, but they were different from the trade sanctions of first and second episode, and had more devastating effect than other trade sanctions. As mentioned above, Iran had previously been subjected to trade sanctions, but it had other trading partners, and the financial channels were open. After the financialization sanctions of trade sanctions, these channels closed and it became impossible for Iran to trade. This isolation from the global financial system lasted four years, and it was the most damaging part of the sanctions policy. It directly contracted Iran's international trade policy area. Especially, the aim was to prevent Iran to obtain its oil earnings. The SWIFT decision was made to support EU's ban on oil imports from Iran. US sanctions on oil imports did not work very well, and Iran could find ways to sell its oil. In this context, 30 Iranian banks, including Central Bank of Iran, were dismissed from the SWIFT in parallel with the EU restrictions. Those banks had importance since most of the oil transaction was made through those banks.

In spite of enhanced sanction on energy sector, Iran continued to export crude oil. As pointed above, the bigger trading partner of Iran is China, and China is also the biggest oil customer of Iran. Between 2012 and 2013, China reduced its oil exports from Iran to about 435,000 barrels per day from its 2011 average of 550,000 barrels per day. Hence, China got sanctions exemption. More importantly, China and Iran settled much of its trade with goods rather than hard currency between 2012 and 2016. It was the advantage of China since China exported to Iran goods related to automotive sector, which is the second biggest sector after energy sector, and subsidiaries of two China-based companies, namely Geelran and Chery, produced cars in Iran (Katzman, 2016). That is why China is the biggest import and export partner of Iran. While this helped Iran to make sanctions ineffective, Iran has become more dependent on China, which may also be evaluated as a contraction of policy space of Iran.

After the implementation JCPA, only nuclear-related sanctions were lifted. Solely non-US banks were allowed to make transactions with Iranian entities, and banks. However, US nationals, and banks were not allowed to make any transactions due to US sanctions other than nuclear ones. Additionally, Iran was not able to trade with US Dollar, and using US financial system. Hence, with the JCPA, only EU-sanctioned banks were re-connected to the SWIFT.

On the other hand, due to on-going US sanctions, some of EU banks were reluctant to make transactions with Iran, since US sanctions were heavily weighted for some financial institutions. For example, in 2012, HSBC was punished by 1.9 billion US Dollar, in 2014 BNP Paribas of France by 8.9 billion US Dollar, in 2015 Commerzbank by 1.5 billion US Dollar, and those are not the only examples. Even if there is political pressure on EU banks to work with Iranian entities, EU banks are afraid of working with Iranian because of high fines. A striking case is that former British Prime Minister asked Barclays, a big British bank, why they refused to make payments on behalf of Molyslip Atlantic, a British lubricant maker working with Iranians. Barclays chief executive replied as “As we offer banking services through our US operations we are required to continue to restrict business activity with Iran”[23].

[23] https://www.ft.com/content/75dc8d7e-f830-11e5-803c-d27c7117d132

Hence, SWIFT sanction showed how Iranian economy was "outmanoeuvred" by using financial channels. Even though the ultimate aim was about the preclusion of oil exports, financial channels were used to narrow the policy space of Iran. Iran, as a big oil producer, enlarges its policy area through its earnings from energy sector. Hence, key energy sector of Iran was destroyed using financial channels.

UNSC sanctions are binder and must be implemented by a great number of the member states. Similarly, EU also have 30 member states, and its sanctions are binder for its member states. In this period, both UNSC and EU sanctions were implemented, and only in this period, the international dimension of sanctions increased. Hence, the policy space of Iran was further narrowed by the multilateral sanctions. However, the main reason of the success was the financialization of sanctions in this period. Both UNSC and EU sanctions were financialized after 2010, in order words, sanctions are applied through financial channels.

As a result, it is clear that the constraining feature is the dominant logic behind targeted financial sanctions in the third episode. The cost of sustaining "undesired" policies increased for Iran. On one hand, it becomes impossible for Iran to sell its crude oil. On the other hand, it is impossible to procure its earnings from oil sales. However, Iran was able to provide maneuver area with the earnings from its oil sales. Hence, Iran's biggest sector, the energy sector was devoid of foreign technologies because of economic sanctions. Iran's second biggest sector, automotive industry was hurt by the sanctions implemented by the US. ISA targets firms providing goods and services to Iran's automotive sector, and dismisses foreign banks from the US market if they finance transactions with Iran's automotive sector. Hence, sanctions prevented importing parts like pistons and cylinder heads that are used in domestic production.

4.5. CONCLUSION

Iran, a good ally of the West until the Iraq-Iran War and the Shah leaving the country, has been subjected to the interventions of the West after the represented events in this Chapter. Sanctions have been imposed on Iran because of different changing issues such as the support of terrorism, the development of nuclear program and human rights abuses. As explained in this Chapter, sanctions have deeply affected Iran economically and politically. Especially after 2010, when financial sanctions were increased with international support, Iran started looking for deals with sanctioning institutions. This search has economic and political reasons. Indeed, in the same years, Tehran, who was also afraid of the uprisings in neighboring countries due to the Arab Spring, admitted that the time of cooperation with the West has come. As a result of sanctions, Iranian economy has both shrunk and rial depreciated against US Dollar. All these developments have narrowed Tehran's policy area and made Tehran persuade to agree. Even if the sanctions are loosened, it is unforgettable that Iran is still sanctioned for support of terrorism and human right abuses.

The case of Iran sanctions is a good example to track the evolution of sanctions with deepening globalization and observe the policy actions of a developing, counteractive and “rogue” country. As mentioned in this Chapter, sanctions have become effective after gaining financial dimension and, as a result, Iran has signed a comprehensive long-term agreement with Western governments. It is possible to say that globalization and financialization that is influencing all world, made sanctions more effective and successful on Iran.

Additionally, the sanctions may lead to narrow policy space of a third country. As seen in the case of Iran, US forced other countries to participate in its sanctions policy, and punish non-participating ones. Hence, US restrict policy areas of third countries, mostly emerging countries, in addition to Iran.

Iran has been exposed to both conventional and financial sanctions for years. Conventional sanctions are not enough to convince Iran since the impacts on Iran’s policy space were limited. However, when the sanction were reformed by financial channels, the impact on policy space increased. Iran finally negotiated.

CHAPTER 5

RUSSIAN SANCTIONS

International sanctions on Russia targeting persons, entities and sectors have been the response of international community to Ukraine conflict, and events in Crimea and Sevastopol. The sanctions policy that is led by the EU and the US, is supported by many other countries and international organizations. However, Russia has responded by the counter-sanctions policy with imposing ban on food imports from the EU, the US, Norway, Canada and Australia. The sanctions policy has damaged both the EU countries and Russia, and is still in force. Hence, the winner has not been determined yet, and the discussion on the success of sanctions continues.

Russia is a good case to analyze the sanctions policy due to its being an integrating large economy, and its being energy giant. Even though Russian case spreads short period of time in comparison to Iran, yet it still offers the evolution process from diplomatic measures to financial targeted sanctions. Actually, before anything else, Russian case is very contemporary, and open to discussion.

In Chapter 2, the evolution of conventional sanctions to financial sanctions was investigated. In this Chapter, this evolution will be examined by focusing on Russian case. In the case of Russia, this evolution has progressed on a different path, from diplomatic measures to financial sanctions. In the progress of time, financial sanctions have begun to be used as a most ultimate and effective ways in attempts to persuade Russia. Indeed, those sanctions have not been strict as the ones in Iranian case. Although it has been proposed, Russia has not been dismissed from the SWIFT unlike Iran. However, Russia's access to the EU and the US financial systems has been largely hampered. Hence, one of the motives of this Chapter is to reveal this evolution from diplomatic measures to financial sanctions. Moreover, the discussion regarding the effects of financial sanctions on policy space, will be extended in this Chapter in order to include Russian case. Hence, the other purpose of this Chapter is to apply the discussions regarding policy space made in Chapter 3 to the case of Russia. To that end, Russian sanctions are also separated into episodes like Iranian case, and each episode is evaluated according to dominant feature of sanctions, and its effects on policy space of target country.

The findings of this Chapter are as follows: First, one can easily observe the evolution of Russian sanctions to financial sanctions. It has been understood by the EU, the US, and international community that diplomatic measures would not be effective in persuading Russia. Hence, financial channels have begun to be harnessed. Second, it is clear that Russian economy has adversely been affected by the sanctions. However, the contraction of the economy is partially due to the fall of oil prices. To that end, while I assess the impacts of financial sanctions on the Russian policy space, I bear in mind the decline in oil prices, and refer to the studies made on this issue.

In this context, this Chapter is organized as follows: First, I will discuss the background of Ukraine and Crimea crisis. While doing this, I do not enter into the debate on whether the parties were right or wrong. Second, the international sanctions on Russia are introduced historically. Herein, I focus on the sanctions imposed by the EU and the US, even though Russia is sanctioned by other countries. Moreover, I assess the financial sanctions in a separate part. Third, the impacts of sanctions on Russian economy are evaluated through economic data. Then, Russian case is re-examined with respect to policy space and financial sanctions perspective. The main discussion of this thesis, the contraction of policy space by financial sanctions, is introduced in this Part. Finally, Russian case will be concluded by further remarks on sanctions implementation.

5.1. BACKGROUND OF UKRAINE AND CRIMEA CRISIS

Russian Federation, the successor of the Soviet Union, is a major power in the region and it is the permanent participant of the UNSC. Russia reinforced its position in the global scene after Putin took control in 2000. Starting with Russia-Georgia crisis in 2008, the tension between Russia and the West accelerated. Moscow and the Western problems hit the top since the Ukraine crisis. Before the details of the international sanctions and economic data, I will discuss Russia's international political movements.

On August 2008, two separatist regions in Georgia, Abkhazia and South Ossetia, was disturbed and chaotic since the separatists' shelling to Georgian villages. Georgian armed forces responded the separatists (Law Library of Congress, Russian Federation Legal Aspects of War in Georgia). On the other hand, Moscow accused Georgia of aggression against in separatist areas and back up the separatists. Russia-Georgia War ended within August 2008 under the guidance of Sarkozy (France's former leader), and the ceasefire agreement signed in 16 August 2008. However, Russian Parliament recognizes Abkhazia and South Ossetia as independent states.

Other aspect of the War is laid in NATO's April 2008 Summit in Bucharest, members of NATO considered to invite Georgia and Ukraine in the organization. Kremlin's policies on neighbors may be investigated with this perspective. In 2008, Alexander Grushko, Russia's Deputy Foreign Minister, stated that "Georgia's and Ukraine's membership in the alliance is a huge strategic mistake which would have most serious consequences for pan-European security" (Mearsheimer, 2014). According to Russia's official view, NATO's possible expansion brings new threats to Europe. Russia as a super power, perceived NATO's movements in its region as threat to its own power.

Public disturbance in Ukraine started with Orange Revolution in 2004 which ended with more chaotic atmosphere in Ukraine than before the revolution. After that, Russia led governments took control in Ukraine and tensions started to increase again. The breaking point was on November 2013, when Ukraine's President

Yanukovych[24] rejected the EU economic deal, Association Agreement, and accepted Russian counter-offer which totaled 15 billion US$ (Mearsheimer, 2014). After this decision, anti-government protest in Kiev accelerated. In the protests, called Euromaidan, pro-EU Ukrainians organized to step down the pro-Russian government. They claim that all bodies of Yanukovych government was involved in corruption (Metre et al., 2014). On 21 February 2014, Yanukovych accepted to hold new elections and he stayed his chair until the elections were held. However, he fled to Russia in the next day.

Russia addressed this demonstrations, and claimed that Russian citizens who lived in Ukraine were in danger because of the violent attacks. On February 22, Russian forces invaded Crimea which 60 percent of its population comprises of ethnic Russians (Allison, 2014). Moreover, Russia annexed Crimea region in later 2014. The conflict in Ukraine still continues in Donbass area and Eastern Ukraine.

Russia’s annexation of Crimea and the war between Russia and Ukraine got immediate reaction from all over the world. According to the Western side, Russian aggression in Ukraine is Putin’s long-standing desire to resuscitate the “great” Soviet Union and endanger peace in Europe, constituted after World War II. On the Russian side, the story is little different. They believe that the EU and NATO movements put Russia in danger and limit its political space. In order to create more area in its political space, Russia involved in Georgia, Ukraine and now Syria. As a result, Ukraine tear apart day by day, and military and political actions did not help to solve this crisis.

5.2. INTERNATIONAL SANCTIONS ON RUSSIA

In reply to Russia’s actions against the territorial integrity and sovereignty of Ukraine, and annexation of Crimea and Sevastopol, international community imposed measures against Russian persons, officials and entities, as well Ukrainians. The EU and the US have led the way of sanctions policy with

[24] Victor Yanukovych is in pro-Russian side and he exiled to Russia when Ukraine crisis started and he still lives in Russia.

international organizations and many other countries including Canada, Japan, Australia, Albania, Iceland, Montenegro, Ukraine, and Moldova.

While the first measures included travel bans, assets freezes on certain persons, and other diplomatic reactions, the sanctions policy of the EU and the US evolved to economic and financial measures affecting Russian economy and all citizens due to inexistence of de-escalatory steps of Russia.

5.2.1. EU Sanctions

Restrictive measures have been used by the EU in accordance with its objectives of Common Foreign and Security Policy. The EU claims that it has a right to represents peace, democracy, rule of law, human rights and international law[25].

The sanctions policy of the EU have aimed de-escalating the conflict in the Eastern Ukraine, and supporting the territorial integrity and sovereignty of Ukraine. The actions of Russia challenged the objectives of the EU's Common Foreign and Security Policy. On the other hand, the EU and Russia economically and financially depend each other. More importantly, Russia is a supplier of oil and natural gas used by the EU. Hence, sanctions started with diplomatic measures. However, those measures were not enough to urge Russia change its actions in Ukraine. For this reason, diplomatic measures have evolved to financial and economic measures.

The EU has also taken measures about the annexation of Crimea and Sevastopol by Russia. From the start of the events, the EU condemned the occupation and did not recognize the outcomes. Afterwards, the EU restricted exchanges with Crimea and Sevastopol according to its non-recognition policy.

The EU sanctions against Russia started on March 2014 with diplomatic measures. From the outset, the EU have attributed sanctions to two reasons: Russia's actions

25 More information is available in the Fact Sheet titled "EU Restrictive Measures", published by the EU in 29 April 2014.

against Ukraine's territorial integrity, sovereignty and independence, and Russia's annexation of Crimea and Sevastopol.

According to the press release done by the Ministry of Foreign Affairs of Russian Federation, on 1 March 2014, Federation Council of Russia authorized the use of Russian military force on the Ukrainian territory because of the situation in Ukraine. Russia claimed that Russian citizens in Ukrainian territory and the military personnel of the Russian Federation Armed Forces deployed on the territory of Ukraine (once called Autonomous Republic of Crimea), were in danger.

Afterwards, the Foreign Affairs Council of the EU held an extraordinary meeting to discuss the situation in Ukraine. The Council condemned Russian Federation because of its actions against Ukrainian sovereignty and territorial integrity. According to the press release done by the Council of the EU, those actions were the violations of Russia's international obligations like UN Charter, Helsinki Final Act, Budapest Memorandum of 1994, and Treaty on Friendship, Cooperation and Partnership of 1997, Agreement on the Status and Conditions of the Black Sea Fleet of 1997. The EU and the Member States of G8 suspended their preparations for the G8 Summit in Sochi on June, 2014 (Appendix, Table A.2).

Immediately after, on 6 March 2014, extraordinary meeting of heads of states and governments were held. In this meeting, they decided to take actions to suspend bilateral talks with the Russian Federation on visa matters and the New Agreement, and they called for negotiation between Ukraine and Russia in short period of time. In the absence of the negotiations, EU would take additional measures, such as travel bans, asset freezes and the cancellation of the EU-Russia summit. In addition, in this meeting, they gave the clues of economic sanctions in the absence of de-escalating actions of Russia (Appendix, Table A.2).

On 16 March 2014, a referendum in Crimea on joining the Russian Federation was held. Following the referendum, on 17 March 2014, the first set of measures was taken in the Foreign Affairs Council meeting. The Council did not recognize the referendum and its consequences in Crimea. According to the press release done by the Council of the EU, this referendum was the breach of Ukrainian Constitution and held by the presence of armed forces. 21 Russian and Ukrainian officials, and related persons or entities that acted against Ukrainian sovereignty and territorial integrity, were targeted by the measures like assets freezes and travel bans. Additionally, the Council gave the clues of probable economic measures in this meeting (Appendix, Table A.2). According to the Council:

"Any further steps by the Russian Federation to destabilize the situation in Ukraine would lead to additional and far-reaching consequences for relations in a broad range of economic areas between the European Union and its Member States, on the one hand, and the Russian Federation, on the other hand. The European Union calls on Russia to return to developing a strategic partnership with the EU instead of isolating itself further diplomatically and economically."[26]

Until the end of July 2014, Russia was only exposed to the diplomatic measures like cancelation of EU-Russia Summit, suspension of negotiations over Russia's joining the OECD and IEA, suspension of bilateral talks on visa matters and the New Agreement. G7 meeting was held in Brussels on 4-5 June 2014, instead of G8 summit in Sochi.

In addition to those measures, economic cooperation with Russia has been restricted through the suspension of new financing by the European Investment Bank, and European Bank for Reconstruction and Development. Meanwhile, the target list of travel bans and asset freezes have been enlarged. However, the trilateral energy talks between Russia, Ukraine and the EU were pursued, aiming to safeguard the security of supply and transit of natural gas to and through Ukraine, despite the worsening situation on the ground.

In other respects, European Council adopted further trade and investment restrictions for Crimea and Sevastopol, as part of the EU's policy of not recognizing

[26] Press Release of Foreign Affairs Council, dated 17 March 2014.

the illegal annexation. The imports from Crimea and Sevastopol to EU were banned on June 2014, and investments in Crimea and Sevastopol were restricted on July, 2014. The trade and investments measures have targeted infrastructure projects in the transport, telecommunications and energy sectors and the exploitation of oil, gas and minerals. The export of key equipment, and finance and insurance related to those sector was banned (Appendix, Table A.2).

At the end of July 2014, second round of the sanctions started with economic sanctions on Russia in areas like financial, defense and energy sectors. According to the press release[27] done by the Council of the EU on 29 July 2014:

- **Restrictions on Russia's access to EU capital markets:** "EU nationals and companies may no more buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries outside the EU and those acting on their behalf. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited."
- **Embargo on the import and export of arms and related material from/to Russia:** "The embargo covers all items on the EU common military list."
- **Ban on exports of dual use goods and technology:** The export of dual goods and technology used for military purposes is prohibited. The ban includes all items in the EU list of dual use goods.
- **Restrictions on energy sector:** Exports of certain energy-related equipment and technology to Russia is restricted.

At the end of August, special meeting of EU Council was held for further measures. Meanwhile, in order to stabilize the EU agricultural and food markets, and to

[27] Press Release of the Council of the EU, dated 29 July 2014.

mitigate the impacts of Russian import restrictions on agricultural products, EU Commission adopted certain measures (Appendix, Table A.2).

On 12 September 2014, the economic sanctions against Russia were reinforced. According to the press release[28] done by the Council of the EU on 11 September 2014:

- **Financial sanctions:** "EU nationals and companies may no more provide loans to five major Russian state-owned banks. Trade in new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by the same banks, has been prohibited. The same restrictions have been extended to three major Russian defense companies and three major energy companies. Providing services related to the issuing of the above financial instruments, e.g. brokering, is also included in the prohibition."
- **Sanctions on energy sector:** "Certain services necessary for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia may no more be supplied, for instance drilling, well testing or logging services."
- **Sanctions on defense:** "The ban on exporting dual use goods and technology for military use in Russia has been extended to also include a list of nine mixed defense companies that must not receive dual use goods from the EU."

Even though the Minsk Protocol agreed on September 2014 mitigated the fighting on the ground for a short moment, it was proven inoperative at the start of January 2015. The conflict in the Donbass region created international concern. Actually, the Western leaders did not settle on whether providing military support or not. The US wanted to give military support to Ukraine however, France and Germany wanted to take the leadership of another diplomatic mediation. As a result, the leaders of Ukraine, DPR, LPR, Russia, Germany and France convened to end the

28 Press Release of the Council of the EU, dated 11 September 2014.

war in Donbass region of Ukraine, and bring up the measures taken in previous Protocol, on 11 February 2015, with the observance of OSCE.

On 19 March 2015, the European Council agreed to link the duration of the sanctions to the complete implementation of the Minsk agreements. Since the Minsk agreements were not fully implemented by 31 December 2015, the Council extended the sanctions until 31 July 2016. Having assessed the implementation of the Minsk agreements, the Council decided to renew the sanctions for a further six months, until 31 January 2017. Then, the sanctions have further extended to 31 July 2017, on 13 March 2017.

The extended and existing economic sanctions are as follows[29]:

- **Restrictions on the EU primary and secondary capital markets:** The targets are 5 main Russian mostly state-owned financial institutions and their majority-owned subsidiaries established outside of the EU, 3 main Russian energy companies, and 3 defense companies.
- **Trade in arms:** The export and import of arms are banned.
- **Dual-use goods:** The export of dual-use goods for military use or military end users in Russia is prohibited.
- **Restrictions on energy sector:** The access of technologies and services used for oil production and exploration is restricted.

In Chapter 2, the evolution of sanctions from conventional to financial sanctions was demonstrated. In Chapter 4, this evolution was shown for Iranian case. However, in Russian case, there is also this evolution, but it is from diplomatic measures to financial sanctions. There are two reasons behind the start of diplomatic sanctions instead of financial measures. On the one hand, the EU and Russia are economically very interdependent to each other. Even in the case of measures, the trilateral energy talks between Russia, Ukraine and the EU were not halted. On the

[29] Press Release of the Council of the EU, dated 19 December 2016.

other hand, for the EU, it was not as easy and fast as the other states to decide on the imposition of sanctions because of its being a unity of the member states. The EU did not impose sanctions actively and effectively like the US. The reason behind this is that being a union is different from being a country. Moreover, something which is beneficial for the union may not be beneficial for the member country. Hence, this leads to both conflict of interests and inefficiency and lag in invoke of sanctions. As one can observe from the above mentioned sanctions, the severity of sanctions has been gradually increased.

5.2.2. US Sanctions

On 6 March 2014, according to the press release done by the Secretary of State, President of the US, Barack Obama issued Executive Order 13660 to impose travel bans and assets freezes of the persons that “have asserted governmental authority in the Crimean region without the authorization of the Government of Ukraine, that undermine democratic processes and institutions in Ukraine; threaten its peace, security, stability, sovereignty, and territorial integrity; and contribute to the misappropriation of its assets, constitute an unusual and extraordinary threat to the national security and foreign policy of the United States”. The target lists have been determined by the Secretary of the Treasury, in consultation with the Secretary of State. Hence, the US was the first sanctioning country, and then, the international community displayed common attitude to the situation in Ukraine and Crimea on 17 March 2014 (Appendix, Table A.2).

Afterwards, The President of the US issued an Executive Order, "Blocking Property of Additional Persons Contributing to the Situation in Ukraine", and expanded Executive Order 13660 of March 6, 2014, and Executive Order 13661 of March 16, 2014. Additionally, on 19 December 2014, Executive Order 13685, “Blocking Property of Certain Persons and Prohibiting Certain Transactions with respect to the Crimea Region of Ukraine” was issued. With the mentioned executive orders, several Russian and Ukrainian entities have been designated, including 14 defense companies and individuals in Putin's inner circle. 6 Russian large banks and 4 energy companies have been restricted on financing. The financing of economic development projects in Russia and exportation has been suspended. The supply, exportation, or re-exportation of goods, services (not including financial services), or technology used in exploration or production for deep water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation have been prohibited, and that prohibition involves 5 major Russian energy companies (Appendix, Table A.2).

5.2.3. Financial sanctions on Russia

As mentioned previously in Chapter 2, sanctions now have more financial content due to the globalization and financialization. As one can observe from the case of Russia, diplomatic and classic measures were put in place at first. However, it has been concluded that those measures are inadequate by the implementers. Therefore, the sanctions have shifted to the next phase of financial measures.

Russian banks (mostly government banks) and companies, listed in the US "Sectoral Sanctions Identifications" were prevented to have access to the US and European credit markets. Hence, they had to restructure their balance sheets and seek financing from internal sources. Some of private Russian banks and companies (mostly in defense sector), listed in the US "Specially Designated Nationals", were prevented to handle external transactions. Hence, they had to do business with Ruble, and that contracted their business region. Additionally, financial controls on transactions increased. The transactions were examined whether they have financial links with designated banks and companies. Hence, it resulted in delays in transactions and uncertainty about when the transaction will end. As a result, the cost of future borrowing increases. Risk management protocols of Western banks for the Russian debt securities changed. Hence, the demand for those securities decreased. Foreign banks started to decrease their involvement in Russian capital markets. Hence, credit conditions for banks and companied that are both sanctioned and not sanctioned, were worsen. Scrutiny of credit portfolios of Russian banks increased by potential investors whether those banks provided credits to sanctioned entities (Orlova, 2016: 204-17).

Above listed impacts demonstrate that business environment for Russian banks, companies and individuals got worse. The uncertainty about the economy and the fear of being punished due to doing business with designated entities led to foreign entities not involve anymore in Russian economy. The borrowing conditions exacerbated with increasing costs and deficit of financing. Hence, the concern whether Russia will or not pay external debt increased. According to the data of the CBR, on December 2014, external debt of Russia was 599,901 million US$. Foreign currency external debt was 492,777 million US$, whereas domestic currency external debt was 107,124 million US$. However, external debt decreased to 518,508 million US$ on December 2015. This decrease does not mean that Russia reduced its dependence on external sources, but it was no longer able to find financing compared to the past. Additionally, external debt of government, banks and other sectors decreased between 2014-15 while external debt of CBR increased from 10,599 million US$ to 11,033 million US$ between December 2014 and December 2015.

On July 2014, EU nationals and companies may no more buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries outside the EU and those acting on their behalf. Hence, long-term debt financing opportunities were removed.

Only September 2014, EU nationals and companies may no more provide loans to five major Russian state-owned banks. Trade in new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by the same banks, has been prohibited. Hence, short-term foreign debt financing sources were disappeared.

As a result, Russia suffered from financing and foreign currency deficit that led to pressure on Ruble and cost of financing.

The increase in interest rates affected mostly corporate loan sector. The measures preventing corporates access to external financing made them gravitate towards internal financing. Hence, demand for loans from Russian banks increased, and lending rates rose up. Retail deposit rates did not increase as in the case of lending rates. The reason behind is their not being a sustainable source of funding for banks. In the case of financial crisis, they tend to flow out. Similarly, corporate deposit rates did not rise as lending rates. The concern of Russia's payment of external debt increased with the implementation of sanctions. Hence, corporates accumulated their deposits in foreign and domestic currency for future debt payments. Additionally, the depreciation of Ruble made some corporates to earn with their foreign currency deposits.

At the beginning of 2014, seventy bank licenses were cancelled, and exchange rate decreased. These led to concern in the market and people tried to convert their saving to dollars, and there were outflows of capital from banking system. With the first round of sanctions, and the concern of capital controls, people tend to not store their savings in banks. Recently, the dependence of Russian banks on CBR increased, and with the sanctions, it increased further. The retail deposit rates are low and banks liabilities were low, hence banks financed their liabilities with the source of CBR. As a result, banks did not choose increasing deposit rates in the case of need for additional funds, they applied to CBR, and deposit rates continued to be low. In conclusion, sanctions led to increase in the concern about the future of the economy, and led to entities to accumulate liquidity. Banks increase rates on loans since the demand for loans increased. Already the retail deposit base decreased, and CBR became the only financing source. The increasing dependence of banks on CBR treats the financial stability in Russia. Additionally, sanctions affected the transition to inflation targeting and CBR's fight against inflation. For example, in the late 2013, tariff freezes on natural monopolies were started to be implemented.

However, it became inefficient with Ruble depreciation and restrictions on food imports. As mentioned above, CBR increased interest rates four times, but now with inflationary pressures and sanctions context, how much of the increase of rates came from fight against inflation and how much of the increase came from sanctions. On the other hand, with sanctions, deposit base became weaker, which results the dependence of private banks to CBR and government banks (Orlova, 2016: 207-10).

As a result, government participation in banking sector and private banks dependence on government treats the efficient use of capital, hence negatively impact the economic growth.

5.3. THE EFFECTS OF SANCTIONS ON RUSSIAN ECONOMY

Russia is the largest producer of crude oil and the second-largest producer of dry natural gas. Russia also produces coal. Hence, Russian economy depends on its hydrocarbons, and oil and natural gas revenues. More than 50% of the federal budget revenues come from oil and gas (EIA, 2015).

Russia started 2014 with decreasing growth due to several reasons such as the stabilization of oil prices, halted structural reforms, low investment, decrease in total factor productivity, negative population dynamics, extreme regulations, weak governance, high government involvement in the economy (IMF, 2015: 4). This recessive economic situation has been exacerbated with the sanctions and decline in oil prices.

5.3.1. Capital Flow

One can observe from the Graph 5.1, since 2008-9[30] global financial crisis, there have been net capital outflows from private sector. In 2008, net private capital

[30] Since 2008, there has been lasting capital outflows. It is expectable for the year 2008 due to similarity in other countries because of the global crisis. However, after that time, with the quantitative easing, there is capital inflows to emerging economies. On the contrary, it is not valid for Russia.

outflows from Russian economy were 133.6 billion US$. After the deepening of the crisis in Ukraine and strengthening sanctions policy of the EU and the US, the net outflows of private capital in 2014 totaled 152.1 billion US$. Actually, the monthly data given in Table 5.1 clearly demonstrates the effect of sanctions on net private capital outflows. After the first round of sanctions on March 2014, the uncertainty on the private sector resulted in 25 billion US$ outflow of net private capital in April 2014. On July 2014, in the second round of sanctions, 6.4 billion US$ net private capital outflowed from Russia, and after the third round of sanctions tightened on September 2014, the net private capital outflow was 28.5 billion US$.

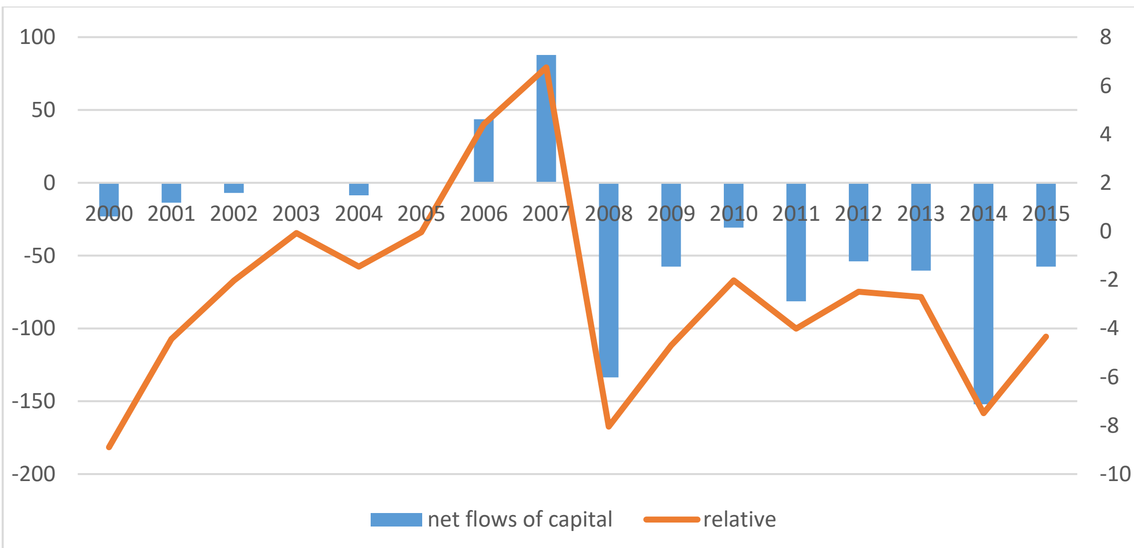

Figure 5.1. Net Flows of Capital by Private Sector (Billions US$)* and Net Flows of Capital by Private Sector Relative to GDP

Source: Central Bank of Russia. *Positive values show inflows, negative values show outflows.

After sanctions imposition, Russian economy which was previously financed by foreign funding through external markets, has internal resources as a main financier. For this reason, Russian monetary and fiscal policy should be revised, and internal markets should be revived in order to reimburse the loss of foreign financing (Ershov, 2016).

Table 5.1. Net Flows of Capital by Private Sector by Months (Billions US$)

Months	The Net Private Capital Flow	Months	The Net Private Capital Flow	Months	The Net Private Capital Flow
Q1, 2014	**-47,5**	**Q1, 2015**	**32,9**	**Q1, 2016**	**8,1**
Jan. 2014	-19,0	Jan. 2015	11,4	Jan. 2016	2,1
Feb. 2014	-14,3	Feb. 2015	17,8	Feb. 2016	2,6
Mar. 2014	-14,1	Mar. 2015	3,7	Mar. 2016	3,3
Q2, 2014	**-21,5**	**Q2, 2015**	**18,6**	**Q2, 2016**	**-0,5**
Apr. 2014	-25,0	Apr. 2015	12,7	Apr. 2016	0,9
May 2014	-9,2	May 2015	4,6	May 2016	0,5
Jun. 2014	12,7	Jun. 2015	1,3	Jun. 2016	-1,9
Q3, 2014	**-7,2**	**Q3, 2015**	**-3,4**	**Q3, 2016**	**1,4**
Jul. 2014	-6,4	Jul. 2015	1,7	Jul. 2016	0,2
Aug. 2014	-1,2	Aug. 2015	-2,4	Aug. 2016	-1,6
Sep. 2014	0,4	Sep. 2015	-2,7	Sep. 2016	2,7
Q4, 2014	**-75,8**	**Q4, 2015**	**9,4**	**Q4, 2016***	**6,4**
Oct. 2014	-28,5	Oct. 2015	4,6		
Nov. 2014	-13,3	Nov. 2015	1,4		
Dec. 2014	-34,1	Dec. 2015	3,4		
2014	**-152,1**	**2015**	**57,5**	**2016***	**15,4**

Source: Central Bank of Russia. *Preliminary data

5.3.2. The Exchange Rate

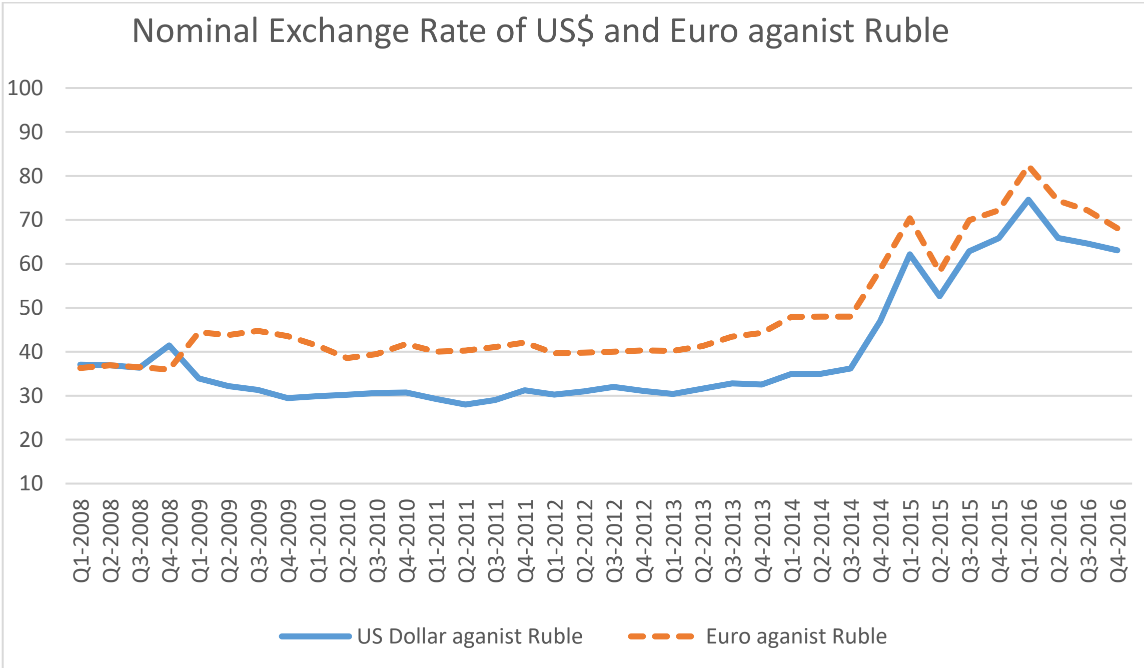

Figure 5.2: Nominal Exchange Rate of Dollar and Euro aganist Ruble

Source: Central Bank of Russia.

Russian economy has been deeply affected due to the fluctuations in exchange rate because of its high dependence on natural resources exports, foreign investments, and consumer goods imports (Dreger et al., 2016).

The CBR intervened largely three times on the exchange rate by selling foreign currency and buying Ruble. First, on March 2014, it sold 22.2 billion US$, second, on October 2014, it sold 27.2 billion US$, and finally, on December 2014, it sold 11.9 billion US$, according to the data taken from CBR. On November 2014, when the pressures on exchange rate were increased, the CBR shifted to floating exchange rate regime to adjust easily to external shocks and prevent reserves losses. According to Ershov (2016), CBR wanted to reduce its influence and control over the exchange rate, and in the meanwhile, it wanted to stabilize the interest rates. However, the reality was the volatility of the exchange rate and climb of interest rates.

On the other hand, Dreger et al. (2016) propose that another reason behind the depreciation of the Ruble can be the fall in oil prices due to Russia's dependence on exports of crude oil and natural gas. Using VAR models, they found that the bulk of the depreciation is the result of the fall in oil prices that started in summer 2014.

5.3.3. Inflation

In 2015, inflation was 15.5%, and the level increased almost 98% from the level of 2014, 7.8%. Since 2015, CBR has been applying inflation targeting as monetary measure. The targets for the years 2016 and 2017 are 4%. However, the inflation estimation of IMF for 2016 is 8.3%.

Between 2014 and 2015, inflation accelerated in Russia because of the external factors. The depreciated Ruble made imports more expensive and Russia banned for one year food imports which also made food prices rise in Russia.

On 16 December 2014, the CBR increased policy rate to 17% with intent to prevent inflation and financial instability. However, this increase further reduced bank lending and consequentially, resulted in slowdown in economic growth.

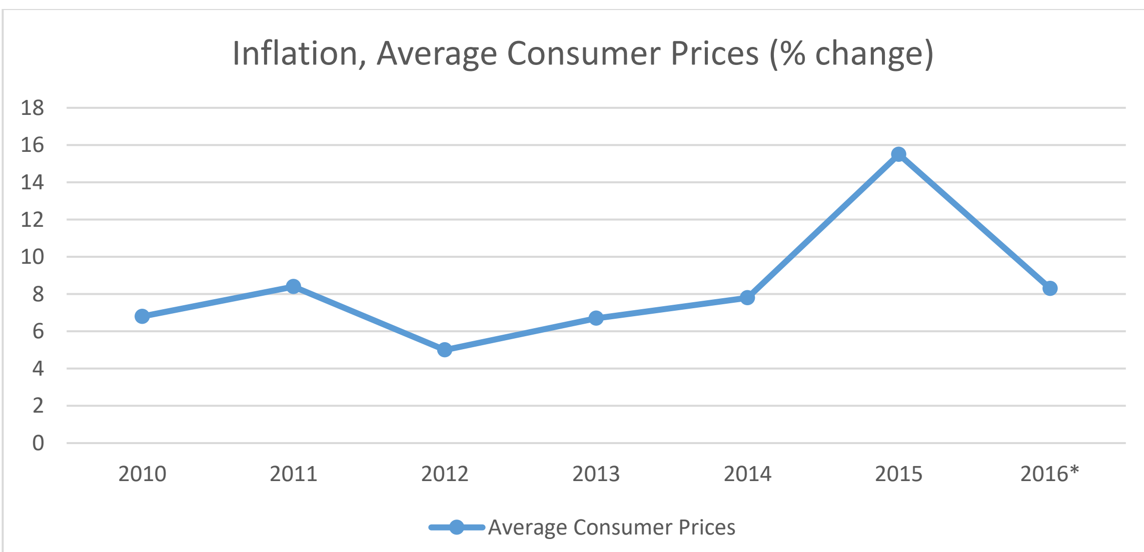

Figure 5.3: Average Consumer Prices of Russia

Source: IMF.

5.3.4. Growth

Figure 5.4: GDP Growth Rate of Russia in Constant Prices

Source: IMF, World Economic Outlook (April 2016).

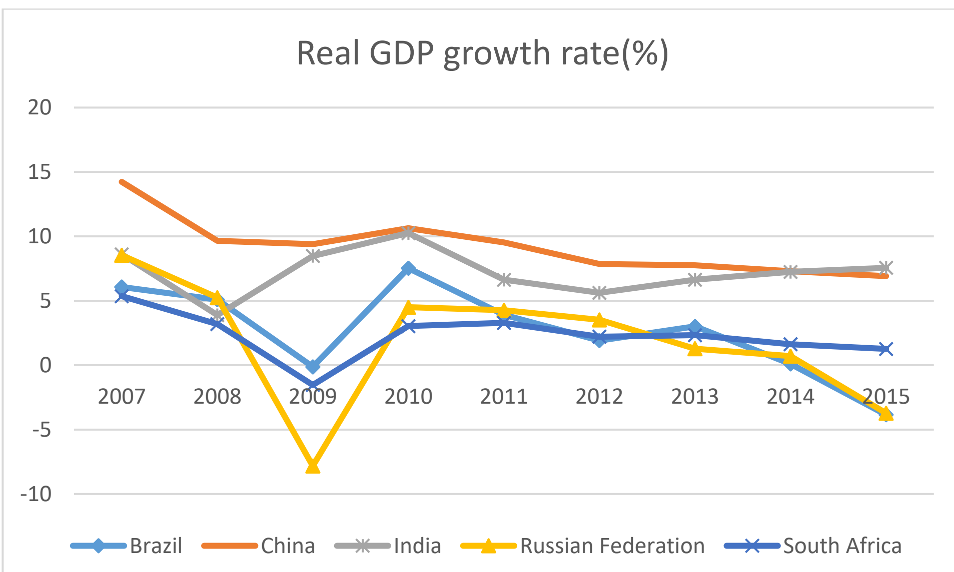

Figure 5.5: Real GDP Growth Rate of BRICS Countries

Source: WB.

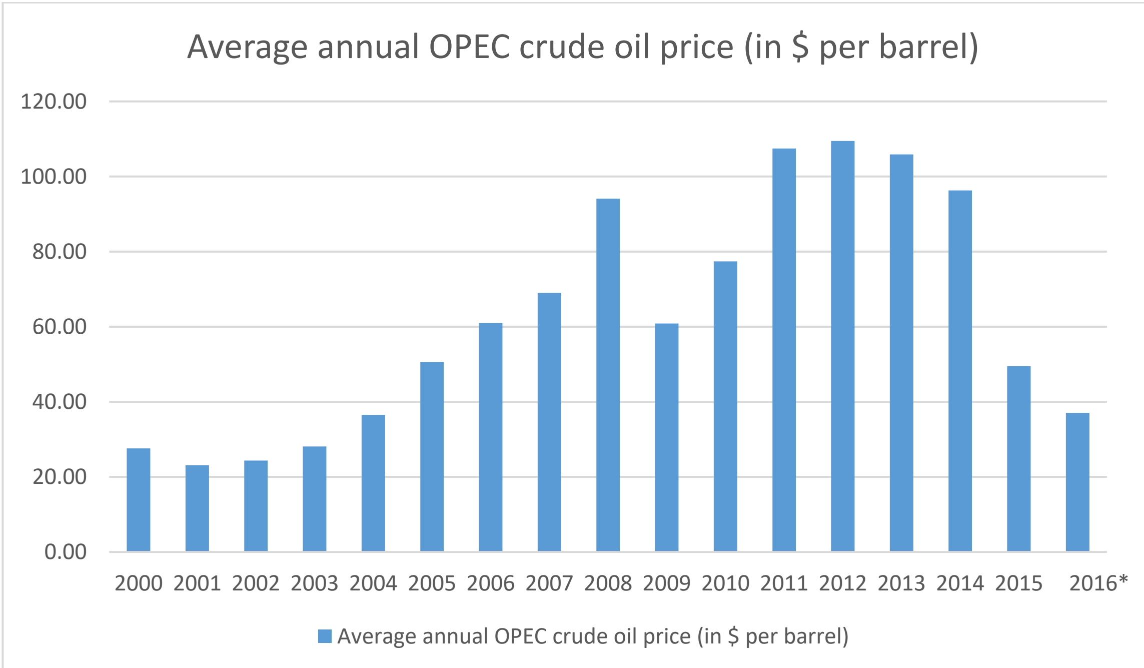

Figure 5.6: Average annual OPEC crude oil price

Source: Statista.com

Russian economy is heavily damaged by the global financial crisis. Until 2009, the economy performed well in GDP growth with the help of increasing oil prices. However, the economy contracted abruptly by 7.8 % in 2009. Even though the economy tried to recover the negative impacts of the crisis, decreasing oil prices and economic sanctions led the economy hit the floor this time (Graph 5.4). In 2014, the GDP growth was 0.7 %, this number was depreciatory when it is compared with the average of 2000 and 2007, 7.1 %. The economy again contracted by 3.7% in 2015, and it will shrink by 1.8% according to the estimation of IMF.

Apart from the decreasing oil prices (Graph 5.5) and sanctions, there are several factors behind the poor performance of Russian economy such as the political crisis in Ukraine, economic stagnation in Europe, corruption, and other administrative and regulation failures (Nelson, 2015: 8).

One can observe from the Graph 5. that 2009 financial crisis has deeply affected all BRICS countries. Even China, which was relatively less affected, has grown under its own average. Moreover, Russian, South African and Brazilian economies have shrunk. In the post-crisis period, the growth figures, which are less than the levels before the crisis, are still better than the developed countries. For example, in the post-crisis period, the average of Eurozone is not even 1% (WB). Disintegration in BRICS countries, started after 2014. Russia and Brazil performed badly while the others maintained their stability. First, the world growth rate is still not at the desired level. Second, the aggregate demand is still low. Third, crude oil prices are decreasing (Graph). The factor that causes the disintegration of Brazil and Russia is: Both Brazil and Russia have political crisis. Brazilian economy was adversely affected by the domestic political and social crisis, and Russian economy has been affected by the economic sanctions. If we go back to the GDP growth rates of the oil exporting countries, used in Chapter 4 to show the change in the Iranian economy, one can easily observe that the only reason in the contraction in Russian economy is not the low oil prices but also the economic sanctions.

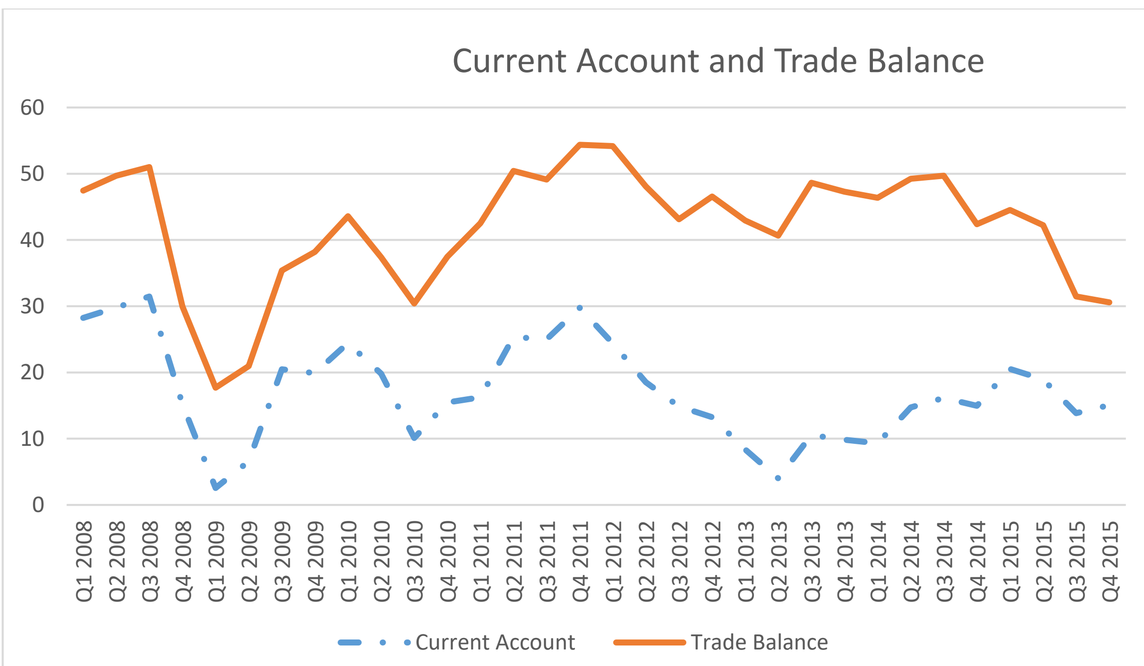

Figure 5.7: Russia Balance of Trade

Source: WB.

5.3.5. Russian Stock Market

Russian financial markets were also damaged by the sanctions regime. The investors and issuers lost their confidence. The number of share issuers on the domestic organized market decreased by 7%, and the capitalization decreased by 8.6%, 23.2 trillion Rubles, corresponding to 33% of Russian GDP. Moreover, the volume of transactions in shares on the domestic stock market (except repo transactions and initial offerings) totaled to 10.0 trillion Rubles, it is a bit much in comparison to the previous year due to increased turnovers in March and December (Tregub and Grabucha, 2015).

MICEX index[31] was unstable in 2014. RTS index[32] (in foreign currency) was decreased due to the Ruble depreciation. Hence, the yield in 2014 was -8.3% according to MICEX index and -47% according to RTS index. Two drastic falls in the stock indices for shares were recorded, which related to the situation in Ukraine (March 3) and increase in the accounting rate of the Bank of Russia (December 16) (Tregub and Grabucha, 2015).

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[31] MICEX 10 Index is an unweighted price index that includes the ten most liquid Russian stocks like NorNickel, Sberbank, Moscow Exchange, Gazprom, Magnit, Lukoil, Rosneft, VTB, Surgutneftegas.

[32] RTS index is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange in Moscow, calculated in the US dollars.

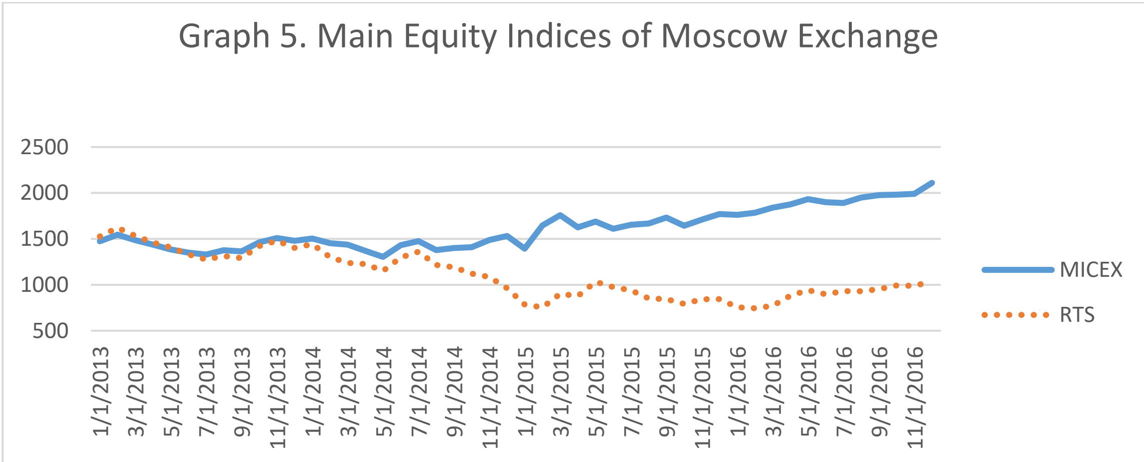

Figure 5.8: Equity Indices of Moscow Exchange

Source: MOEX. * Index Value on Trading Session Opening (Monthly Data)

5.4. THE EFFECTS OF FINANCIAL SANCTIONS ON POLICY SPACE OF RUSSIA

Russia has not been exposed to sanctions for many years unlike Iran. Russian sanctions have been imposed by the international community since March 2014. Nevertheless, Russian case is a good example to explore the financialization of sanctions even its short period of implementation. Moreover, Russian case is an informative case to demonstrate how the policy area of an integrating energy giant country has been contracted with economic sanctions, especially financial sanctions over time, and policy responses to sanctions in order to enlarge policy space.

In Chapter 4, I separated Iran sanctions into episodes in order to easily observe the differences in different episodes. Similarly, Russian case is also separated in sanctions episodes because of the same reasons in Iranian case. In this context, I define first episode as the period from the start of first sanctions, March 2014 to their economic reformation, July 2014, and second episode as the period from July 2014 to its reinforcement date, September 2014, and the third episode as the period from September 2014 until the present. The second and third episodes are important since they contain finance, defense and energy sectors related sanctions.

First Episode of Sanctions

The first episode of sanctions is dominated by the signaling, partially by coercing feature. In this period, types of sanctions on Russia are assets freezes of designated persons and travel bans, and other diplomatic measures.

First, the signaling feature will be recognized in some of the decisions made by the EU. For example, at the start of the sanctions, on 6 March 2014, the EU heads of state or government took a decision about the developments in Ukraine. They called for negotiation between Ukraine and Russia in short period of time. In the absence of the negotiations, the EU would take additional measures, such as travel bans, asset freezes and the cancellation of the EU-Russia summit. They gave the clues of economic sanctions in the absence of de-escalating actions of Russia. In this decision, it is obvious that by giving signals of economic sanctions, they aimed to change the behavior of Russia. Hence, signaling and coercing features work together in order to affect negatively political space of Russia. After this decision, both the EU and the US imposed asset freezes and travel bans, but the EU continued signaling logic by expressing the treat of economic sanctions.

Second, the coercing and signaling logic were used in the case of asset freezes and travel bans. Those measures were first imposed by the US on 6 March 2014, targeting persons involved in the developments in Ukraine and Crimea. Afterwards, on 17 March 2014, the EU imposed measures against 21 Russian and Ukrainian officials, and persons and entities related to them due to their actions against Ukrainian territorial integrity. Those measures included travel bans and asset freezes within the EU. Over time, the list of designated persons and entities increased.

Third, diplomatic measures were taken in this episode. For example, the EU condemned Russia due to its actions against Ukrainian sovereignty and territorial integrity. The EU and the Member States participating in G8, suspended their preparations for the G8 Summit in Sochi on June 2014. The EU also decided to take actions to suspend bilateral talks with the Russian Federation on visa matters and the New Agreement. The EU Council stated that the referendum in Crimea was illegal, and they would not recognize the outcomes of the referendum. Afterwards, the Council condemned the annexation of Crimea and Sevastopol to Russia, and the events in the Eastern Ukraine. The negotiations over Russia's joining the OECD and IEA were suspended. The planned EU-Russia Summit was cancelled. Additionally, the EU Member States would not take bilateral summits with Russia. It is clear that those diplomatic measures are signaling, and they are not enough to constrain and change the behavior of Russia. Hence, Western countries have resorted to other ways to dissuade Russia from its actions in Ukraine.

Second Episode of Sanctions

The second episode of sanctions is dominated by the constraining feature. At the end of July, economic sanctions were introduced against Russia by the EU, the US, and other countries in a coordinated way. Those measures targeted sectoral cooperation and exchanges with Russia. Russian state-owned financial institutions had limited access to the EU capital markets. Trade in arms, and the export of dual use goods for military end users was banned. The access of sensitive technology used in energy sector was restricted.

First, Russia’s access to the EU capital markets was restricted. The EU nationals and companies are not allowed to buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries outside the EU and those acting on their behalf. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited. Those state-owned Russian banks are Sberbank, VTB Bank, Gazprombank, Vnesheconombank (VEB), Russian Agriculture Bank (Rosselkhozbank). In order to understand the impacts on financial policy space, it is crucial to determine the place of those banks.

Sberbank is the biggest bank in Russia. It serves more than half the population of Russia, one million businesses, and millions of customers abroad. It is Russia's largest lender, and has a joint venture with France's BNP Paribas. VTB Bank is the second largest bank that provides all kind of financial services in Russia, and more than 20 countries. Gazprombank is the major financer of Russia's energy sector, and Gazprom is the major stakeholder of the bank. VEB is the bank whose chairman is Russian Prime Minister Dmitry Medvedev and makes payments for the Russian government. Russian Agricultural Bank is the major lender to farmers and Russia's large rural population. With the sanctions, they all have been devoid of medium and long-term finance in Europe and the U.S[33].

Second, import and export of arms and related material from/to Russia, export of dual goods and technology used for military purposes are prohibited. In addition, certain energy-related equipment and technology to Russia is restricted.

Third Episode of Sanctions

The third episode of sanctions is dominated by the constraining feature similar to the second episode. In this episode, on 12 September 2014, EU reinforced economic sanctions on Russia. Those measures are the enhanced version of the second episode of sanctions, and similarly they target finance, defense and energy sectors of Russia. In this episode, large-scale trade and financial channels are used to narrow the policy space of Russia. However, the share of financial channels is bigger.

In this episode, lending provided by the EU nationals and companies to five major Russian state-owned banks is forbidden. Additionally, the EU nationals and companies are not allowed to trade in new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by the same banks. Those

[33]http://money.cnn.com/2014/07/31/news/economy/sanctions-russia-targets-list/index.html?section=money_news_international&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+rss%2Fmoney_news_international+%28International+News%29

restrictions are extended to three major Russian defense companies and three major energy companies. Providing services related to the issuing of the above financial instruments, e.g. brokering, is also included in the prohibition.

In the energy sector, certain services necessary for oil exploration and production in Russia, are banned. For the defense sector, the ban on exporting dual use goods and technology for military use in Russia is extended to also include a list of nine mixed defense companies.

In order to observe the effects, it is important to determine the place and significance of those designated companies. Rosneft is the biggest oil company, and Gazprom is the biggest gas company in Russia. Those companies have been devoid of not only the EU and the US financing, but also technologies and services related to oil exploration and production. The other designated companies are Lukoil (second biggest oil company), Gazprom Neft (fourth biggest oil producer and third biggest refiner, controlled by Gazprom), Transneft (oil transport monopoly), and Novatek (largest independent natural gas producer)[34].

The designated defense companies are Rostec (state-owned conglomerate with 13 holding companies, 8 of which are in the military-industrial complex), United Shipbuilding Corp (shipbuilder for the Russian navy), United Aircraft Corp (builder of warplanes), and Kalashnikov (Russia's largest firearms producer). The EU and the US financial markets were forbidden for those companies, and exports of dual use goods and technology for military use was banned[35].

It is obvious that both trade and financial channels have been used in order to contract policy space of Russia. Major banks and companies have been deprived of

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34 http://money.cnn.com/2014/07/31/news/economy/sanctions-russia-targets-list/index.html?section=money_news_international&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+rss%2Fmoney_news_international+%28International+News%29

35 http://money.cnn.com/2014/07/31/news/economy/sanctions-russia-targets-list/index.html?section=money_news_international&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+rss%2Fmoney_news_international+%28International+News%29

the EU and the US financing. Energy and defense sectors, contributor of Russian economy by exports earnings, are also restricted by financing and have become inaccessible to the technologies necessary for their development. However, in the last two episodes, one can observe that the impact and place of sanctions on financial channels are greater. The reason is that the EU wanted to find an area which Russia depends more on Western countries, and hence the negative impact on Russia will be bigger. On the other hand, sanctions using financial channels would have little impact on Western countries. To that end, Russia's dependence on Western financial markets, especially, the dependence of major Russian companies to external debt in US$ and financed through the EU financial markets, is used in order to constrain policy of Russia (Cristie, 2016: 55).

It is crucial to note that the political aim of the sanctions was not to force Russia to change its behavior in the crisis, and it is proposed by the EU and the US that the crisis should be solved diplomatically (Cristie, 2016: 53). It is also stated in the EU documents[36]: "It is therefore considered appropriate to apply additional restrictive measures with a view to increasing the costs of Russia's actions to undermine Ukraine's territorial integrity, sovereignty and independence and to promoting a peaceful settlement of the crisis". However, the aim of the sanctions was to increase costs for Russia in order to change its behavior. Hence, financial channels have been used for this purpose.

While the impacts of the sanctions on military and dual-use goods and technologies were expected to be limited, the sanctions on energy sector were expected to decrease oil production in the medium-run, and hence, Russia's export revenue was expected to fall, and economic growth would be negatively affected. However, the impact of financial sanctions would be great. The targeted entities would be obligated to repay their external debt when the maturity date came. In the lack of liquidity, they would need the support of government. According to their sectoral importance, they would expect to be supported by Russia's reserves (the Reserve

[36] Council Regulation (EU) No 833/2014 of 31 July 2014.

Fund, National Welfare Fund, and CBR). Hence, all of which were the movements that would eventually reduce the reserves of Russia. Those also would create pressure on Ruble. When the targeted entities were not able to borrow, the investments would decrease. Since banking sector was also expected to be affected negatively, private sector was not able to finance, and investments would decrease. Borrowing conditions were also expected to worsen for even non-designated entities in the targeted sectors, and for all corporate sector of Russia. Additionally, all of which would affect even the domestic investor, and capital flights would increase. Hence, this further would increase the pressure on the Ruble. CBR would fight with this situation by either increasing interest rates, by using reserves, or using capital controls. These three options would affect the investment badly in the long-run, and hence, Russia's productivity, competitiveness, and GDP growth (Cristie, 2016: 56-7).

As seen above, financial channels of sanctions work through limits on foreign borrowing. Those limits on foreign borrowing act like sudden decrease of foreign capital inflow. While foreign liabilities in the Russian private sector increased by 115 billion US$ in 2013, it decreased by 37 billion US$ in 2014 (Gurvich and Prilepskiy, 2015: 360-1). Hence, the impact of financial sanctions on policy space can be evaluated in a similar way of sudden stop of capital inflow. According to the size, foreign capital inflows enlarge or contract policy space. For example in the case of capital outflows, the imports for necessary in the development process, and non-producible domestically, decrease, and hence, GDP growth, investment and diversification are all affected negatively (UNCTAD, 2014: 121).

The effects of financial sanctions on real sector are classified by Ulyukaev and Mau (2015) in three areas. First, the uncertainty may lead to decrease in consumption because of increasing savings, and decrease investments due to increasing risk premiums. Second, costs for debt financing increase, and hence, that decreases investments. Third, production of import dependent sectors decrease due to the fall of Ruble.

On the one hand, the direct impact of financial sanctions is the limitation on foreign borrowing. However, Russia may go towards Asian markets, but Russian borrowers' position in Asian markets is weak, and Asian investors may be abstain from the US reactions. One can observe from the Graph 5 that before sanctions, the main creditors of Russian economy were the UK and Netherlands. In 2011, the loans received by the Russian non-banking corporations and households were 99,772 million US$ from the UK whereas China provided 1,210 million US$ in the same year. However, in 2015, China became the main creditor of Russian non-banking corporations and households, by providing 18,068 million US$. On the other hand, the indirect effect is the increase in economic risk. Both domestic and foreign investors may be no longer attracted by Russian economy. As a result of both, access to foreign borrowing is restricted, and net capital inflows decrease. While the direct impact only affects designated entities, indirect impact may influence all issuers. Foreign direct and portfolio investment inflows may decrease, whereas capital outflows increase. The issuers may be obligated to choose among two options. One is to buy domestic foreign exchange market funds to reimburse the debt. The other is to sell foreign exchange assets (Gurvich and Prilepskiy, 2015: 363).

Actually, those indirect impacts have been recognized in the Russian economy. On the one hand, one can observe from Graph that in 2014 and 2015, the portfolio investments on Russian economy deeply decreased. This decrease was 8,738 million US$ in 2014, and it was 6,915 US$ in 2015. Moreover, foreign direct investment decreased by about 98% from its level in 2014, 17,637 million US$, to its level in 2015, 563 million US$. On the other hand, credit rating agencies like S&P, and Moody's revised their outlook several times in 2014 and 2015. On March 2014, S&P changed sovereign rating of Russia from stable to negative, then on April 2014, it downgraded sovereign rating of Russia from BBB to BBB- with negative outlook. Moreover, on October 2014, Moody's downgraded sovereign rating of Russia from Baa1 to Baa2 with negative outlook. On January 2015, S&P and Moody's decreased rating again (NAUFOR).

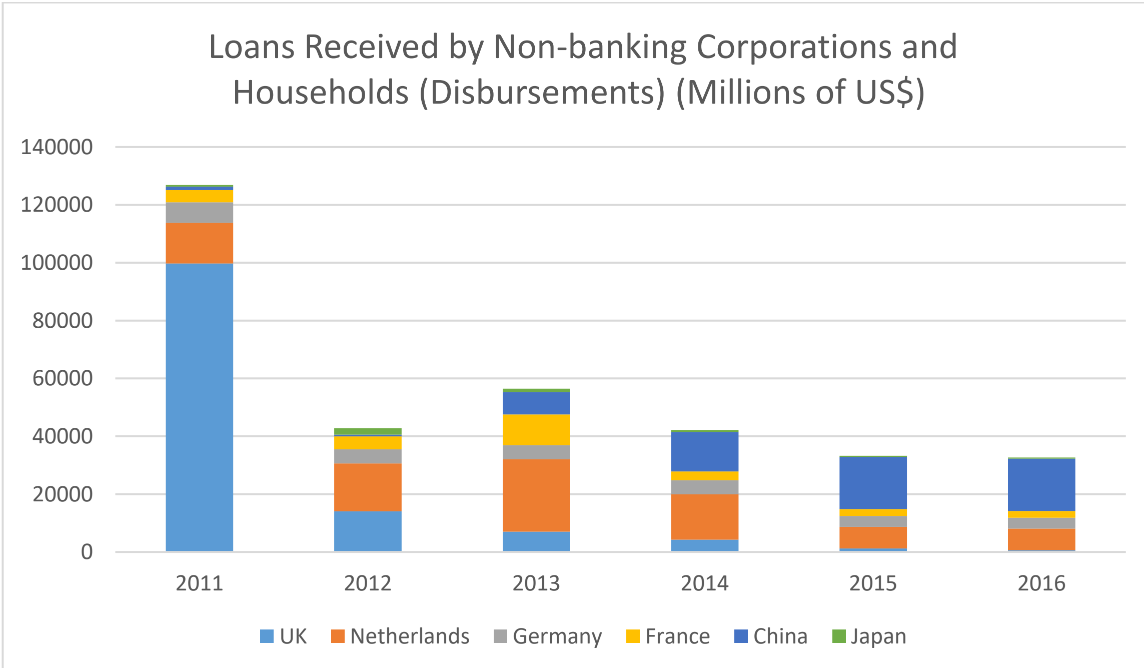

Figure 5.9: Loans Received by Non-banking Corporations and Households

Source: Central Bank of Russia.

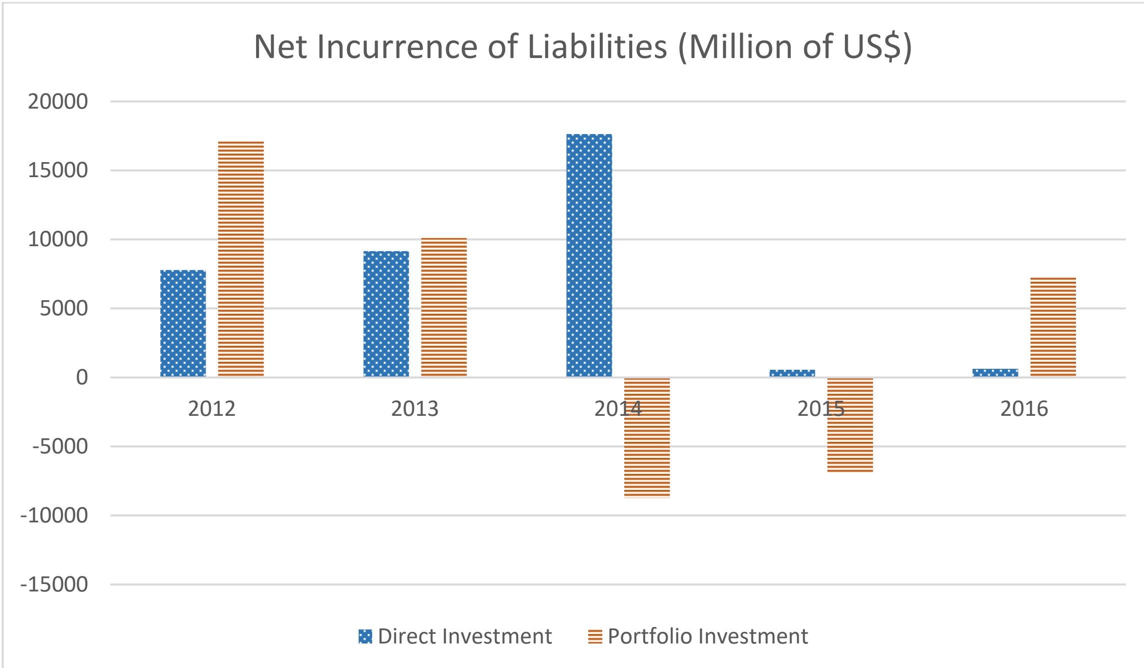

Figure 5.10: Net Incurrence of Liabilities

Source: Central Bank of Russia.

5.5. CONCLUSION

Financial sanctions are more effective than conventional trade sanctions to isolate target country and dismiss it out of international economic system. As shown in the case of Russia, capital flows are negatively affected with financial sanctions. Hence, the domestic currency depreciates, and inflation rises up. In the short and medium run, the economic growth and development are damaged.

In comparison of Iran and Russia cases, it is obvious that Iran has relatively small economy. Additionally, it is claimed that Iran, particularly in its region, poses a treat for global scale with its nuclear program and support of terrorist activities. However, it is claimed that Russia is only a big treat for EU and Russian neighbors, especially former Soviet Union members, and for their economies since Russia and those are highly integrated to each other economically. Russia, EU and US held talks on the energy issue even in the crisis time. Hence, the blame of target country and its indispensability affect the international enthusiasm to impose and induce the "rebel" country.

On the other hand, the country trying to expand its policy area to be protected from sanctions either develop cooperation with other countries or more isolate itself from international economic system. The first may lead to shift in balance of powers in the international economic system, and the latter may increase isolationist policies in the target country.

CHAPTER 6

CONCLUSION

Nowadays, one of the issues we often read in news is sanctions imposed on Russia. This hot topic will be discussed in the future as it was discussed in the past since sanctions have an important place in foreign policy tools. We can say that wars have gone out of date, but sanctions maintain its old glory. However, sanctions have evolved, and kept up with times.

My aim in this thesis, throughout the above Chapters, is to explain the impacts of financial sanctions on the policy space by analyzing Iranian and Russian cases separately. In this framework, the evolution of sanctions from conventional to financial is also explained in detail. In Iranian case, one can observe that the financial sanctions have made an impact clearly. The reason behind this observation is that Iran has been exposed to sanctions for a long period of time, however, Iran kneeled down only after the imposition of financial sanctions. Additionally, the direct impact of sanctions can be recognized in Iranian case. On the other hand, it is not possible in Russian case. The fall in oil prices and the imposition of sanctions coincide. Additionally, Russia is still the target country, and sanctions policy is an ongoing process. Nevertheless, it is not false to say that financial sanctions have affected Russia's policy space.

For this perspective, in Chapter 2, I intend to assess the process evolving from conventional to financial sanctions in the historical process. As mentioned before there are several motives behind this evolution. However, the main factor behind this evolution is the increasing global integration and financialization, in other words deepening globalization. Countries have become more connected to each other through financial channels. Indeed, the use and effectiveness of financial channels have been increased. The manifestation of globalization on the influence of sanctions is in two forms. On the one hand, it may increase the efficiency of sanctions. The increasing connectivity between countries may result in “worrisome” interdependence. The size of those links between the target and the sender country has an impact on the success of sanctions. On the other hand, globalization may offer other partners for the target country in the case of sanctions. New alliances may be established, and new opportunities may be created. Hence, global integration and competitiveness may decrease the efficiency of sanctions. The assessment of sanctions in the context of globalization has neither beginning nor end, but it is indisputable fact that globalization has realized those impacts on sanctions through increasing place of financial channels. In this framework, the place and usage of financial sanctions have increased in the sanctions policy.

In Chapter 3, my aim is to address economic sanctions in the context of policy space, policy autonomy and development objectives. Economic sanctions have been implemented by developed countries, international and regional institutions for a number of reasons. I do not intend to deal with the question whether the implemented sanctions are right or wrong. The justification of the reasons behind the imposition of sanctions is not my aim in this thesis. However, the important thing is that there is a clear motivation and logic behind all sanctions policies. The motive of the sender countries is to prevent the policy implementation ability of the target countries to develop independently, in other words, the motive is literally to narrow or destroy the policy space of the target country. In order to achieve this goal, the financial channels and system have been predominantly used. Since the trade channel is also financialized, the exclusion of the target country from the financial system can ruin all the economy, as we have seen in the case of Iran.

In Chapter 4, sanctions imposed on Iran are classified historically. The evolution of sanctions from conventional to financial sanctions is explained with the help of Iranian case in this Chapter. In this framework, financial sanctions are explained in detail with comparison to other types of sanctions. Afterwards, Iranian economy is analyzed with economic data in order to understand the impacts of financial sanctions. Moreover, Iran sanctions are disaggregated into three episodes. One can easily observe that in that last episode, sanctions have been imposed through financial channels, and the strength of sanctions has increased with the involvement of international community. In the last episode, the policy space of Iran has been constrained, and its economy has collapsed. In the end, Iran is convinced to negotiate.

In Chapter 5, my intention is to assess the Russian case. Russia sanctions have short history on the contrary to Iranian case. Despite its short duration, sanctions imposed on Russia are intense and effective. Similar to Iranian case, in Chapter 5, Russian economy is also analyzed in order to understand effects of sanctions. Unlike Iranian case, Russian economy has been affected by both sanctions and the fall of oil prices, so it is hard to disaggregate impacts. However, it is possible to say that Russian policy space is also constrained with the sanctions. Russia sanctions are also divided into episodes. In the last two episodes, Russia has been exposed to financial sanctions. Hence, in those two episodes, Russian policy space is contracted, and its economy is negatively affected.

Both in Chapter 4 and 5, I try to classify the sanctions on both Iran and Russia. When I classify sanctions policies, I separate sanctions into episodes and define each episodes according to the dominant mechanism of sanctions. In both cases, it is clear that as sanctions begin to gain financial dimension, constraining mechanism of sanctions becomes dominant in the sanctions implementation. In other words, the financial sanctions aim to make target country abandon the current policies by narrowing or limiting the policy space.

Previously, there are studies in the literature that examine the evolution of sanctions, financial sanctions, or sanctions on Iran and Russia separately. Furthermore, restrictions on the policy space and the effects of those restrictions on the development objectives of the developing countries have been extensively examined. However, none of those studies mentions that sanctions can be treated and evaluated as such restrictions. By implementing sanctions, not only the policy space of target country is constrained, but also third countries face restrictions because of sanctions policy. At this point, there are three distinct features of my thesis. The first one is the construction of evolutionary path of economic sanctions. In both Iranian and Russian cases, sanctions get more financial dimension, and get more effective on policy space of target countries. The evolution of sanctions from conventional to financial sanctions have been assessed in the literature. However, its connection with the policy space has not been underlined enough, and those two cases have not been evaluated with such a perspective. The second contribution to the literature is the construction of the linkage between sanctions and policy space debates. In the literature, those two discussion are lasted separately, and the common points of those have not been addressed. I point out that sanctions can be evaluated as restrictions on policy space of the target countries and third countries. The third one is the extension of Guimelli's (2013) work. The sanctions processes of Iran and Russia are disaggregated into episodes to trace the evolutionary path of sanctions, and to reveal the working mechanisms of sanctions.

My claims are based on qualitative studies and needed to be supported by quantitative and empirical studies. It should not be forgotten that while the effect of the sanctions on the Iranian economy can be observed clearly, it is not possible to say the same thing for Russia, because Russian sanctions have affected the Russian economy in the same period as the decline in oil prices. Therefore, evaluating these two effects by separating them from each other will make the debate on policy space constraints more explicit and impressive.

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APPENDICES

A. TABLES

Table A.1. Sanctions on Iran (1979-2015)

Date	**Sanctioning entity**	**Reason for Sanctions**	**Policy actions**	**Summary of sanctions/Political events**
1979	U.S.	Hostage crisis	-Trade Expansion Act of 1962 -International Emergency Economics Power Act	-Iranian assets ($12 billions), diplomatic property and accounts in the U.S. were blocked. -U.S. prohibited oil imports from Iran and exports (except food and medicine) to Iran. -Aid and military assistance were banned.
1981-2			Algiers Accords of 1981	In 1981, U.S. and Iran agreed to sign an agreement in Algeria, hence in 1982, sanctions were lifted.
1983-4	U.S.	In 1983, U.S. Marine barracks in Beirut were bombed by Islamic elements	Export Administration Act	In 1984, U.S. designated Iran as a “state sponsor of terrorism” and added to list of international terrorism supporters, hence Iran was

		that based later Lebanese Hezbollah.		sanctioned again[37], in areas such as foreign aid, grants, credits, aircraft equipment and ammunition. -Restrictions on sales of U.S. dual use items, -Ban on direct U.S. financial assistance (loans, credits, insurance, Ex-Im Bank credits) and on arms sales to Iran, -Requirement that U.S. vote to oppose multilateral lending to any country that is designated by terrorism supporter, -Withholding of U.S. foreign assistance to countries that provide financial aid and arms to designated country, -Withholding of U.S. aid to organizations that assist Iran (Iran was unable to benefit from U.S. aid to organizations).

[37] In 2012, U.S. federal judge decided that Iran would pay the families of U.S. soldiers killed in 1983.

1987	U.S.	U.S. inculpated Iran due to its light control over the narcotics, money laundering and illicit money transfers.	Foreign Assistance Act of 1961	-Iran was prevented to obtain assistance from Ex-Im Banks, and Overseas Private Investment Corporation. -U.S. representatives in the international banks were provided to vote against Iran.
1987	U.S.	Support of terrorist activities and actions taken against U.S. flag vessels.	International Security and Development Cooperation Act of 1985	-U.S. banned import of Iranian goods and services including crude oil, excluding petroleum products.
1987	U.S.	Iran's negative position in Iran-Iraq war peace process and support of international terrorism	-	U.S. restricts export and re-export of several goods to Iran.
1989-91	U.S.	U.S. found evidence of Iran's capability to produce chemical and	-	U.S. banned export of crucial elements used in production of biological and chemical weapons.

		biological weapons		
1990	U.S.	Nonproliferation	Iraq Sanctions Act	The Act provides for a 'presumption of denial' for all dual use exports to Iran".
1992	U.S.	Nonproliferation	Iran-Iraq Arms Nonproliferation Act	The Act imposes sanctions on foreign entities that provide Iran weapons of mass destruction and that "destabilize numbers and types of advanced conventional weapons.
1992	U.S.	Iran increased the capacity of high-tech military equipment	National Defense Authorization Act	U.S. banned export of dual-use items to Iran.
1995	U.S.	Iran's action against Middle East peace process, support of terrorism and proliferation weapons of mass destruction	-International Emergency Economic Power Act -Executive Order 12959, 12957	Trade and investment sanctions were imposed.
1996	U.S.	Support of terrorism	Iran Sanctions Act (ISA)	The aim of the Act was to prevent the opening of

				energy sector to foreign investment. The other important feature of this Act is its being “extra-territorial sanction” on Iran which aims to punish third countries.
1997	U.S.	The treat of U.S. national security by Iran	Executive Order 13059	U.S. banned U.S. companies that export to a third country “for incorporation into products destined for Iran”
2000	U.S.	Nonproliferation	Iran Nonproliferation Act[38]	The Act sanctions foreign individuals or corporations (not countries or governments) that aided Iran’s weapons of mass destruction programs.
2001	U.S.	9/11 attacks	Executive Order 13324	The Order aims to freeze the U.S.-based assets of entities that support terrorism, and to prevent U.S. transactions with those entities. Even though this order was essentially targeted to Al Qaeda entities, Iran-related entities

[38] Iran Nonproliferation Act was later called Iran-North Korea-Syria Nonproliferation Act.

				took part in the list of designated terrorist entities.
2002	U.S.	Anti-terrorism policy of U.S.	-	President George W. Bush declared Iran as “an axis of evil”.
2005	U.S.	Nonproliferation	Executive Order 13382	The Order aims to freeze the assets of suppliers and supporters of weapons of mass destruction
2006	UN Security Council	Iran’s uranium enrichment program	UN Security Council Resolution 1737	Resolution aims to: -Hamper the construction of heavy water reactor at Arak, -Ratify the “Additional Protocol”[39] of the IAEA Safeguards Agreement. -Freeze assets of the designated entities in the Resolution, and impose travel ban, -Prevent transfer of equipment used in productions of nuclear and missile program.
2006	U.S.	Democracy promotion	Iran Freedom Support Act	U.S. investment in Iran was banned.

[39] In the context of IAEA Safeguards Agreement, IAEA can examine the nuclear program up to Iran’s declaration. However, the Additional Protocol provides opportunity to further explore nuclear program.

2007	UN Security Council	Iran's uranium enrichment program and proliferation of weapons of mass destruction	UN Security Council Resolution 1747	Resolution aims to: -Freeze assets of the designated entities in the Resolution, and impose travel ban, -Prevent transfer of equipment used in productions of nuclear and missile program, -Hamper the export of arms or weapons of mass destruction.
2007	U.S.	International terrorism and regional activities	Executive Order 13438	The Order aims to invoke sanctions on Iranians who militarily support Shiite militants in Iraq, and some Qods Force Officers as well.
2008	UN Security Council	Iran's uranium enrichment program	UN Security Council Resolution 1803	The Resolution aims to hamper the R&D associated with the centrifuges and uranium enrichment.
June 2008	U.S.	Terrorism judgments against Iran	-	Iran's Central Bank assets held in Citigroup account was frozen.
2010	UN Security Council	Iran's uranium enrichment program	UN Security Council Resolution 1929	Resolution aims to: -Freeze assets of the designated entities in the

				Resolution, and impose travel ban, -Halt Iran's any development of ballistic missiles technology which assist nuclear goal, and withhold Iran's investments in abroad in regard to uranium mining, -Restrict the transactions with Iranian Bank, namely, Bank Melli and Bank Saderat, -Notice international financial system to any lending, financing, credit provided to Iran, -Restrict and warn countries which involved in the shipping and cargo activities of Iran.
2010	U.S.	-Nonproliferation, -Human rights (freedom of expression and assembly,	Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA)	Previously in 2000, the ban on imports of U.S. was relaxed to permit U.S. to import Iranian nuts, fruit products, carpets and caviar. However, CISADA

		diversion of food and medicine), -Anti-terrorism (financing), -Anti-money laundering.		restored full import ban on Iranian products. U.S. imports from Iran artwork for exhibitions, while U.S. exports to Iran grain sales. The exemptions in CISADA were exports of food and medical products, information technology, civilian aircraft and stuff to support democracy in Iran.
2011	U.S.	Human right abuses and repression of Syrian people	Executive Order 13572	Qods Force and some Iranian Qods Force Officers were sanctioned.
2012	U.S.	Anti-money laundering, “unacceptable risk posed to the international financial system by Iran’s activities“	Executive Order 13599	Iran Central Bank and other entities involved in the government of Iran were sanctioned. According to that Order: -U.S.-based assets of Iran Central Bank or other entities involved in government of Iran will be seized by U.S. financial institutions,

				-U.S. citizens will not be involved in dealing with Iranian entities, -U.S. financial institutions will reject transactions with those entities.
2012	U.S.	Evasion of international sanctions	Executive Order 13608	The Order gives Treasury Department the authority to designate and sanction foreign entities which help Iran or Syria to evade international sanctions.
2012	E.U.	Nuclear program of Iran	-	-EU banned oil and natural gas imports from Iran, in addition to other sanctions. -SWIFT cut of Iran from the system.
2013	Office of Foreign Assets Control (OFAC) of the Treasury Department	-	-	OFAC of the Treasury department listed the names of 38 Iranian entities like oil, petrochemical and investment companies.
2013	U.S.	-Nonproliferation, -Human rights,	Iran Treat Reduction Act	Iran was unable to obtain hard currency earned by exempted transactions.

		-Anti-terrorism, -National security of U.S., -U.N. compliance		

Source: Katzman (2014), Rennack (2014), Kerr (2014), Torbat (2005), Ale-Rassol (1993), Alikhani (2000), State Department of U.S., Treasury Department of U.S., International Atomic Energy Agency, United Nations, European Union.

Table A.2. International Measures on Russia (March 2014-Present)

Date	**Policy Makers**	**Reasons**	**Policies/Actions**
3 March 2014	Foreign Affairs Council of EU	Developments in Ukraine	-The EU condemned Russia due to its actions against Ukrainian sovereignty and territorial integrity. -The Council insisted on the withdrawal of Russian armed forces. -The Council called for the dialogue between Ukraine and Russia. - The EU and the Member States participating in G8, suspended their preparations for the G8 Summit in Sochi in June. - The Council also decided to take measures to freeze and

			recover the assets of people involved in misappropriation of Ukrainian state funds.
6 March 2014	EU heads of state or government	Developments in Ukraine	In addition to the conclusions adopted by the Council on 3 March: - The decision of the Supreme Council of the Autonomous Republic of Crimea to hold a referendum was against the Ukrainian Constitution[40]. -They decided to take actions to suspend bilateral talks with the Russian Federation on visa matters and the New Agreement. -They called for negotiation between Ukraine and Russia in short period of time. In the absence of the negotiations, EU would take additional measures, such as travel bans, asset freezes and the cancellation of the EU-Russia summit. -They gave the clues of economic sanctions in the

40 Autonomous Republic of Crimea can hold referenda on the local matters, not on the modifications of Ukrainian territory.

			absence of de-escalating actions of Russia.
6 March 2014	US	Developments in Ukraine and Crimea	- President of the US, Barack Obama issued Executive Order 13660 that imposed travel bans and assets freezes targeting persons involved in the developments in Ukraine and Crimea.
17 March 2014	Foreign Affairs Council of EU	Developments in Ukraine	-The first set of measures against 21 Russian and Ukrainian officials, and persons and entities related to them, were introduced due to their actions against Ukrainian territorial integrity. Those measures included travel bans and asset freezes within the EU. -The treat of economic sanctions was expressed. -The Council stated that the referendum in Crimea was illegal, and they would not recognize the outcomes of the referendum. -The Council insisted on Russia not to annex Crimea.

			-The Council states that "the EU regrets that the UNSC was not able to adopt a resolution, owing to a veto by the Russian Federation."
17 March 2014	US	Ukraine crisis, and the deployment of Russian military forces in the Crimea	-Executive Order 13661 was issued to declare that the actions of the Russian government against Ukraine, including the deployment of Russian military forces in the Crimea, undermined democratic processes and institutions in Ukraine, were treats to its peace, security, stability, sovereignty, and territorial integrity, and cause to the misappropriation of its assets.
17 March 2014	Canada	Ukraine crisis, and the deployment of Russian military forces in the Crimea	- Canada imposed an asset freezes and dealings prohibition on designated persons, which include both individuals and entities.
20-1 March 2014	European Council	Ukraine crisis, the annexation of Crimea and Sevastopol to the	-The Council condemned the annexation of Crimea and Sevastopol to the Russia, and

		Russian Federation and further sanctions	stated that it would not recognize it. -12 persons were added to the list of targeted Russian and Ukrainian officials. -The planned EU-Russia Summit was cancelled. -The Member States would not take bilateral summits with Russia. -Economic and trade sanctions become at the top of the agenda in the case of Russia’s ongoing destabilizing efforts in Ukraine. -The Council supported the upcoming meeting of G7 in the Hague. - The Council supported the suspension of negotiations over Russia's joining the OECD and IEA.
20 March 2014	US	Ukraine and Crimea crisis	- The President of the US issued an Executive Order, "Blocking Property of Additional Persons Contributing to the Situation in Ukraine", and expanded Executive Order 13660 of

			March 6, 2014, and Executive Order 13661 of March 16, 2014.
14-5 April 2014	Foreign Affairs Council of EU	Situation in Eastern Ukraine	-The sanctions were tightened against the persons involved in the misappropriating Ukrainian state funds. -4 additional persons were targeted under asset freezes and travel bans. -The Council condemned the actions of armed individuals in the Eastern cities of Ukraine. -The Council called for Russia to withdraw its troops from Ukrainian border.
12 May 2014	Foreign Affairs Council of EU	Events in Eastern Ukraine and the illegal seizure of entities in Crimea	-The Council condemned the violent events in the Eastern Ukraine and the organization of referenda in this region. -The Council called Russia to take steps the commitments in Geneva Joint Statement of 17 April. -The Council condemned the "declarations and visits of high officials engaged in supporting illegal attempts at separatism and contributing to heightening tensions in Ukraine and other States in the region". -The Council condemned any actions to evade the sanctions.

			-13 additional persons were added to target list. - The assets of the 2 confiscated entities in Crimea and Sevastopol were frozen. -The Council expanded sanctions criteria allowing individuals and entities to be subject to travel bans and asset freezes: * The individuals and entities that “undermine the territorial integrity, sovereignty and independence of Ukraine”, * The individuals and entities that prevent the work of international organizations in Ukraine, * The individuals and entities “in Crimea or Sevastopol whose ownership has been transferred contrary to Ukrainian law”.
23 June 2014	Foreign Affairs Council of EU	Events in Eastern Ukraine and the illegal annexation of Crimea	-The imports from Crimea and Sevastopol to EU were banned if they did not have a certificate showing its Ukrainian origin. The Council prohibited the financing or financial assistance,

			insurance and reinsurance, related to the import of such goods.
16 July 2014	European Council	-Russia and the separatist did not obey the previous decision made by the EU (for the first measures). - Illegal annexation of Crimea and Sevastopol (for the last two measures).	-A new list of Russian entities and persons that involved in materially and financially supporting the activities in Eastern Ukraine and the annexation of Crimea would be designed. -The signature of new financing operations in Russia by the European Investment Bank would be temporarily called off. - European Bank for Reconstruction and Development and the Member States would work together to take similar position against Russia. - The implementation of EU bilateral and regional cooperation programs with Russia would be revaluated, and maybe suspended. -Investments in Crimea and Sevastopol were restricted.

			-The financial projects that recognized the illegal annexation of Crimea would be restricted.
18 July 2014	Foreign Affairs Council of EU	-Russia and the separatist did not obey the previous decision made by the EU (for the first measures). - Illegal annexation of Crimea and Sevastopol (for the last two measures).	The Council widened the legal basis for measures targeting the entities and persons that involved in materially and financially supporting the activities in Eastern Ukraine and the annexation of Crimea.
22 July 2014	Foreign Affairs Council of EU	The downing of flight MH17 in Donetsk, Ukraine, And ongoing situation in Eastern Ukraine	-The Council agreed to speed up the process of imposition new set of measures that were decided on 16 July 2014 meeting. -The Council requested the finalization of measures in areas such as capital markets access, defense, dual use goods, sensitive technologies, and energy sector.

25 July 2014	Foreign Affairs Council of EU	Situation in Eastern Ukraine	-Additional 15 persons and 18 entities were targeted by travel bans and asset freezes. -The designation criteria for asset freezes and travel bans was widened and its legal basis was constructed to include persons and entities “that actively supported or were benefiting from Russian decision makers responsible for the annexation of Crimea or the destabilization of Eastern Ukraine”.
29-31 July 2014	Foreign Affairs Council of EU	The deliberate destabilization of Ukraine and the illegal annexation of Crimea and Sevastopol	-A new set of measures targeting sectoral cooperation and exchanges with Russia were obtained. - Russian State-owned financial institutions had limited access to EU capital markets. - Trade in arms was banned. - The export of dual use goods for military end users was banned. -The access of sensitive technology used in energy sector was restricted.

			-Additional 8 persons and 3 entities were targeted by travel bans and asset freezes. -Trade and investments restrictions in Crimea and Sevastopol were widened.
30 August 2014	European Council	Evolution of the situation in Ukraine	-The Council asked for the further measures on Russia. -The Commission took measures to stabilize the food and agricultural markets which were sanctioned by the Russian import limitations on certain European agricultural goods.
12 September 2014	Foreign Affairs Council of EU	The deliberate destabilization of Ukraine and the illegal annexation of Crimea and Sevastopol	-Russia’s access to EU capital markets was further restricted. -Certain services need for oil exploration and production would not be supplied. -The ban on exporting dual goods and technology used by military purposes in Russia was widened. -24 persons, including “the new leadership in Donbass, the government of Crimea as well as Russian decision-makers and

			oligarchs, were added to the list of targets in asset freezes and travel bans.
28 November 2014	Foreign Affairs Council of EU	The actions against Ukraine's territorial integrity	-13 persons and 5 entities were added to the list of targets in asset freezes and travel bans because of their actions against Ukraine's territorial integrity.
18 December 2014	European Council	The illegal annexation of Crimea and Sevastopol	- Investment in Crimea or Sevastopol is “outlawed”. -Tourism services would no longer be supplied by the EU operators in Crimea and Sevastopol. -Certain goods and technology, including transportation, telecommunications and energy sectors and the exploration and production of oil, gas and mineral resources, were banned.
18 December 2014	US	The unrest in Ukraine	Ukraine Freedom Support Act was signed. This Law gives the President of the US opportunity to impose sanctions on certain Russian persons or entities.

19 December 2014	US	Russian occupation of the Crimea	-The President of the US issued Executive Order 13685, "Blocking Property of Certain Persons and Prohibiting Certain Transactions With Respect to the Crimea Region of Ukraine".
29 January 2015	Foreign Affairs Council of EU	Increasing conflict in the Donetsk and Luhansk region in Ukraine	-The Council decided to extend the individual restrictions (targeting of 132 persons and 28 entities) until September 2015.
12 February 2015	European Council	Ongoing actions of separatists in Ukraine	-EU leaders welcomed the second Minsk Agreement.
16 February 2015	Foreign Affairs Council of EU	Ongoing actions of separatists in Ukraine	-19 persons and 9 entities were added to the list of targets in asset freezes and travel bans because of their actions against Ukraine's territorial integrity.
5 March 2015	Foreign Affairs Council of EU	Misappropriation of Ukrainian state funds	-The Council extended the sanctions related to misappropriation of Ukrainian state funds (Measures included asset freezes of persons, including former President Viktor Yanukovych.).
13 March 2015	Foreign Affairs	The actions against Ukraine's	-The Council extended the sanctions against 150 persons

	Council of EU	territorial integrity	and 37 entities involved in actions against Ukraine’s territorial integrity, until 15 September 2015.
19-20 March 2015	European Council	Ongoing situation in Ukraine	-EU leaders decided to use existing sanction regime in the implementation of Minsk Agreement. -The economic sanctions would be in force until the end of 2015.
5 June 2015	Foreign Affairs Council of EU	Misappropriation of Ukrainian state funds, and ongoing judicial proceedings in Ukraine	-The Council extended the asset freeze for three persons involved in the misappropriation of Ukrainian state funds.
19 June 2015	Foreign Affairs Council of EU	The illegal annexation of Crimea and Sevastopol	-The Council extended the sanctions (import of products, investment, tourism services and exports of certain goods and technologies) with regards to illegal annexation of Crimea and Sevastopol, until 23 June 2016.
22 June 2015	Foreign Affairs Council of EU	Russia's destabilizing role in Eastern Ukraine	-The Council extended the sanctions related to the exchanges with Russia in areas like financial, energy and

			defense sectors and dual-use goods, until 31 January 2016.
14 September 2015	Foreign Affairs Council of EU	The actions against Ukraine's territorial integrity, sovereignty and independence	-The Council extended the sanctions including asset freezes and travel bans on 149 persons and 37 entities due to their actions against Ukraine's territorial integrity, sovereignty and independence, until 15 March 2016.
5 October 2015	Foreign Affairs Council of EU	Misappropriation of Ukrainian state funds, and ongoing judicial proceedings in Ukraine	-The Council extended the asset freeze for one person involved in the misappropriation of Ukrainian state funds.
4 March 2016	Foreign Affairs Council of EU	Misappropriation of Ukrainian state funds, and ongoing judicial proceedings in Ukraine	-The Council extended the asset freeze for 16 persons involved in the misappropriation of Ukrainian state funds.
10 March 2016	Foreign Affairs Council of EU	The actions against Ukraine's territorial integrity, sovereignty and independence	-The Council extended the sanctions including asset freezes and travel bans on 146 persons and 37 companies due to their actions against Ukraine's territorial integrity, sovereignty

			and independence, until 15 September 2016.
17 June 2016	Foreign Affairs Council of EU	The illegal annexation of Crimea and Sevastopol	-The Council extended the sanctions (import of products, investment, tourism services and exports of certain goods and technologies) with regards to illegal annexation of Crimea and Sevastopol, until 23 June 2017.
1 July 2016	Foreign Affairs Council of EU	Russia's destabilizing role in Eastern Ukraine	-The Council extended the sanctions related to the exchanges with Russia in areas like financial, energy and defense sectors and dual-use goods, until 31 January 2017.

Source: Council of the European Union, US Department of State, Global Affairs of Canada.

B. TURKISH SUMMARY

Bir dış politika aracı olarak ekonomik yaptırımlar, hedef ülkenin mevcut politikalarını değiştirmeyi ve söz konusu ülkeyi yaptırım uygulayan taraflar tarafından uygun görülen politikalar uygulamaya ikna etmeyi amaçlar. Bu amaçla, yaptırım uygulayan taraf, hedef ülkeyle olan ticari ve finansal bağlantılarını koparır ya da söz konusu bağlantıların koparılmasına dair tehditte bulunur. Ekonomik yaptırımlar, zaman içerisinde çeşitlenmelerine rağmen, daha çok ticari ve finansal kanallar üzerine konulan kısıtlamalar üzerinden uygulanagelmiştir. Bunun arkasında yatan gerçek, ülkelerin birbirleriyle olan ilişkilerini ticari ve finansal kanallar üzerinden kurmaları ve geliştirmeleridir. Aynı zamanda, bu kanallar yaptırım uygulayan taraflarca, hedef ülkenin hem iç hem dış politika alanını etkilemek için kullanılabilmektedir. Fakat günümüzde, küreselleşme ve finansallaşmayla birlikte, finansal kanalların önemi artmış ve uygulanan ekonomik yaptırımlar daha çok finansal boyut kazanmaya başlamıştır.

Bu tez üç ana konu üzerine inşa edilmiştir: finansal yaptırımlar, politika alanı ve finansal yaptırımların politika alanına etkileri. Bir taraftan, küreselleşme ve finansallaşmayla birlikte, ülkeler birbirlerine finansal kanallarla bağlanırken, ticaret de finansallaşmış ve finansal yaptırımların önemi artmıştır. Diğer taraftan, küreselleşmeyle birlikte, bağımsız ülkelerin kendi politika alanları içerisinde istedikleri şekilde politika belirleyebilmesi tartışılır hale gelmiştir. Küresel bütünleşme, ülkelerin dış ve iç politika alanları üzerine bazı sınırlamalar getirmektedir. Sonuç olarak, ülkeler günümüzde, birbirlerinin politika alanlarını daha çok finansal kanalları kullanarak etkilemeye başlamıştır.

Bu tezin iki temel amacı vardır: Bunlardan birinci, geleneksel yaptırımlardan finansal yaptırımlara olan dönüşüm sürecinin arka planındaki etmenleri açıklayabilmektir. İkincisi, finansal yaptırımların hedef ülkenin politika alanını nasıl etkilediğini göstermektir. Bu çerçevede, İran ve Rusya'ya karşı uygulanan finansal yaptırımlar incelenmiştir.

Bu tezin iki önemli bulgusu bulunmaktadır: Birincisi, ekonomik yaptırımların gelenekselden finansal yaptırımlara doğru hem İran hem Rusya örneğinde dönüşüm göstermesidir. İkincisi, finansal yaptırımlar hedef ülkelerin politika alanını daraltmada önemli etkilere sahiptir. Bu sonucu, İran'ın büyük bir ekonomik bunalıma girerek, Batılı ülkelerle müzakere masasına oturmasından, Rusya'nın ise hem petrol fiyatlarındaki düşüş hem uluslararası yaptırımlar nedeniyle büyük bir finansal krize girmesinden çıkarabilmekteyiz. Sonuç olarak, küreselleşen ve finansallaşan dünyada, finansal yaptırımların geleneksel yaptırımlara göre hedef ülkenin politika alanını etkilemede daha etkili olduğu gözlemlenmiştir.

Ekonomik yaptırım yazını, yaptırımların başarılı olup olmadığı ya da hangi koşullar altında başarılı oldukları üzerinde yoğunlaşmaktadır. Öte yandan, bu tezin konuları olan, finansal yaptırımlar ile İran ve Rusya yaptırımları üzerinde de önemli çalışmalar bulunmaktadır. Bu tezi, yazındaki diğer çalışmalardan ayıran üç temel özellik bulunmaktadır. Birinci, yaptırımların geleneksel yaptırımlardan finansal yaptırımlara doğru dönüşümü hem İran hem Rusya örneği üzerinden karşılaştırmalı olarak gösterilmiş, yaptırımların bu doğrultuda ilerledikçe politika alanını daraltmada daha etkili olduğu vurgulanmıştır. İkincisi, politika alanı tartışması, ekonomik yaptırım tartışmasına dahil edilmiştir. Politika alanı yazını, gelişmekte olan ülkelerin gelişme amaçlarına getirilen kısıtlamalar üzerinden şekillenirken, ekonomik yaptırımlar konusuna ilgi duyulmamıştır. Halbuki, ekonomik yaptırımlar da küresel sınırlamalar gibi politika alanını daraltmaktadır. Buna ek olarak yaptırımların üçüncü ülkelerin politika alanlarını da daralttığı gözlemlenmiştir. Üçüncüsü, Rusya ve İran örnekleri her biri kendi içinde tutarlı dönemlere ayrılmış, her bir dönemin baskın yaptırım özelliği ortaya çıkarılmış ve bu özellikler politika alanı tartışmasıyla bağlanmıştır. Dolayısıyla, bu tez, Guimelli'nin (2013) bir eklentisi olarak da değerlendirilebilir.

Ekonomik yaptırımların uygulanma nedenleri zamanla çeşitlenirken, ekonomik yaptırımların uygulanma şekilleri de dönüşüme uğramıştır. 2000lerden önce, ticaret temelli, geniş kapsamlı, geleneksel yaptırımlar uygulanırken, günümüzde hedefli ve finans temelli akıllı yaptırımlar uygulanmaktadır. Geleneksel yaptırımlardan finansal yaptırımlara doğru gerçekleşen dönüşümün arka planında iki önemli olay bulunmaktadır. Bunlardan birincisi, Körfez Savaşından sonra Irak'a karşı uygulanan yaptırımların başarısızlıkla sonuçlanmasıdır. Bahse konu yaptırımlar bütün ülke genelini hedef alarak, suçsuz halkın da yaptırımlardan zarar görmesine neden olmuştur. Ülke geneline yayılan bu zarar uluslararası toplumun dikkatini çekmiş, bu zararın azaltılması konusunda girişimlerde bulunulmasının önünü açmıştır. Böylece, istenmeyen politikaları bizzat belirleyen rejimi ve politik elitleri hedef alan, bu kişilere seyahat yasağı koymayı ve mal varlıklarını dondurmayı amaçlayan akıllı ya da hedefli yaptırımlar ortaya çıkmıştır. Geleneksel yaptırımlardan finansal yaptırımlara doğru gerçekleşen dönüşümün arka planındaki diğer olay, 11 Eylül saldırılarıdır. Söz konusu saldırılardan sonra ABD, terörizmin finansman kaynaklarının izini sürmeyi ve finansal sistemi terörist ve illegal aktiviteden arındırmayı amaçlamış, bunu yaparken finansal sistemdeki üstünlüğünü kullanmaya başlamıştır. Böylece, yaptırımlar finansal sistem kullanılarak yeniden şekillendirilmiştir. Geçmişte, yaptırımlar bir ülkeden diğerine doğrudan uygulanırken, şimdi finansal sistem ve özel sektör aracılığıyla dolaylı yollardan uygulanmaya başlanmıştır. Finansal kurumlar, itibar maliyetini de göz önünde bulundurarak, illegal aktiviteye konu olan işlemlerden ve taraflardan uzak durmayı seçme eğiliminde olmuşlardır. Sonuç olarak, Irak yaptırımları geleneksel yaptırımlardan akıllı yaptırımlara geçişi tetiklerken, 11 Eylül saldırıları, yaptırımların finansal boyut kazanmasına neden olmuştur.

Bu çerçevede, geleneksel yaptırımlardan finansal yaptırımlara geçişte karşımıza üç etmen çıkmaktadır. Bunlardan birincisi, geleneksel yaptırımların uygulanmasında karşılaşılan istenmeyen sonuçlardır. Irak'a karşı uygulanan yaptırımlar, Irak'ın silahlanma girişimlerini törpülemesine rağmen, yazında genellikle başarısızlık olarak nitelendirilmektedir. Bunun nedeni, yaptırımların suçsuz halk üzerindeki ikincil ve istenmeyen etkileridir. Sonuç olarak, uluslararası toplum, daha hedefli yaptırım uygulama arayışına girmiş, doğrudan istenmeyen politikaları belirleyen rejim ve siyasiler üzerinde yaptırım uygulamaya başlamıştır. İkincisi, yaptırım uygulayan ülkenin uluslararası toplumun desteğine ihtiyaç duymasıdır. Geçmiş yaptırım uygulamalarının, istenmeyen sonuçları nedeniyle uluslararası toplumun desteğini almaktan uzaklaştığı gözlemlenmiştir. Öte yandan, yaptırımların tek taraflı ya da çok taraflı uygulanması başarısını etkilemektedir. 2000lerden sonra uygulanan yaptırımlarda, sadece yabancı ülkelerin desteğini almanın yeterli olmadığı fark edilmiş, yabancı ülkelerin yanı sıra, uluslararası kuruluşların, finansal kuruluşların ve özel sektörün de desteğini alarak, küresel ölçekte uygulanması amaçlanmaktadır. Üçüncüsü, yirmi birinci yüzyılda küreselleşmenin derinleşmesidir. Küreselleşmeyle birlikte, ülkeler sermaye akımlarına açık hale gelmiştir. Günümüzde sermaye akımlarının boyutu küresel ticareti geçmiştir (UNCTAD, 2012). Ticari kanalların da finansallaşmaya başlamasıyla, yaptırımlar da ticari kanallar yerine daha çok finansal kanallar kullanılarak uygulanmaya başlanmıştır.

Küreselleşme, dünya ekonomisi ve ekonomik yaptırımlar için hem fırsatlar hem meydan okumalar sunmaktadır. Bir taraftan, hedef kişiler ya da ülkeler faaliyetlerini küresel finansal sistem içinde gizleyebilir ve sistemi bu amaçla kullanabilir. Diğer taraftan, teknolojik gelişmeler, bütünleşme ve karşılıklı bağımlılık, istenmeyen faaliyetleri ve destekçilerini ortaya çıkaran finansal istihbaratın paylaşılmasını sağlayabilir (Paulson, 2007).

1980lerde boyutları giderek artan küresel bütünleşme, gelişmekte olan ve az gelişmiş ülkeler üzerinde küresel kısıtlamaları da beraberinde getirmiştir. Bu dönemde, söz konusu ülkeler kendi ulusal gelişme politikalarını belirleyebilmek için daha fazla esnekliğe sahip olma ihtiyacı içinde olmuşlardır. Ancak, küresel bütünleşme bu ülkeler üzerinde, bir takım küresel kısıtlamalar getirmiştir. Ekonomik yaptırımlar da bu küresel kısıtlamalar gibi değerlendirilebilir. Politika alanı, çok taraflı ya da ikili anlaşmalar, uluslararası kuruluşlar ve hatta dış yardımlar yoluyla örtülü olarak sınırlandırılmış olsa da, ekonomik yaptırımlarla açık bir şekilde ve doğrudan sınırlandırılmaktadır. Bahse konu küresel kısıtlamalar ve ekonomik yaptırımlar farklı şekilde çalışsalar da, bazı ortak noktaları bulunmaktadır. Bunlardan ilki, her ikisinin de küresel bütünleşme ve finansallaşma nedeniyle dönüşmeleridir. Zaman içerisinde hem küresel kısıtlamalar hem de ekonomik yaptırımlar finansal boyut kazanmıştır. İkincisi, her ikisinin de ticaret ve finans kanalları gibi benzer araçları kullanmalarıdır. Yazında, politika alanı tartışması, BMTKK araştırmacıları tarafından gelişmekte olan ülkelerin ulusal kalkınma hedefleriyle olan ilişkisi bağlamında şekillendirilmiştir. Bu tezin amacı ise, politika alanı tartışmasına finansal yaptırımlar tartışmasını eklemek ve finansal yaptırımların politika alanını nasıl sınırlandırdığına dair çıkarımlarda bulunmaktır.

Politika alanı, ülkelerin herhangi bir baskı olmadan kendi politikalarını oluşturup uygulayabilecekleri alanlardır. Mayer (2008: 4), uluslararası bütünleşmenin ulusal politika alanı üzerindeki etkilerinin zıt yönde çalıştığını iddia etmektedir. Bir yandan, uluslararası kuralların ve taahhütlerin uygulanması, politika araçlarının sayısı ve etkililiğini azaltarak, ulusal politika alanını daraltabilmektedir. Diğer yandan, ulusal politika alanı küresel bütünleşme ile genişletilebilir. Kurallar ve mevzuatlar, küresel çarpıklıklara karşı koordineli bir cevap olarak değerlendirilebilir. Ayrıca, uluslararası bütünleşmeyle, yapısal politikaların etkinliği, ölçek ekonomileri ve uluslararası rekabette artış gözlemlenebilir.

Zıt yönde çalışan bu mekanizma, ekonomik yaptırımlar için de geçerlidir. Bir taraftan, ekonomik yaptırımlar ulusal politika araçlarının sayısını ve verimliliklerini azaltmakta, bazı araçların kullanımı kısıtlanmış ya da bu araçlar yaptırımlar nedeniyle ortadan kaldırılmış olabilmektedir. Diğer yandan, yaptırımlar hem uygulayan hem de hedef ülke için ikili ticari ve finans ilişkilerinden kaynaklanan fırsatların ortadan kalkması anlamına gelmektedir. Bu durum, yaptırım uygulamayan ya da mevcut yaptırım politikasını desteklemeyen üçüncü ülkeler için fırsatlar sunabilir. Ayrıca, hedef ülke, küresel bütünleşme ve uluslararası rekabet sayesinde kolaylıkla diğer iş ortakları bulabilmektedir.

Küreselleşmeyle birlikte, gelişmekte olan ülkeler bazı kısıtlamalarla karşı karşıya kalmışlardır. Bu kısıtlamalar, çok taraflı kredi, ticaret ve finans gibi kanallar aracılığıyla bahse konu ülkelerin politika alanını etkilemektedir. Söz konusu kanallar, ekonomik yaptırımların tasarımı ve uygulanmasında da kullanılmaktadır. Örneğin, yaptırımların erken safhalarında, İran hem doğrudan ABD hem dolaylı olarak ABD'nin diğer ülkeler üzerindeki ikincil etkisiyle çok taraflı krediden mahrum kalmıştır. Öte yandan, günümüzde bazı ülkeler için çok taraflı kredinin önemi azalmış ve yaptırım olarak kullanımı sınırlanmıştır. Bununla birlikte, ticaret kanalı hedef ülkenin politika alanını sınırlandırmak için çoğunlukla başvurulan bir araçtır. Bu çerçevede, gelir getiren önemli ihracat kolu hedef alınmaktadır. Hedef ülkenin ihracat gelirleri üzerindeki bağımlılığı ne kadar çok olursa, yaptırımlar nedeniyle politika alanında ortaya çıkabilecek daralma da o kadar fazla olmaktadır. Örneğin, ABD ve AB, İran'ın petrol ithalatını ve petrol üretimiyle ilgili teknolojilerin İran'a ihracatını yasaklamıştır. Dolayısıyla, İran'ın petrol kazançlarını azaltmayı ve enerji sektörünün gelişmesini önlemeyi amaçlamışlardır. Aynı şekilde, Rusya örneğinde, dış ticarette önemi büyük olan enerji ve savunma sektörlerine yaptırım uygulanmaktadır. Diğer taraftan, günümüzde, finansal yaptırımlarla, hedef ülke aniden sermaye çıkışlarıyla karşı karşıya kalarak, dış finansmandan mahrum kalabilmektedir. Ayrıca, hedef ülkeyle ilgili artan riskler nedeniyle kamu ve özel sektör zarar görmektedir.

Ekonomik yaptırımlar, çok taraflı kredi, ticaret ve finans gibi farklı kanallar kullanılarak tasarlanmıştır. Bundan dolayı, yaptırımların etkileri farklı kanallarda değişiklik gösterdiğinden, Kirsher'in (1997) gerçekleştirdiği şekilde bu tezde yaptırımlar, kullanılan kanallara göre ayrıştırılmıştır. Kirshner (1997) yaptırımların bir bütün şekilde tartışılmasının değerlendirmeyi sınırlandırdığını, yaptırımların ve hedeflerin ayrıştırılmasının yaptırımların nasıl çalıştığını anlamayı kolaylaştıracağını iddia etmektedir. Öte yandan, (Giumelli, 2013) yaptırımları belirli dönemlere ayırarak, yaptırımların üç önemli özelliğiyle, "zorlama", "sınırlandırma" ve "sinyal verme", hedef ülkeleri etkilediğini belirtmektedir.

"Zorlama" özelliğinin amacı, hedefte davranış değişikliği yapmaktır. Bunu yaparken, yaptırım uygulayan ülke, hedefin maliyet ve fayda hesaplamalarını, kendi istekleriyle uyumlu bir şekilde değiştirmeyi amaçlamaktadır. Hedef ülke üzerindeki maliyetleri artırmak için, diğer dış politika araçları ile zorlayıcı yaptırımlar uygulanmaktadır (Giumelli, 2013: 9). Zorlayıcı yaptırımlar söz konusu olduğunda hedef, politika alanını ve araçlarını kaybeder. Politika alanı ya da araçları, hedef ülkenin ve yaptırım uygulayan tarafların amaçlarıyla doğrudan ilişkilidir. Dış yardım, dış borçlanma ve çok taraflı krediler üzerinden konulan yaptırımlar zorlayıcı olarak tanımlanabilir.

"Kısıtlayıcı" özelliğin amacı, yaptırım konusu olan uygulamaların gerçekleştirildiği politika alanını doğrudan hedef almayarak, hedef ülkenin farklı politika alanlarını daraltarak ya da politika araçlarını azaltarak, istenmeyen politikaların uygulanmasını engellemektir. Mayer'e (2008) göre, ekonomi politikası teorisi, politika yapıcılar tarafından kontrol edilen bir dizi araç, ulaşılmaya çalışılan bir dizi hedef ve bu ikisi arasında ilişki kuran modellerden oluşmaktadır. Bu faktörler, ekonomik yaptırımların politika alanına etkilerini ortaya koymakta da yardımcıdır. İlk olarak, ekonomik yaptırımlar söz konusu olduğunda, politika araçları, politika belirleyiciler tarafından doğrudan kontrol edilemeyebilir ya da yaptırım uygulayan ülke tarafından dolaylı olarak kontrol edilebilir. Ayrıca, politika araçlarının sayısı azaltılabilir ya da bu araçların kullanımı engellenebilir. İkincisi, ekonomik yaptırımlar doğrudan veya dolaylı olarak politika hedeflerine zarar verebilir. Üçüncüsü, politika araçlarını ve hedeflerini birbirine bağlayan model, yaptırım nedeniyle inşa edilemeyebilir.

"Sinyal verme" özelliğiyle, hedef ülkeye ve üçüncü ülkelere mesaj vermek ve böylece onların "hareket alanını" daraltarak davranışlarını değiştirmek amaçlanmaktadır. Yaptırım uygulayan ülke, üçüncü ülkelerin kendisiyle beraber hareket ederek yaptırım uygulamasını isteyebilir. Böylece, üçüncü ülkelerin politika alanlarını daraltarak, onların bağımsız olarak ve kendi menfaatlerine göre hareket etmesini engelleyebilir. Ayrıca, yaptırım uygulayan ülke, gelecekte diğer ülkeler tarafından uygulanabilecek istenmeyen politikaları önlemek isteyebilir. Bunu yaparken, "yaptırım tehdidi" mesajı vererek bu ülkelerin politika alanını daraltabilir.

Bu çerçevede, finansal yaptırımlar ve politika alanı tartışması İran ve Rusya örnekleri üzerinden ayrı ayrı değerlendirilmiştir. İran, neredeyse 35 yıldır yaptırımlara maruz kalmaktadır. İran'ın bu tez için bir vaka çalışması olarak seçilmesindeki neden, yaptırımların zamanla finansallaştığını ve finansallaştıkça hedef ülkenin politika alanını daraltıcı etkisinin arttığını gözlemleyebilmektir. Rusya, dünya ekonomisiyle bütünleşmiş bir enerji devi olmasıyla yaptırım politikasını analiz etmek için iyi bir örnektir. Öte yandan, Rusya örneği, İran'a kıyasla kısa süreye yayılsa da, diplomatik tedbirlerden finansal hedefli yaptırımlara geçişi gözlemleme fırsatı sunmaktadır.

İran'a karşı uygulanan, kişileri, varlıkları ve sektörleri hedef alan uluslararası yaptırımlar, uluslararası toplumun İran'ın nükleer programına, terörizm desteğine, insan hakları ihlallerine, silahlanma faaliyetlerine ve bölgesel istikrarsızlığa karşı tepki olarak ortaya çıkmıştır. ABD ve BM tarafından yönetilen yaptırım politikası birçok diğer ülke tarafından desteklenmektedir. Kasım 2013'te, kapsamlı bir anlaşmaya yönelik ilk adım, Ortak Eylem Planı olarak adlandırılan geçici bir anlaşmayla atılmıştır. İran, yaptırımların kısmen azaltılmasına yanıt olarak nükleer programını kısmen durdurmuştur. Devamla, Ortak Kapsamlı Eylem Planı ile Temmuz 2015'te uzun vadeli anlaşma sağlanmış, nükleer programı nedeniyle İran'a uygulanan yaptırımlar kaldırılmıştır. Söz konusu anlaşma, Ocak 2016'da uygulanmaya başlanmıştır. Günümüzde, nükleer konulara ilişkin yaptırımlar kaldırılmış olmasına rağmen, diğer konularda uygulanan yaptırımlar hala devam etmektedir.

2006'dan bu yana, özellikle 2010'dan sonra, yaptırımların kapsamı ve derecesi uluslararası toplumun katılımıyla artmıştır (Katzman, 2014: 71-2). Bu dönemde, kapsamlı ticaret yaptırımları, uluslararası, hedefli, finansal yaptırımlarla desteklenmiştir. İlk olarak, ABD, 2006 yılında, İran'ın Saderat isimli bankasının milyonlarca doları terörist gruplara transfer ettiğine dair önemli kanıtlar olduğunu iddia ederek, anılan bankanın uluslararası işlemlerini yasaklamıştır (Arnold, 2016: 83).

ABD, İran'ın petrol ithalatından elde ettiği gelirin transferini engellemek amacıyla, İran Merkez Bankası'nın uluslararası finansal sistemden izole edilmesini amaçlamıştır. Bu izolasyonun bir diğer nedeniyse, İran Merkez Bankası'nın, ABD'nin yaptırımları altında olan diğer İran Bankalarına yardım etmesini önlemektir (Katzman, 2014: 92). Ayrıca, ABD, İran'ın finansal yaptırımlardan kaçınmasına yardım eden bankaları da cezalandırmıştır. Daha da önemlisi, AB, Brüksel merkezli elektronik ödeme sistemi olan SWIFT'den bazı İran bankalarının sistemle bağlantısının kesilmesini sağlamıştır. Yıllar süren yaptırımlar ekonomiyi olumsuz etkilemiştir. İran'a yönelik uluslararası yaptırımlar, İran ekonomisini iki ana alanda vurmuştur: enerji sektörü ve İran'ın uluslararası finansal sistemden uzak tutulması.

2012'de enerji ve finans sektörlerindeki yaptırımlar ABD, AB ve uluslararası toplum tarafından sıkılaştırıldı. Bunun sonucunda İran ekonomisi, 2012 yılında, % 6.8, 2013 yılında, % 1.9 daralmıştır. İran ekonomisi sıkılaşan uluslararası yaptırımlar nedeniyle, 2012-2013 yılları arasında diğer petrol ihracatçı ülkelerden negatif bağlamda açıkça ayrılmıştır. Yaptırımlar, İran ekonomisinin, enerji ve finans gibi kilit sektörlerine dayatıldığı ve uluslararası işbirliğiyle uygulandıklarında İran'ın politika alanını daraltmada etkili olmuştur. Yaptırımların etkisi aynı zamanda, döviz kuru ve enflasyon oranı üzerinde de çıkmıştır. 2000 ve 2011 yılları arasında ortalama enflasyon oranı % 15.3 olurken, 2012 yılında % 27.3'e, 2013 yılında ise % 39.3'e yükselmiştir. Enflasyon oranındaki zirve Haziran 2014'te % 45.1 ile gerçekleşmiştir. Yüksek enflasyon oranlarının yarattığı yüksek yaşam maliyeti, aynı zamanda toplum üzerinde de baskı yaratarak, İran hükümetinin politika alanını kısıtlamış, İran'ı müzakere masasına oturmaya ikna etmiştir. Ayrıca, İran'a sıkılaşan yaptırımların uygulanmaya başlandığı 1 Ekim 2012 tarihinde, Riyal bir günde yüzde 17 düşmüştür. ABD ve AB tarafından uygulanan yaptırımların sıkılaştığı 2012 yılının ilk on ayında, Riyal % 80'den fazla değer kaybetmiştir.

İran örneği, yaptırımların politika alanına etkilerini göstermek için üç ayrı döneme ayrılmıştır. Bu çerçevede, ilk dönem, yaptırımların başladığı 1979 yılından 1996 yılında ABD'nin İran Yaptırım Yasasını yürürlüğe koymasına kadar geçen süreyi; ikinci dönem, 1996 yılından 2010'da Birleşmiş Milletler Güvenlik Konseyi'nin 1929 sayılı kararına kadar geçen dönemi; üçüncü dönem, 2010 yılından Ortak Eylem Planına kadar olan dönemi kapsamaktadır. İlk dönemde, yaptırımların "zorlayıcı" ve kısmen "sinyal verme" özelliği baskındır. Bu dönemde, yaptırımlar dış yardım ve ticaret kanalıyla uygulanmıştır. Yaptırımların ikinci aşamasında, "sinyal verme" özelliği hakim olup, bu dönemde yaptırım uygulanan alanlar, ticaret ve yatırım olmuştur. Buna ek olarak, yaptırımlar uygulayan ülke sınırlarını aşan özelliğe kavuşmaya başlamış ve uluslararası boyut kazanmıştır. Üçüncü dönemde, "sınırlayıcı" özellik baskın olup, bu dönemde genellikle yaptırım uygulanan alanlar enerji ve finans sektörleri olmuştur. Buna ek olarak, yaptırımlar, İran'ın derinleşmekte olan finansal bütünleşmesine uyumlu olarak finansal kanallar vasıtasıyla uygulanmıştır. Bu dönemde yaptırımlar daha finansal, uluslararası ve güçlü hale gelmiş, daha da önemlisi, ölümcül darbeler İran ekonomisine bu dönemde atılmıştır.

Uluslararası toplum tarafından Rusya'ya karşı uygulanan yaptırımlar, Ukrayna'da ortaya çıkan çatışmalar ile Kırım ve Sivastopol olayları nedeniyle ortaya çıkmıştır.

Diplomatik tedbirlerle başlayan yaptırımlar zincirinde, finansal yaptırımlar, Rusya'yı ikna etme girişimlerinde en nihai ve etkili yol olarak kullanılmıştır. Fakat, finansal yaptırımlar, İran örneğinde olduğu gibi sıkı değildir. Önerilmiş olsa da, Rusya SWIFT'den atılmamıştır. Bununla birlikte, Rusya'nın AB ve ABD finansal sistemlerine erişimi büyük ölçüde engellenmiştir. AB ve ABD öncülüğünde birçok ülke, Rus resmi yetkililerin varlıklarını dondurmuş ve bu kişiler üzerinde seyahat yasakları koymuştur. Devamla, Rus ekonomisinde büyük öneme sahip enerji, savunma ve finans sektörleri yaptırımlara maruz kalmıştır.

Rusya örneğine dair bulgular şunlardır: Birincisi, AB, ABD ve uluslararası toplum tarafından, diplomatik önlemlerin Rusya'yı ikna etmede etkili olamayacağı anlaşılmış ve finansal kanallar devreye girmeye başlamıştır. İkincisi, Rus ekonomisi, yaptırımlardan olumsuz etkilenmiştir. Bununla birlikte, Rus ekonomindeki daralma, kısmen petrol fiyatlarındaki düşüşten de kaynaklanmaktadır. Bu nedenle, finansal yaptırımların Rusya'nın politika alanı üzerindeki etkileri değerlendirilirken, petrol fiyatlarındaki düşüş de göz önünde bulundurulmalıdır. İlk yaptırımlar, seyahat yasakları, varlıkların dondurulması ve diğer diplomatik önemler üzerinden uygulanmıştır. Ancak, bu yaptırımlar, uygulayıcılar tarafından yetersiz olduğu sonucuna varılarak, finansal önlemler alınmaya başlanmıştır.

ABD'nin " Sectoral Sanctions Identifications " listesinde yer alan Rus bankaları (çoğunlukla devlet bankaları) ve şirketler, ABD ve Avrupa kredi piyasalarına girmekten alıkonulmuştur. Dolayısıyla, bilançolarını yeniden yapılandırmak ve yerel kaynaklardan finansman aramak zorunda kalmışlardır. Ayrıca, ABD’nin "Specially Designated Nationals " listesinde yer alan bazı özel Rus bankaları ve şirketlerinin (çoğunlukla savunma sektöründe), harici işlemleri geçekleştirmesi engellenmiştir. Dolayısıyla, bu bankalar ve şirketler Ruble ile iş yapmak zorunda kalmıştır. Ayrıca, söz konusu işlemler üzerindeki finansal kontroller artmış, işlemlerde gecikmelere ve işlemin ne zaman sona ereceğine ilişkin belirsizliğe neden olmuştur. Sonuç olarak, gelecekteki borçlanma maliyeti artmıştır. Ayrıca, Batılı bankalar, Rus borç menkul kıymetleri için risk yönetim protokollerini değiştirmiş, sonuçta söz konusu menkul kıymetlere olan talep azalmıştır. Yabancı bankalar, Rus sermaye piyasalarına katılımlarını azaltmıştır. Bu nedenle, kredi koşulları hem yaptırıma maruz kalan hem kalmayan bankalar için kötüleşmiştir (Orlova, 2016: 204-17).

Temmuz 2014'te, AB vatandaşlarının ve şirketlerinin, kamuya ait büyük Rus bankaları, kalkınma bankaları, AB dışındaki bağlı ortaklıkları ve bu bankalar üzerinde hareket edenler tarafından ihraç edilen 90 günün üstünde yeni tahvil, hisse senedi veya benzeri finansal araçları satın almaları sınırlandırılmıştır. Böylece, uzun vadeli borç finansmanı olanakları ortadan kaldırılmıştır. Devamla, Eylül 2014'te, AB vatandaşları ve şirketlerinin beş büyük Rus devlet bankasına kredi sağlamaları engellenmiştir. Aynı bankaların çıkardığı yeni tahvil, sermaye veya benzeri 30 ayı geçen menkul kıymetlerin ticareti yasaklanmıştır. Bu nedenle, kısa vadeli dış borç finansman kaynakları da ortadan kalkmıştır.

Sonuç olarak Rusya, finansman ve döviz açığı sorunuyla karşı karşıya kalmış, bu da Ruble ve finansman maliyeti üzerinde baskı yaratmıştır. Ukrayna'daki krizin derinleşmesi ve uluslararası yaptırım politikasının güçlendirilmesiyle, 2014 yılında özel sermaye net çıkışları 152,1 milyar ABD Dolarını bulmuştur. Daha önce dış finansman kaynaklarıyla finanse edilen Rusya ekonomisi, yaptırımlardan sonra, iç kaynaklara yönelmiştir. Rus ekonomisi, doğal kaynak ihracatı, yabancı yatırımlar ve tüketim malları ithalatına yüksek bağımlılığı nedeniyle döviz kurundaki dalgalanmalar nedeniyle derinden etkilenmiştir (Dreger ve diğerleri, 2016). Rus Merkez Bankası, döviz satarak ve Ruble satın alarak döviz kuruna büyük oranda müdahale etmiştir. Kasım 2014'te döviz kuru üzerindeki baskılar arttığında, Rus Merkez Bankası, dalgalı döviz kuru rejimine geçerek dış şokları ve rezerv kayıplarını önlemeye çalışmaya başlamıştır.

Rusya örneğini de İran örneğinde olduğu gibi üç ayrı döneme ayırmak mümkündür. Birinci dönem, Mart 2014'te yaptırımların başlamasından Temmuz 2014’te ekonomik yaptırımlara geçişe kadar olan dönemi; ikinci dönem Temmuz 2014'ten Eylül 2014’e yaptırımların güçlenmesine kadar olan dönemi; üçüncü dönem Eylül 2014'ten günümüze kadar geçen süreyi kapsamaktadır. İkinci ve üçüncü dönem, finans, savunma ve enerji sektörlerine yönelik yaptırımları içerdiğinden önemlidir. Yaptırımların ilk dönemi, “zorlayıcı” özellik taşımaktadır. Bu dönemde, Rus yetkili kişilerine seyahat yasakları konulmuş, söz konusu kişilerin mal varlıkları dondurulmuştur. Ayrıca, bir takım diplomatik önlemler alınmıştır. Yaptırımların ikinci döneminde, “sınırlayıcı” özellik hakimdir. Temmuz ayı sonunda, AB, ABD ve diğer ülkeler koordineli bir şekilde Rusya'ya ekonomik yaptırımlar uygulamışlardır. Rus devlet mülkiyetindeki finansal kuruluşların AB sermaye piyasalarına erişimi sınırlandırılmıştır. Üçüncü dönemde, ikinci bölümde olduğu gibi “kısıtlayıcı” özellik hakimdir. Bu dönemde, AB’nin Rusya üzerindeki ekonomik yaptırımları güçlendirilmiştir. Bu tedbirler, ikinci dönemde uygulanan yaptırımların geliştirilmiş hali olup, benzer şekilde Rusya'nın finans, savunma ve enerji sektörlerini hedef almaktadır. Bu bölümde Rusya'nın politika alanını daraltmak için ticaret ve finansal kanallar kullanılmıştır. Bununla birlikte, finansal kanalların payı daha büyüktür.

İran ve Rusya örnekleri farklı dinamikleriyle karşımıza çıkmasına rağmen, her iki örnek de finansal yaptırımların hedef ülkelerin politika alanını daralttığı gözlemlenmektedir. Küreselleşme ve finansallaşmayla birlikte, finansal kanalların ve bu kanallar üzerinden uygulanan yaptırımların kullanımı ve etkisi artmaya devam edecektir. Bu nedenle, bu tezdeki tartışmaların, nicel ve ampirik çalışmalarla desteklenmesi gerekmektedir. Unutulmamalıdır ki, yaptırımların İran ekonomisi üzerindeki etkisi açıkça görülebilse de, Rusya için aynı şeyi söylemek mümkün değildir. Bunun arkasında yatan neden, Rusya'ya karşı uygulanan yaptırımların petrol fiyatlarındaki düşüş ile aynı döneme denk gelmesidir. Bu iki etkiyi birbirinden ayırarak değerlendirmek, Rus politika alanı üzerindeki yaptırımların etkisini açıklayabilmek için gerekmektedir.

Günümüzde sıklıkla haberlerde okuduğumuz konulardan biri, ekonomik yaptırımlardır. Bu sıcak gündem maddesi geçmişte tartışıldığı gibi gelecekte de tartışılacaktır. Savaşların eskidiğini söyleyebiliriz, ancak yaptırımlar eski ihtişamını korumaktadır.

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