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Economics Wars and Economic Sanctions (III)

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Over the long period of time that economic sanctions have been actively used in the world, a wealth of knowledge has been accumulated regarding the organisation of such sanctions and ways to counteract them. Probably the most extensive experience of counteracting sanctions has been accumulated by Russia, and almost all of this was accrued during the Soviet period of her history.

The Soviet experience of counteracting economic sanctions

In the early years of Soviet Russia, the trade and sea blockade by her former allies (the Entente countries) was overcome by organising trade flows through neutral countries (Persia, Turkey and China) or via contraband corridors (one of the main corridors passed through the Baltic States and Scandinavia). After the outbreak of the global economic crisis towards the end of 1929, the Soviet Union began to play on conflicts between countries in the West in an effort to get some of them to relax or even lift the sanctions.

The strategic solution to the problems caused by the economic sanctions was the industrialisation of Soviet Russia. One of the main objectives of industrialisation in December 1925 was declared to be a reduction in the dependence of the Soviet economy on foreign markets as much as possible, relying instead on its own resources and production. Between 1929 and 1941, nearly

10,000 businesses were set up that produced manufacturing equipment, consumer goods, and all kinds of weapons and military equipment. The economy during that time was mobilised and its most important elements were: the centralised management of the national economy, 100 per cent state participation in industry, medium-term (five-year) policy planning, the collectivisation of agriculture, the complete eradication of all forms of capital (industrial, trade and monetary), the nationalisation of the monetary system, an alignment of living standards for all sections of the population (social programmes, combating unearned income and so on), the state monopoly of foreign trade, and a state currency monopoly.

From the very earliest stages of industrialisation, Soviet Russia was able to reach out to American countries that were in the middle of a severe economic crisis. It was these companies that supplied the equipment for the construction projects of the USSR's first five-year plan, and carried out installation and commissioning work. Equipment was supplied under the terms of commercial lending, which alleviated the problems associated with a lack of currency. Then the American window of opportunities gradually began to close, and in subsequent years German firms became the main suppliers of machinery and equipment. It is interesting that industrialisation took place without the involvement of any kind of foreign investment in the Soviet economy. Previously, the only foreign capital in the USSR was in the form of concessions, the last of which were terminated in 1932-1933 (1). For several decades, the Soviet economy was self-sufficient: the share of exports and imports in the GDP of the USSR was just a few per cent. This meant that the Soviet Union was only marginally vulnerable to economic sanctions.

In the mid-1970s, however, the USSR became more dependent on exports and imports. In 1973, oil prices on the world market jumped fourfold. Rather than continuing to strengthen the country's industrial potential, the Soviet government took the path of least resistance. The country's economic, social and military problems began to be resolved with the aid of petrodollars, which is why the West's economic sanctions became steadily more effective over the last 15 years of the USSR's existence. Officially, the slump in oil prices on the global market in 1986 has absolutely nothing to do with the economic sanctions against USSR, but there is little doubt that the slump was planned by Washington with a view to finally undermining the Soviet economy. It was an act of economic warfare and it achieved its objective. Five years later, the Soviet Union ceased to exist.

Iran and Iraq: three levels for the counteraction of sanctions

Among the countries that have managed, with some success, to counteract the West's economic sanctions in recent years, one could mention Iraq and Iran. Sanctions were actually imposed against the former from 1990 to 2003 (officially until 2010), and against the latter from 1979 to the present day. In both countries it is possible to identify three levels for the counteraction of sanctions:

- the adaptation of foreign economic activity to the bans and restrictions imposed by sanctioning countries;

- the substitution of imports for domestic production and the diversification of the export commodity structure; and

- measures regarding the distribution of essential goods.

Measures for the adaptation of foreign economy activity to the conditions of sanctions

This includes the following areas:

a) the reorientation of foreign economy activity to a country that is not involved in the economic sanctions (a «non-aligned state»);

b) the use of alternative currencies to the US dollar and the euro for international settlements; and

c) the use of intermediary countries operating under the flags of a wide variety of countries for trade.

Sanctions against Iraq were imposed by the UN, but even this was not enough to organise an iron blockade around the country. Iraq signed agreements with its neighbouring countries Jordan, Egypt and Turkey, through which oil supplies left Iraq and a wide variety of goods (from cars, equipment and military technology to food and medicine) were imported into Iraq. Washington was aware of all these operations, but the pressure it put on Iraq's neighbouring countries had little effect. According to the CIA, during the years of sanctions Iraq was able to sell USD 75 billion worth of oil. As well as the channel of interstate agreements for international trade, they also took advantage of contracts with intermediary companies and even individuals. These individuals and companies included a number of citizens and businesses from China, France and Russia. Some of the companies were short-lived companies, created for the execution of a single contract.

The blockade that the US has spent many years trying to organise around Iran is looking increasingly holey. US sanctions against the country are not UN sanctions. Only in early 2010 did Washington manage to get the European Union involved in sanctions against Iran, but in just a year or two Iran reorientated itself from the European market to the markets of such countries as China, India, Turkey and Russia. A number of small Arab states neighbouring Iran are being used as trade transit points. Before the EU joined Washington's sanctions, many European companies had managed to make considerable investments in Iran's economy. French companies, for example, secured a footing in Iran's automobile industry, while German and English companies gained a foothold in Iran's mining industry. At present, these European companies are still collaborating with Iran, just not directly; they are collaborating through governments and companies playing the role of intermediaries. They can send equipment to fictitious addresses in Turkey, for example, then from Turkey the equipment goes to Dubai (UAE), and from there to the Iranian port of Bandar Abbas. There are also other transit routes through South Africa and Malaysia. Often, schemes for the movement of goods are straightened out, and goods travel back and forth directly between Iran and Turkey. For Turkey, although it is a member of NATO, Iran is still its main trading partner (although official statistics for Turkey do not reflect its trade with Iran in full).

It is extremely important for sanctioned countries to move away from settlements in the main reserve currencies, especially the US dollar. Settlements like these are controlled by the West, since transactions pass through the correspondent accounts of American and European banks. Today, Iran has almost completely liberated itself from the dollar in its trade settlements. Quite a substantial portion of Iran's trade is carried out on the basis of bartering, so the direct exchange of commodities, in other words. An even greater proportion of its commercial transactions are made using the national currencies of Iran's trading partners. These are primarily the Chinese yuan, the Indian rupee and the South Korean won. The Russian rouble is also used, as is gold, which is becoming another tool for transactions.

Furthermore, there is an observable trend in Iran to strengthen state control over the financial and foreign exchange sectors. To strengthen the rial, the Bank of Iran is buying gold from India and Turkey and foreign currency through a network of money changers in Iraq. The government has reverted to exchange restrictions, a single exchange rate has been introduced, and the Bank of Iran has established a centre for economic and monetary stabilisation.

Substitution of imports for domestic production

The aim of substituting imports for domestically-produced foodstuffs has become particularly timely for Iraq and Iran. Immediately after the introduction of sanctions against Iraq in 1990, the Iraqi government took a number of decisions to increase its agricultural production – by putting more land into economic circulation, and through the subsidisation of agricultural producers and guaranteed government procurement. Decree No 367 of the Iraqi Revolutionary Command Council states that: «All land not being used by its owners or others in keeping with its agricultural purpose shall be nationalised without compensation.» The Ministry of Agriculture compensated farmers up to 100 per cent of the cost of seed and spent 586 million dinar on this in 1990. Iraq's agriculture was planned: farmers were given detailed instructions about what to plant, where and how, and any failure to comply with these instructions was a punishable offence. By October 1992, the government had started buying up the entire crop without intermediaries. These measures helped to significantly increase the amount of harvested crops. According to official Iraqi sources, 1 million tonnes of crops were harvested in 1989 and 2.5 million tonnes were harvested in 1990. The area of arable land increased by 50 per cent.

Iran also began to carry out a policy of import substitution, and not only for foodstuffs, but for a wide range of industrial products. On 23 August 2012, the Supreme Leader of Iran, Ayatollah Ali Khomeini, called on the country's government to create «an economy of resistance» capable of withstanding international sanctions. This new term actually referred to a continuation of the policy of «economic jihad» officially announced by the country's rahbar in 2011 and had essentially been underway from the very first days of the Islamic Republic of Iran's existence. The economic jihad pursues two main objectives: reducing Iran's dependence on oil exports and switching to the export of high value-added products; and reducing its imports of essential goods, primarily foodstuffs and medicines.

Iran: the diversification of its export commodity structure and the search for new trading

partners

Supporters of tougher sanctions against Iran in the West are trying to prove that the Iranian economy, under pressure from sanctions, is becoming increasingly weak. Now and then, they refer to a 2012 statement by the Iranian Oil Ministry which states that after the EU joined the sanctions being imposed by Washington, Iran's oil export revenue fell by more than 40 per cent.

However, this is an extremely cunning interpretation of the processes currently taking place in the Iranian economy. The fact is that Iran has started to change the structure of its exports by increasing its processed raw materials and other product groups (besides oil). In 2012 (2), polyethylene and fertilizer exports amounted to USD 9 billion, the export of plastics – USD 3.2 billion, the export of construction materials (stone, cement, and related products) – USD 8.2 billion, agricultural exports – USD 5.3 billion, and rug exports – USD 0.8 billion.

According to the Customs Administration of Iran, Iran's main partners for non-oil exports in 2013 (with the exception of gas condensate) were China, Iraq, UAE, India, Afghanistan, and Turkey. All of these (except Afghanistan) showed a growth in the volume of Iranian goods purchased. In 2012, China bought USD 4.8 billion worth of goods from Iran, and in 2013 China's purchases in Iran increased to USD 7.4 billion.

As for Iran's main import partners, at the end of 2013 they ranked as follows: UAE, China, India, South Korea, Turkey, Switzerland, and Germany. Imports from countries like South Korea, Switzerland and Germany have fallen slightly in comparison with 2012. Along with this, there has been a significant increase in imports from the other countries. Imports from UAE grew from USD 9.3 to USD 10.8 billion, and from China from USD 7.1 to USD 9.6 billion. The growth of imports from India is particularly significant, from USD 1.6 to USD 4.3 billion. All of this dispels the myth regarding the effectiveness of the West's sanctions against Iran.

In 2013, Iran's share of global GDP stood at 0.74 per cent. It is predicted that in 2014, this figure will grow to 0.76 percent, in 2015 to 0.8 per cent, and in 2016 to 0.85 per cent. At the beginning of this decade, Iran's share of the global petrochemical market was 2.4 per cent, and Iran's Fifth Five-Year Development Plan (2011-2015) aims to raise this figure to 4.9 per cent. Iran's share of the petrochemical market in the Near and Middle East has reached 23.4 per cent, and it is planned that this figure will reach 41 per cent by 2020.

In February 2014, the Iranian government unveiled a plan of action in keeping with the «economy of resistance». Essentially, the plan is to mobilise the Iranian economy. It consists of 24 points. One of the most important points is the development of partnerships with countries that are not involved in the economic sanctions being imposed by the US, and Tehran is attaching particular significance to the development of a partnership with Russia.

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(1) Readers can find out more about the industrialisation of the USSR during the economic blockade in my book: «Ekonomicheskaya voina protiv Rossii i stalinskaya industrializatsiia» [«The economic war against Russia and Stalin's industrialisation»] (M.: Algoritm, 2014).

(2) This refers to the Iranian year, which begins on 21 march and ends on 20 March in the European calendar. Here, 2012 refers to the period of time from 21 March 2012 to 20 March 2013 in the European calendar. According to the Iranian calendar, the year is 1391.