

Effect of diplomatic recognition and other diplomatic efforts on economic security

Diplomatic negotiations for sanctions relief in Iran improved the economic position of the country - as measured by stock market returns - especially for the elite.

Geographical region: Middle East & North Africa

Effect size: Small effect ($g = 0.039$)

Confidence in study findings: Low confidence (1 study; 4 ES)

Short summary

Diplomatic negotiations for sanctions relief increased economic security by incentivizing Iran's political elites to support policy changes. Stock market responses showed that firms linked to targeted elites experienced stronger gains than other firms, confirming that sanctions effectively pressured decision-makers. This outcome demonstrates the intervention's success in creating economic pressure on elites, aligning their financial incentives with diplomatic progress toward policy reforms, particularly concerning Iran's nuclear program.

However, we have low confidence in the cell summary due to a limited number of studies.

Long summary

Intervention

The intervention involves imposing multilateral sanctions targeting the economic interests of Iranian political elites, specifically the Islamic Revolutionary Guard Corps (IRGC) and entities linked to Iran's Supreme Leader, Ali Khamenei. These sanctions aimed to pressure elites by impacting their assets, primarily on the Tehran Stock Exchange (TSE), creating economic incentives to negotiate a deal for sanctions relief and nuclear policy reforms.

How the intervention is expected to work

The intervention was diplomatic negotiations related to economic sanctions to influence Iran's political elites by impacting their key financial assets, primarily controlled by the IRGC and entities linked to Supreme Leader Ali Khamenei. By imposing financial restrictions and isolating these entities from international markets, the sanctions create significant economic pressures. The anticipated outcome is to incentivize these elites to negotiate policy changes, particularly regarding Iran's nuclear program, in exchange for sanctions relief. The strategy relies on aligning their financial interests with diplomatic progress, ensuring sanctions directly impact decision-makers while minimizing harm to broader populations.

The evidence base

The cell consists of one study which employs an empirical difference-in-difference (DID) approach to analyze the impact of multilateral sanctions on Iran. The study is based in Iran.

Evidence findings

The study finds that diplomatic negotiations for sanctions relief increased stock returns, indicating improved economic security. Targeted elite firms reacted more positively than non-target firms, confirming sanctions' effectiveness.

Included studies

Draca (2022) investigates the effectiveness of diplomatic negotiations to lift multilateral sanctions on Iran. The sanctions partly targeted the economic interests of political elites influencing Iran's nuclear policies. It focuses on the assets controlled by two key entities: the Islamic Revolutionary Guard Corps (IRGC) and the office of Iran's Supreme Leader, Ali Khamenei. The sanctions aimed to create economic incentives for these elites to negotiate a deal for sanctions relief, with the broader goal of influencing Iran's nuclear policy. The study examines the returns to stock exchange-listed assets within the Tehran Stock Exchange (TSE). Using a difference-in-difference approach, the study exploits "information shocks" about diplomatic negotiations for sanctions removal between 2012 and 2015. It compares stock market responses of firms tied to the targeted elite groups with those unrelated to them. Data sources include stock return information, news coverage databases (Factiva and GDELT), and ownership details of TSE-listed firms. The study analyses stock returns from 138 firms listed on the Tehran Stock Exchange, divided into a "target portfolio" of 50 firms (owned or influenced by the IRGC or Setad, the Supreme Leader's economic foundation) and a "non-target portfolio" of 88 firms with no known connection to these entities. The results indicated that both target and non-target firms benefited from sanctions relief, but that the impact on target firms was significantly larger. The study rated as low confidence quantitative study due to causal inference limitations: event studies are useful for observing immediate reactions, but are limited in establishing long-term causal relationships and the study does not distinguish between the impacts of different types of sanctions (e.g., financial vs. trade sanctions).

Confidence assessment

The cell is rated low confidence due to a limited number of studies.

Other outcomes in this study

None