

SPVs as a Multilateral Financial and Political Solution: Evaluating the INSTEX Case

Bahar AKIN¹

¹ Dr., baharbarutakin@gmail.com, ORCID: 0009-0007-9597-3444

Abstract: International relations initially developed through bilateral interactions. While multilateral agreements expanded significantly after World War II, their origins predate this era, reflecting efforts to manage the international implications of sovereignty. The establishment of the League of Nations in 1919 and later the United Nations marked critical milestones in shaping multilateral cooperation. Today, multilateralism functions as a key mechanism for fostering coordination and stability in an interconnected world. International regimes and institutions enhance predictability, reduce uncertainty, facilitate negotiations, and enable cooperation across diverse issue areas. Regime theory provides a conceptual lens to explain how cooperation emerges and persists in an anarchic international system, assessing the principles, norms, rules, and decision-making procedures that structure collective action in fields such as trade, finance, security, and disarmament. This article examines whether the Instrument in Support of Trade Exchanges (INSTEX SAS) can be classified as an international regime within the framework of regime theory, drawing on Stephen D. Krasner's widely recognized definition. It evaluates the institutional design and functional mechanisms of INSTEX through case studies on Iran, while offering initial references to North Korea as a potential area of expansion. Moreover, it situates INSTEX within the broader spectrum of alternative financial instruments by analytically comparing it with other special purpose vehicles (SPVs) created for similar objectives. The findings illuminate whether such mechanisms act solely as policy tools or hold the capacity to evolve into durable regimes, underscoring the critical role of political, institutional, and economic factors in shaping their sustainability and global relevance.

Keywords: INSTEX, SPV, Sanctions, International Regimes, Multilateralism, Nuclear non-proliferation and disarmament

Jel Codes: F51, F53, F55, D78

Çok Taraflı Mali ve Siyasi Bir Çözüm Olarak SPV'ler: INSTEX Örneği Üzerine Bir Değerlendirme

Cite: Akın, B. (2025). SPVs as a Multilateral Financial and Political Solution: Evaluating the INSTEX Case, *Politik Ekonomik Kuram*, 9(4), 1377-1391.

<https://doi.org/10.30586/pek.1662215>

Submitted: 20.03.2025

Accepted: 04.07.2025



Copyright: © 2025. (CC BY)
(<https://creativecommons.org/licenses/by/4.0/>).

Öz: Uluslararası ilişkiler başlangıçta ikili etkileşimler yoluyla gelişmiştir. II. Dünya Savaşı'ndan sonra çok taraflı anlaşmaların sayısı önemli ölçüde artsa da çok taraflılığın kökenleri daha eski dönemlere dayanmaktadır ve egemenlik ilkelerinin uluslararası sonuçlarını ele almak için erken dönemden itibaren çeşitli düzenlemeler yapılmıştır. 1919'da Milletler Cemiyeti'nin, ardından Birleşmiş Milletlerin kurulması çok taraflı işbirliğinin kurumsallaşmasında önemli dönüm noktaları olmuştur. Bu bağlamda çok taraflılık, küresel işbirliğini teşvik eden temel bir araç haline gelmiş; uluslararası rejimler ve kurumlar öngörülebilirliği artırarak, belirsizlikleri azaltarak, müzakereleri destekleyerek ve devletler arasında koordinasyonu sağlayarak işlev görmektedir. Rejim teorisi, anarşik uluslararası sistemde işbirliğinin nasıl ortaya çıktığını ve sürdürüldüğünü açıklayan bir çerçeve sunar; ticaret, finans, güvenlik ve silahsızlanma gibi alanlarda rejimlerin oluşumu, devamlılığı ve etkinliğini inceler. Bu çalışma, INSTEX SAS'ın rejim teorisi çerçevesinde uluslararası bir rejim olarak sınıflandırılıp sınıflandırılmayacağını değerlendirmektedir. Stephen D. Krasner'in tanımı temel alınarak girişimin kurumsal yapısı ve işlevselliği analiz edilmektedir. Çalışma, İran odaklı vaka incelemelerine dayanmakta, ayrıca potansiyel genişleme alanı olarak Kuzey Kore'ye ilişkin ön değerlendirmeler sunmaktadır. Bunun yanı sıra, INSTEX benzer amaçlarla oluşturulan diğer özel amaçlı araçlarla (SPV'ler) karşılaştırılarak alternatif finansal mekanizmalar bağlamında konumlandırılmaktadır. Bulgular, bu tür yapıların yalnızca politika aracı olarak mı

kaldığını yoksa sürdürülebilir uluslararası rejimlere dönüşme potansiyeli taşıyıp taşımadığını ortaya koymaktadır. Çalışma, söz konusu mekanizmaların kalıcılığını ve etkisini belirlemede siyasi, kurumsal ve ekonomik dinamiklerin önemini vurgulamaktadır.

Anahtar Kelimeler: INSTEX, SPV, Yatırımlar, Uluslararası Rejimler, Çok Taraflılık, Nükleer Yayılmanın önlenmesi ve silahsızlanma

Jel Kodları: F51, F53, F55, D78

1. Introduction

The United States of America (USA) has comprehensive economic and financial sanctions against other states and non-state actors in the post-Cold War era. The potency of U.S-led sanctions derives from the economic benefit that becomes withheld because of the sanctions. The use of sanctions in US foreign policy dates to the early 20th century, but they gained prominence during the Cold War as a tool to isolate communist regimes. Over time, sanctions have been applied to various countries including Cuba, Iran, North Korea, and Russia, among others, targeting their economies and diplomatic relations. While sanctions can serve as a non-military means to influence behavior, they come with both costs, such as humanitarian consequences and potential diplomatic tensions, and benefits, including exerting pressure for policy change and promoting adherence to international norms.

It seems, therefore, that America is pursuing an anti-multilateralist policy using sanctions. Hence, in 2018, one of the most critical developments was US President Trump's decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA). The economic and political effects of this situation continue. The JCPOA, signed in 2015, was an agreement signed between Iran on one side and the US, E3 countries (Germany, France, United Kingdom), Russia and China on the other side.

The JCPOA would subject Iran to significant restrictions in its nuclear program to remove most of the sanctions. But on May 8th, 2018, the Trump administration withdrew from the JCPOA and immediately reimposed sanctions on Iran. The E3 (UK, France and Germany) announced that they would continue to honor the agreement and advised European companies to trade with Iran. This was when the idea of INSTEX emerged, an instrument to facilitate trade between Iran and the EU to get around the US sanctions. The INSTEX mechanism has the potential to create an independent and balanced system in the Gulf region by facilitating trade between Iran and Europe without violating extraterritorial sanctions imposed by the United States. The structure and multilateral regime ideology of INSTEX allow for a new approach to international trade, one that prioritizes cooperation and mutual benefit rather than unilateralism and coercion. By enabling economic exchanges with Iran, INSTEX could also promote greater stability and security in the region, as well as support the humanitarian needs of the Iranian people. However, it remains to be seen how effective INSTEX will be in practice, as it faces significant challenges such as limited participation by European companies and pressure from the US to abandon the mechanism.

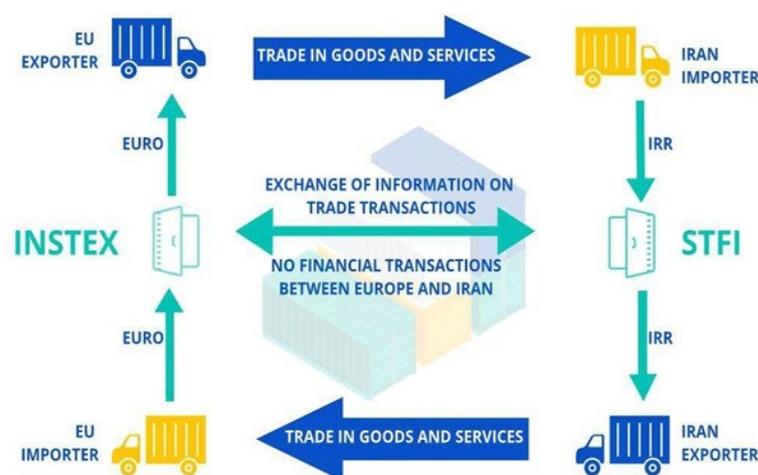


Figure 1. Process of INSTEX

A European exporter who receives an order to supply medicine to Iran submits the necessary documents for the transaction to INSTEX. These documents include confirmation that the Iranian buyer meets the EU's cooperation requirements, as INSTEX itself does not carry out due diligence on Iranian firms. Once the trade is approved, INSTEX logs the transaction in its ledger. It then checks its records to identify whether another European company is currently importing goods from Iran. If such a company is found, INSTEX facilitates a payment to the initial European medicine exporter. Importantly, this payment is made entirely within Europe – between European banks – without any funds being transferred directly from Iran at that stage.

2. The Emergence of INSTEX: Connection with JCPOA and U.S. Secondary Sanctions

INSTEX was developed by France, Germany, and the United Kingdom in 2019 as a special purpose vehicle to facilitate trade with Iran while mitigating the extraterritorial effects of United States sanctions (Geranmayeh & Batmanghelidj, 2019). The mechanism emerged as a direct response to the United States withdrawal from the Joint Comprehensive Plan of Action in May 2018, which led to the reinstatement of both primary and secondary sanctions on Iran (Fayazmanesh, 2021). The Joint Comprehensive Plan of Action, signed in 2015 between Iran and the P5+1 (China, France, Germany, Russia, the United Kingdom, and the United States), aimed to limit Iran's nuclear program in exchange for sanctions relief (Katzman, 2020). Under the agreement, Iran agreed to reduce its stockpile of enriched uranium, limit its number of centrifuges, and allow extensive inspections by the International Atomic Energy Agency. In return, economic sanctions imposed by the United Nations, the European Union, and the United States were eased, allowing Iran to reintegrate into global markets (Nephew, 2020).

The United States withdrawal from the Joint Comprehensive Plan of Action in 2018 under the Trump administration disrupted this diplomatic framework and reintroduced a maximum pressure campaign that sought to economically isolate Iran by reinstating sanctions on its energy, financial, and industrial sectors (Eichengreen, 2019). The reimposition of secondary sanctions meant that non-United States companies engaging in transactions with Iran risked being cut off from the United States financial system, creating widespread uncertainty for European firms that had resumed trade with Iran following the agreement (Geranmayeh & Batmanghelidj, 2019). To salvage the agreement and uphold their economic commitments under the Joint Comprehensive Plan of Action, European states sought to establish a payment mechanism that would allow continued

trade with Iran while bypassing the United States dollar-dominated financial system (Katzman, 2020).

The extraterritorial reach of United States secondary sanctions, however, significantly undermined the effectiveness of this mechanism. Secondary sanctions extend beyond domestic entities, penalizing any foreign company that engages in transactions with sanctioned Iranian actors. This effectively forced European firms and financial institutions to choose between conducting business with Iran or maintaining access to the United States financial system (Nephew, 2020). Given the dominance of the United States dollar in global commerce, the risk of being cut off from dollar-clearing networks discouraged most European banks from participating. The pressure was further reinforced by past regulatory actions, such as the 2014 case against the French multinational bank BNP Paribas, which was fined 8.9 billion dollars for violating sanctions against Iran, Sudan, and Cuba. This case set a precedent, reinforcing the perception that engaging in transactions with Iran could lead to severe financial and legal consequences (Eichengreen, 2019).

As a result of these constraints, the mechanism was ultimately limited to humanitarian trade, including the exchange of food, pharmaceuticals, and medical supplies, in alignment with existing exemptions under United States sanctions (Katzman, 2020). Rather than enabling direct financial transactions, the system functioned as a closed-loop barter mechanism, where European exporters received payments from European buyers rather than directly from Iranian counterparts (Fayazmanesh, 2021). This structure was designed to minimize exposure to secondary sanctions, yet it failed to attract significant commercial interest due to legal uncertainties and enforcement risks.

Beyond the immediate operational limitations, the broader impact of United States extraterritorial sanctions became evident as financial institutions worldwide engaged in what is commonly referred to as "over-compliance." Over-compliance occurs when firms voluntarily refrain from any activity that could potentially trigger United States penalties, even if the transactions are legally permissible under European regulations (Geranmayeh & Batmanghelidj, 2019). This self-imposed restriction by European financial institutions further hindered the effectiveness of the mechanism and underscored the challenge of countering the overwhelming influence of the United States financial system.

The dominance of the United States in global finance is rooted in its control over major payment infrastructure and regulatory influence. The Society for Worldwide Interbank Financial Telecommunication, headquartered in Belgium, is a key component of the international banking system, and any institution that violates United States sanctions risks being disconnected from it. This network effect significantly reduces the feasibility of alternative financial channels, particularly those established outside the reach of United States oversight (Eichengreen, 2019). Additionally, the close integration of European financial institutions with the United States economy has made them particularly vulnerable to secondary sanctions. Given the volume of transatlantic trade and investment, European banks prioritized access to the United States market over participation in mechanisms designed to bypass sanctions (Nephew, 2020).

Despite its limited impact, the mechanism represented an important political signal from Europe regarding its commitment to financial sovereignty and strategic autonomy. It demonstrated the European Union's desire to create mechanisms that could insulate European economies from the extraterritorial reach of United States economic policies.

However, the failure of the initiative to expand beyond humanitarian trade raised broader questions about Europe's capacity to build independent financial infrastructures in an era dominated by dollar hegemony and regulatory enforcement by the United States Treasury Department (Geranmayeh & Batmanghelidj, 2019).

As of 2023, the mechanism remains largely inactive, reflecting the continued challenge of developing a viable European-led financial alternative. The limitations of this initiative highlight the broader struggle between economic interdependence and geopolitical competition. While European policymakers have expressed interest in

strengthening financial autonomy, meaningful progress will likely require deeper institutional cooperation, investment in alternative payment networks, and engagement with other major economies seeking to reduce reliance on United States-controlled financial systems (Eichengreen, 2019).

3. Theoretical Framework

When conceptualized as a multilateral solution mechanism, INSTEX can be examined through the integrated lenses of international regime theory, dependency theory, and institutionalism, each offering a distinct analytical framework for understanding its structural and functional limitations within the international financial system.

International regime theory, as articulated by Krasner (1982), defines regimes as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given issue area. The applicability of regime theory to INSTEX necessitates an evaluation of whether the mechanism has established a coherent institutional framework capable of reducing transactional uncertainties, standardizing expectations, and facilitating cooperation among states under the constraints of international sanctions. The absence of universally accepted norms and enforcement procedures within INSTEX, coupled with its limited international recognition, raises critical questions regarding its classification as a regime in the theoretical sense (Young, 1989). Furthermore, regime theory underscores the significance of durability, institutional adaptability, and compliance mechanisms — elements that appear underdeveloped in the case of INSTEX.

Dependency theory offers a structural critique, emphasizing the hierarchical nature of the global financial system and the persistent asymmetries between core and periphery actors (Cardoso & Faletto, 1979; Wallerstein, 2004). From this theoretical perspective, INSTEX represents a regional attempt to resist hegemonic financial dominance, primarily that of the United States and dollar-based transactions, by establishing an alternative transaction platform. However, dependency theory also illustrates the constraints faced by peripheral or semi-peripheral actors in challenging established global financial norms. The limited operational scope of INSTEX and its failure to attract broader participation beyond Europe and Iran exemplify the structural barriers to breaking dependency cycles and creating autonomous financial mechanisms.

Institutionalism, both in its recent and historical variants, emphasizes the role of formal and informal institutional arrangements in enabling sustained cooperation and influencing state behavior (Keohane, 1984; March & Olsen, 1989). From an institutionalist perspective, the effectiveness of mechanisms such as INSTEX is contingent upon their capacity to build legitimacy, ensure transparency, and integrate into existing institutional architectures. The absence of such qualities within INSTEX including a lack of clear monitoring, dispute resolution mechanisms, and broad stakeholder engagement significantly undermines its ability to evolve into a robust institutional framework. Moreover, institutionalist theory highlights the importance of path dependence and institutional inertia, which may inhibit the adaptation of such mechanisms in response to shifting geopolitical dynamics.

By synthesizing these theoretical perspectives, this study aims to provide a comprehensive and multidimensional analysis of INSTEX, positioning it not merely as a policy instrument but as a case study that reflects broader debates on the viability of alternative financial architectures, the dynamics of regime formation, and the persistent structural constraints imposed by global financial dependency in the evolving international order.

4. Objectives, Challenges and Achievements of INSTEX

Theoretically, INSTEX was an example of the EU's attempt to create an independent financial mechanism from the U.S. However, due to the challenges it faced in practice, its impact remained limited.

The European Union's approach to US extraterritorial sanctions and the pursuit of peace in the Middle East is a reflection of its foreign policy priorities and values. The EU's commitment to a rules-based international order underpins its belief that sanctions should be based on UN Security Council resolutions, and that alternative measures such as dialogue and negotiation should be explored prior to resorting to unilateral action which may infringe upon the sovereignty of other nations. In line with this European perspective, the efforts made especially in the issues and areas where balance and security are needed have been to operate the policies working within the framework of the multilateral principle with appropriate instruments. In this context, the sensitivity on nuclear issues has come therefore. Action (JCPOA), multilateral agreement aimed at limiting Iran's nuclear program in exchange for the lifting of international sanctions. The EU has played a crucial role in negotiating the agreement and has consistently supported its implementation. However, the US's withdrawal from the JCPOA in 2018 and subsequent re-imposition of sanctions on Iran have put the future of the agreement in jeopardy. In response, the EU has sought to preserve the JCPOA and has been working with Iran, Russia, and China to keep the agreement alive. The EU has implemented measures such as the INSTEX, a financial mechanism designed to facilitate legitimate trade with Iran despite US sanctions. The EU continues to urge Iran to fully comply with its obligations under the JCPOA, while calling on the US to return to the agreement. The EU views the JCPOA as a critical achievement in the realm of non-proliferation and has underscored the importance of preserving it as a key pillar of the global rules-based order. The INSTEX mechanism is seen as a significant achievement of the European Union's international perspective and approach. An examination of INSTEX has revealed that it is established on important principles, norms, and rules, and contains notable findings from both a structural and ideological perspective within the framework of regime theory. This study particularly focuses on cross-border sanctions, international security and humanitarian factors, and international trade, especially in the context of oil-related relationships, as these components play a leading role in areas and problems that require a well-functioning regime. A balanced and consistent regime is necessary for the harmonious operation of these components.

To understand the weaknesses of INSTEX, it is crucial to compare it with similar alternative financial mechanisms. The table below summarizes how INSTEX differs from SWIFT, SPFS, CIPS, and BRICS payment systems. It is important to underline that China and Russia developed their own financial mechanisms instead of adopting INSTEX.

In order to grasp the limitations and eventual failure of the Instrument in Support of Trade Exchanges, it is essential to analyze it in relation to alternative financial mechanisms that serve similar or complementary functions. The increasing reliance on financial instruments beyond traditional banking systems has prompted the development of alternative payment infrastructures, particularly in response to geopolitical conflicts, economic sanctions, and efforts to reduce dependence on the United States dollar. These alternatives, including the Society for Worldwide Interbank Financial Telecommunication, the System for Transfer of Financial Messages, the Cross-Border Interbank Payment System, and the evolving BRICS payment framework, offer varied models for cross-border transactions, financial messaging, and economic sovereignty (Eichengreen, 2019).

A comparative analysis reveals that the European-led mechanism was conceived as a limited-purpose trade facilitation tool designed to shield European firms from the extraterritorial effects of United States secondary sanctions. Unlike the Society for Worldwide Interbank Financial Telecommunication, which serves as a universal financial messaging system used by over 11,000 banks in more than 200 countries, it functioned as

a closed-loop barter mechanism that attempted to bypass the conventional banking system by enabling trade without direct financial transactions (Geranmayeh & Batmanghelidj, 2019). This fundamental distinction severely restricted its scope, as global trade is inherently dependent on liquid, bank-based financial networks rather than restricted transactional models (Fayazmanesh, 2021).

By contrast, alternative financial systems developed by Russia and China reflect more comprehensive approaches aimed at reducing exposure to Western-dominated financial infrastructure. The System for Transfer of Financial Messages, established by Russia in 2014 following its annexation of Crimea and subsequent Western sanctions, was designed as an independent financial messaging network that operates domestically but has sought integration with other non-Western economies (Katzman, 2020). Similarly, China's Cross-Border Interbank Payment System, launched in 2015, facilitates yuan-denominated transactions and is increasingly viewed as part of China's long-term strategy to internationalize its currency while decreasing reliance on dollar-based payment channels (Nephew, 2020).

In a broader multilateral context, the BRICS countries have discussed the development of a joint financial infrastructure aimed at facilitating transactions among member states while bypassing Western-controlled payment systems (Eichengreen, 2019). Unlike the European mechanism, which remained confined to humanitarian trade, the BRICS payment initiative is envisioned as a geopolitical instrument that can foster economic integration among emerging economies while reducing dependence on the dollar (Fayazmanesh, 2021).

The following table presents a comparative analysis of these financial mechanisms, highlighting their key operational differences, objectives, and limitations:

While the initiative represented a European effort toward financial sovereignty, its structural limitations, combined with the dominance of the United States in global finance, significantly constrained its effectiveness (Katzman, 2020). In contrast, the Russian and Chinese alternatives, despite their limitations, provide more viable models for long-term financial independence from Western-controlled infrastructure. The BRICS initiative remains an evolving concept, but its potential to challenge the United States dollar's dominance suggests that multilateral financial solutions require broader institutional support, economic integration, and sustained political commitment (Geranmayeh & Batmanghelidj, 2019).

Core Determinants of Success

One of the key achievements of INSTEX (Instrument in Support of Trade Exchanges) was the European Union's proactive effort to establish an alternative payment mechanism to facilitate legitimate trade with Iran. This initiative reflected the EU's strategic commitment to uphold the Joint Comprehensive Plan of Action (JCPOA) and to shield European economic actors from the extraterritorial reach of U.S. sanctions. By introducing INSTEX, the EU aimed to assert a degree of financial and diplomatic autonomy in the face of growing geopolitical pressures.

Moreover, INSTEX served as a catalyst for broader discussions about the future of the international financial system. It opened new debates on the need for multilateral mechanisms that could reduce the dominance of the U.S. dollar and promote alternative channels of trade finance that are more compatible with a multipolar global order. Even though its operational success was limited, INSTEX represented an innovative attempt to translate multilateral political intentions into concrete institutional arrangement

Essence of Failure

Despite its promising goals, INSTEX encountered several critical obstacles that severely limited its effectiveness. The primary reason for its failure was the widespread reluctance of European companies and financial institutions to engage with the mechanism. This hesitation was largely due to the threat of U.S. secondary sanctions, which posed significant legal and financial risks to any entity doing business with Iran,

even through a European-sponsored channel. As a result, the mechanism remained underutilized and symbolically constrained.

In addition, INSTEX's scope was restricted exclusively to humanitarian trade—mainly food, medicine, and medical equipment—which did not align with Iran's broader economic expectations. From the Iranian perspective, the mechanism failed to deliver the promised economic benefits of the JCPOA, especially in sectors like oil exports and broader industrial goods. The lack of a complementary Iranian mechanism that was fully operational, and the slow bureaucratic processes on both sides, further undermined confidence in INSTEX's functionality.

5. INSTEX and Alternative Mechanisms: Comparative Analysis

To understand the weaknesses of INSTEX, it is crucial to compare it with similar alternative financial mechanisms. The table below summarizes how INSTEX differs from SWIFT, SPFS, CIPS, and BRICS payment systems.

To fully grasp the limitations and eventual failure of the Instrument in Support of Trade Exchanges, it is essential to analyze it in relation to alternative financial mechanisms that serve similar or complementary functions. The increasing reliance on financial instruments beyond traditional banking systems has prompted the development of alternative payment infrastructures, particularly in response to geopolitical conflicts, economic sanctions, and efforts to reduce dependence on the United States dollar. These alternatives, including the Society for Worldwide Interbank Financial Telecommunication, the System for Transfer of Financial Messages, the Cross-Border Interbank Payment System, and the evolving BRICS payment framework, offer varied models for cross-border transactions, financial messaging, and economic sovereignty (Eichengreen, 2019).

A comparative analysis reveals that the European-led mechanism was conceived as a limited-purpose trade facilitation tool designed to shield European firms from the extraterritorial effects of United States secondary sanctions. Unlike the Society for Worldwide Interbank Financial Telecommunication, which serves as a universal financial messaging system used by over 11,000 banks in more than 200 countries, it functioned as a closed-loop barter mechanism that attempted to bypass the conventional banking system by enabling trade without direct financial transactions (Geranmayeh & Batmanghelidj, 2019). This fundamental distinction severely restricted its scope, as global trade is inherently dependent on liquid, bank-based financial networks rather than restricted transactional models (Fayazmanesh, 2021).

By contrast, alternative financial systems developed by Russia and China reflect more comprehensive approaches aimed at reducing exposure to Western-dominated financial infrastructure. The System for Transfer of Financial Messages, established by Russia in 2014 following its annexation of Crimea and subsequent Western sanctions, was designed as an independent financial messaging network that operates domestically but has sought integration with other non-Western economies (Katzman, 2020). Similarly, China's Cross-Border Interbank Payment System, launched in 2015, facilitates yuan-denominated transactions and is increasingly viewed as part of China's long-term strategy to internationalize its currency while decreasing reliance on dollar-based payment channels (Nephew, 2020).

In a broader multilateral context, the BRICS countries have discussed the development of a joint financial infrastructure aimed at facilitating transactions among member states while bypassing Western-controlled payment systems (Eichengreen, 2019). Unlike the European mechanism, which remained confined to humanitarian trade, the BRICS payment initiative is envisioned as a geopolitical instrument that can foster economic integration among emerging economies while reducing dependence on the dollar (Fayazmanesh, 2021).

The following table presents a comparative analysis of these financial mechanisms, highlighting their key operational differences, objectives, and limitations:

While the initiative represented a European effort toward financial sovereignty, its structural limitations, combined with the dominance of the United States in global finance, significantly constrained its effectiveness (Katzman, 2020). In contrast, the Russian and Chinese alternatives, despite their limitations, provide more viable models for long-term financial independence from Western-controlled infrastructure. The BRICS initiative remains an evolving concept, but its potential to challenge the United States dollar's dominance suggests that multilateral financial solutions require broader institutional support, economic integration, and sustained political commitment (Geranmayeh & Batmanghelidj, 2019).



Figure 2. Problem Determination

6. Future Implications of INSTEX in the Global Financial System

When the historical process related to sanctions and the sample states subjected to these sanctions are considered, it is obvious that there is a system in which five dynamics are the factors in general. This functioning system is an ongoing process that disrupts many principles such as security, equality, humanity in the international arena and leads to inconsistency.

Within the scope of this section, considering the history and character of the examples evaluated beyond the Iran case, it can be argued that 5 important main factors which are oil, extraterritorial, security, trade and humanitarian determine the area that is experienced and in need of a solution. The five factors depicted in the figure above are the components of the balance that will be achieved through the given international arena. These five factors can also be regarded as five pillars. In the areas where INSTEX and similar mechanisms are needed, the most important factors affecting the behavior patterns of the relevant actors are safety and oil. In countries and regions that have sensitive security issues, systems must cover the provision of humanitarian goods and services, even where there is no opportunity to trade.

INSTEX has the potential to serve as an important tool in facilitating financial and commercial transactions among countries facing similar sanction pressures. By providing a secure and transparent platform, it can help mitigate the economic and humanitarian impacts of sanctions. However, the success of the mechanism will depend on a variety of factors, including the level of international support, the willingness of the involved countries to participate, and the political and economic conditions surrounding its implementation. The fundamental problem that INSTEX or similar regime-based mechanisms to be established in the future are expected to address in the international arena can be conceptualized through five interrelated components: security challenges arising from oil-driven conflicts, the transformation of subsequent sanctions into trade wars, the emergence of extraterritorial effects, the undermining of national rights within these conflicts, and the humanitarian suffering that becomes evident even in access to fundamental needs. Collectively, these elements constitute a gradual and multidimensional definition of the given area of concern. It is within this given area that mechanisms such as INSTEX hold the potential to offer multilateral solutions.

7. Structural and Legal Limitations

INSTEX was conceptualized as a barter-based Special Purpose Vehicle (SPV), created with the intention of facilitating legitimate trade between European entities and Iran in the face of comprehensive U.S. secondary sanctions. Its operational design was deliberately limited to transactions in humanitarian goods, including food, pharmaceuticals, and medical equipment, in accordance with existing international exemptions. This cautious and constrained scope reflected both political prudence and legal necessity; however, it ultimately became one of the most significant structural weaknesses undermining INSTEX's viability as a long-term financial mechanism (Geranmayeh & Batmanghelidj, 2019).

In contrast to comprehensive financial infrastructures such as Russia's System for Transfer of Financial Messages (SPFS) and China's Cross-Border Interbank Payment System (CIPS), INSTEX never evolved beyond a rudimentary trade facilitation tool. The SPFS and CIPS systems were not only designed to replace the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in times of geopolitical tension but also to ensure liquidity and operational autonomy for participating financial institutions (Eichengreen, 2019; Katzman, 2020). Both platforms have aimed to offer robust technical capacity, currency settlement options, and scalability to regional and global actors. In contrast, INSTEX lacked these critical characteristics and operated more as a political gesture rather than a functional alternative mechanism. Its failure to generate trust and confidence among market participants can be attributed to the absence of transactional fluidity and the inability to scale beyond small, politically symbolic exchanges (Fayazmanesh, 2021).

A crucial limitation was the mechanism's inability to secure widespread participation from European financial institutions. This reluctance was predominantly driven by fears of U.S. extraterritorial enforcement actions and the potential repercussions for any entity that might be perceived as circumventing sanctions. The dominance of the U.S. dollar and the central role of American financial institutions in global trade settlement networks amplified these concerns. The extensive reach of U.S. financial jurisdiction, coupled with previous high-profile penalty cases — such as the \$8.9 billion fine imposed on BNP Paribas in 2014 for sanctions violations — served as cautionary precedents that disincentivized European banks from engaging with INSTEX (Nephew, 2020).

Furthermore, the lack of an independent financial infrastructure rendered INSTEX structurally incapable of offering more complex financial services, such as credit lines, trade financing, and currency clearing. This technical and institutional deficiency left INSTEX limited to facilitating reciprocal barter transactions rather than enabling fluid financial flows. The rigid, bureaucratic structure of the mechanism proved incompatible with the dynamic needs of international trade, where speed, liquidity, and trust in financial systems are paramount (Eichengreen, 2019).

In comparison, both SPFS and CIPS have benefited from state-backed institutional support and long-term strategies aimed at reducing reliance on the U.S.-controlled financial ecosystem. The BRICS initiative, although still in developmental stages, similarly aims to create a multilateral financial architecture that can challenge dollar hegemony and promote financial sovereignty among emerging economies (Geranmayeh & Batmanghelidj, 2019). INSTEX, however, lacked both the institutional resilience and the strategic foresight required to function as a credible long-term financial tool. Its conception as a reactive political measure rather than a proactive economic solution constrained its evolution into a fully operational and autonomous financial mechanism.

In essence, the INSTEX model exposed the structural vulnerabilities of Europe's efforts to establish financial sovereignty in the face of U.S. extraterritorial sanctions. Its operational dependence on narrow humanitarian channels, coupled with institutional hesitation and banking sector withdrawal, confirmed its role as a political symbol rather than a functional regime mechanism. This outcome underscores the complexities of attempting to build alternative financial frameworks without cohesive institutional

backing, systemic liquidity provision, and the political resolve to withstand geopolitical pressure.

8. Political and Geopolitical Challenges

INSTEX was politically tied to Europe's strategic autonomy and its ability to conduct trade independently from U.S. economic influence. However, internal European divisions, compliance hesitations, and the lack of a broader international coalition restricted its effectiveness. The Iranian government viewed the mechanism as a symbolic gesture rather than a substantive economic tool, as it failed to facilitate significant trade beyond humanitarian goods. Iran's dissatisfaction with European commitments under the JCPOA led to increased tensions, further reducing INSTEX's potential impact.

The creation and operationalization of INSTEX unfolded within a highly complex political and geopolitical environment. While the mechanism was established with the intention of safeguarding European strategic autonomy and preserving multilateral diplomacy in the face of United States extraterritorial sanctions (Geranmayeh & Batmanghelidj, 2019), it became evident that political fragmentation within Europe, transatlantic tensions, and the broader global geopolitical landscape presented substantial obstacles to its functionality.

First, intra-European political divergences significantly limited the unified support required for INSTEX to evolve from a political declaration into a robust institutional tool. Although the E3 (France, Germany, and the United Kingdom) demonstrated the initial political will, several EU member states displayed reluctance, reflecting both divergent foreign policy preferences and differing levels of risk tolerance regarding potential repercussions from the United States (Geranmayeh & Batmanghelidj, 2019). This fragmentation weakened Europe's collective bargaining power and diluted the mechanism's political credibility.

Second, the geopolitical pressure exerted by the United States through the consistent application of secondary sanctions represented a structural constraint. The U.S. leveraged its dominant position in the global financial system, deterring not only private European companies but also European financial institutions and regulatory bodies from participating in or supporting INSTEX (Nephew, 2020). This geopolitical asymmetry exposed the vulnerabilities of Europe's financial and political autonomy, particularly in the absence of countervailing strategic tools or alternative financial infrastructures capable of operating beyond U.S. jurisdiction (Eichengreen, 2019).

Third, geopolitical alignment challenges extended beyond Europe-U.S. relations. While INSTEX was envisioned as a multilateral initiative with potential for global expansion, efforts to incorporate additional international partners, including China, Russia, and other major economies, failed to materialize (Kirshner, 2014). These states, despite sharing concerns about U.S. sanctions overreach, prioritized their own geopolitical calculations and existing financial channels over participation in a European-led mechanism. Consequently, INSTEX remained confined to a limited regional scope, lacking the critical mass and political backing required to challenge the global dominance of the dollar-based financial system.

Fourth, the Iranian government's perception of INSTEX added an additional layer of political complexity. From Tehran's perspective, the mechanism represented insufficient political commitment by the European side to uphold JCPOA obligations (Alcaro, 2021). The limited scope of transactions—restricted to humanitarian goods—fueled the perception that Europe's response to U.S. withdrawal from the nuclear deal was symbolic rather than substantive. This perception led to political mistrust and, in turn, Iranian measures to reduce compliance with JCPOA commitments, further exacerbating geopolitical instability in the region and undermining the very conditions required for INSTEX's success.

Besides, the geopolitical instability caused by shifting alliances and emerging rivalries within the global order further constrained INSTEX's viability. The growing

polarization between the United States and China, the reassertion of Russian geopolitical ambitions, and the weakening of traditional multilateral institutions contributed to a strategic environment in which Europe's ability to operate independent financial structures was severely restricted. The absence of a coherent European security and foreign policy posture vis-à-vis these powers, combined with dependence on the U.S. security umbrella, further limited Europe's capacity to challenge American dominance in the international financial system (Posen, 2018).

In conclusion, the failure of INSTEX cannot be understood solely through the lens of technical or economic shortcomings. Instead, it reveals the multidimensional political and geopolitical challenges inherent in establishing alternative financial mechanisms in an international order dominated by asymmetrical power structures. These challenges include intra-European fragmentation, U.S. economic coercion, limited global coalition-building, deteriorating trust with intended partner states, and the strategic rigidity imposed by an increasingly polarized international system. INSTEX serves as a case study illustrating the structural constraints on European strategic autonomy and the limits of multilateral economic diplomacy in an era of contested hegemony.

9. Comparison with Other Sanctioned States: The North Korea Case

Beyond the Iran case the hypothetical applicability of a similar special-purpose financial mechanism to the case of North Korea, another state subjected to comprehensive international sanctions. While INSTEX was conceptualized as a multilateral instrument designed to enhance trade resilience and maintain European economic engagement with Iran under extraterritorial U.S. sanctions, its operational shortcomings raise critical doubts regarding the feasibility of replicating such a mechanism for North Korea. The distinct geopolitical and structural conditions surrounding North Korea render the adaptation of INSTEX-like models even less practicable.

North Korea's over nuclear weapons program, repeated missile tests, and persistent defiance of international non-proliferation norms differentiate it fundamentally from Iran, which, despite facing allegations of nuclear proliferation, has at various points engaged in structured diplomatic frameworks such as the Joint Comprehensive Plan of Action (JCPOA). In contrast, Pyongyang has demonstrated limited willingness to participate in sustained multilateral diplomacy, and its international posture remains one of deliberate isolation (Myong-Hyun, 2013; Arms Control Association, 2022). This absence of established formal engagement mechanisms between North Korea and European institutions significantly undermines the prospect of constructing a dedicated financial channel akin to INSTEX.

Moreover, North Korea's economic architecture is heavily dependent on China, both as a trade partner and a geopolitical patron, thereby limiting the effectiveness of European economic initiatives in influencing Pyongyang's behavior or circumventing sanctions regimes (CFR, n.d.). The presence of U.N.-mandated sanctions with near-universal endorsement further exacerbates these constraints, leaving little room for alternative trade facilitation structures to operate without violating international law.

Finally, while INSTEX struggled due to political hesitation, lack of banking sector participation, and U.S. secondary sanctions pressure, these factors would likely be amplified in the North Korean context. The absence of reliable institutional frameworks, combined with the regime's opaque financial practices and historical engagement in illicit networks, would deter international financial institutions from participating in any analogous mechanism (Harnisch, 2002; The Atlantic, 2017). Therefore, while theoretically interesting, the replication of INSTEX for North Korea is rendered highly improbable due to both structural and normative limitations.

10. The Liquidation of INSTEX and Broader Lessons

By early 2023, INSTEX was formally dissolved after prolonged dormancy. European stakeholders cited Iran's unwillingness to cooperate and the absence of major financial institutions as key reasons for its termination. Iran, in contrast, blamed European inaction and a lack of political will. The failure of INSTEX underscores the structural limitations of European financial sovereignty and the difficulty of countering U.S. secondary sanctions without a robust, multilateral alternative.

While calls for alternative global financial systems continue, INSTEX's failure highlights the significant obstacles to breaking away from the U.S.-centric financial order. The development of truly multilateral financial mechanisms, such as those proposed by BRICS, will require stronger institutional backing, broader global participation, and deeper financial integration beyond barter-based models.

Although INSTEX represented a politically significant initiative, it ultimately proved economically ineffective due to its lack of liquidity, insufficient banking support, and limited operational scalability. Despite European efforts to establish an alternative financial channel, U.S. secondary sanctions have continued to shape global financial behavior, severely constraining the mechanism's effectiveness. Iran's dissatisfaction with INSTEX further compounded its failure, as the mechanism fell short of Tehran's expectations for comprehensive economic relief. When compared to the North Korean case, the heightened challenges of implementing such mechanisms under more stringent sanctions become even more apparent. The failure of INSTEX thus raises critical questions regarding the feasibility of achieving European financial autonomy and the viability of multilateral financial alternatives amid persistent external pressures.

11. Conclusion

The European Union has committed to the principle of effective multilateralism as a core principle of its foreign policy. Effective multilateralism is defined as "the process of achieving international goals through cooperation and the pooling of resources, with the involvement of all relevant actors, including states, international organizations, civil society, and the private sector" (European Commission, 2007, p. 3). This principle reflects the EU's belief in the importance of a rule-based international order, in which global challenges are tackled through collective action and cooperation. In addition to effective multilateralism, the EU's foreign policy is guided by a set of norms and principles, including respect for human rights, democracy, and the rule of law (European Commission, 2016). These norms are considered fundamental to the EU's identity and are reflected in its engagement with third countries and international organizations. The EU's commitment to these principles and norms is evidenced by the development of various policy instruments, such as the European Neighborhood Policy and the EU Global Strategy, which aim to promote stability, security, and prosperity in the EU's neighborhood and beyond (European Commission, 2015). INSTEX was conceived as a multilateral and balancing instrument aligned with the European Union's foreign policy perspective, reflecting its commitment to effective multilateralism, rule-based international order, and normative diplomacy.

This paper examines the INSTEX mechanism beyond its initial application to Iran. It explores the European Union's historical perspective and provides an overview of secondary sanctions, focusing on challenges faced by sanction-affected countries, particularly in the Middle East and Gulf regions. The analysis is grounded in regime theory, offering an objective understanding of SPVs. The study portrays INSTEX as an efficient mechanism embodying key regime elements. It argues that INSTEX, independent of Iran, can operate effectively within the international system based on established norms and principles. Such a mechanism can help the EU sustain economic relations with third countries while circumventing extraterritorial sanctions. It also supports the EU's commitment to multilateralism, free trade, humanitarian concerns, and nuclear security.

Implementing mechanisms like INSTEX contributes to upholding a rules-based international order and promoting regional stability and prosperity. By providing secure and transparent channels, INSTEX may mitigate sanctions' adverse effects on economies and citizens. However, its success depends on international support, participation, affected countries' willingness, and the prevailing political and economic context.

It is not possible to claim that the INSTEX mechanism is a flawless design and operates perfectly, but it is undeniable that it is an important phenomenon in the history of international relations. Despite the limited resources and expertise dedicated to this topic, this study approaches the issue as a case, providing a detailed examination of INSTEX from its inception to its conclusion. The key findings underscore the crucial role of the INSTEX mechanism in addressing the challenges posed by secondary sanctions with transboundary effects.

Meanwhile it is manifested that multilateral instruments are fundamental and crucial actors in international field and diplomacy with this investigation. The article underscores the fundamental and pivotal role of multilateral instruments in the realm of international affairs and diplomacy. The analysis illuminates the significance of collaborative mechanisms like INSTEX, revealing their capacity to shape and influence global interactions, policies, and diplomatic strategies. Through this point of view, the study reaffirms the indispensability of multilateral frameworks as central actors in navigating complex international dynamics and advancing cooperative solutions to intricate global challenges.

This analytical framework presents a valuable contribution to the existing body of knowledge, potentially yielding fresh insights into the design, functioning, and implications of INSTEX, enriching the discourse within the realms of international relations and regime theory. However, there are concerns that the INSTEX mechanism may not be able to fully ensure this principle, given the reluctance of some member countries to engage in trade with Iran due to fear of retribution from the United States. The operational and political limitations of INSTEX were largely due to the reluctance of member states and companies to circumvent the US sanctions regime. The US has taken a hardline stance on imposing sanctions against Iran and has actively sought to enforce compliance from other countries due to beliefs that may pose a significant risk for countries and companies looking to engage in trade with Iran, as they may face the threat of retaliatory sanctions. Furthermore, institutions such as SWIFT, which provide access to the US financial system, also serve as a powerful deterrent to companies looking to trade with Iran. In order to overcome these obstacles and enable the successful operation of INSTEX, it was crucial that member states demonstrate a strong political will to resist US sanctions and pursue alternative means of conducting trade with Iran.

When assessed within the broader category of Special Purpose Vehicles, INSTEX represents a notable deviation from conventional financial instruments. Unlike traditional SPVs typically designed for risk management, investment efficiency, or regulatory purposes INSTEX emerged as a politically driven and normatively charged mechanism. It was primarily aimed at facilitating humanitarian trade with Iran while circumventing U.S. secondary sanctions. Crucially, one of its strategic intentions was to preserve the Joint Comprehensive Plan of Action by offering Iran limited but symbolically significant economic engagement with Europe, despite the reimposition of U.S. sanctions. However, INSTEX faced critical operational challenges, including limited liquidity, insufficient banking participation, and weak institutional support. These shortcomings underscored the difficulty of deploying a financial vehicle in a highly politicized international environment without broader multilateral backing or effective shielding from dominant global financial structures. Thus, INSTEX stands as an example of an SPV redefined not merely as a financial tool, but as an instrument of diplomatic signaling and geopolitical resistance. For future researchers studying SPVs, this case highlights the need to move beyond purely financial and legal frameworks. It calls for an interdisciplinary approach that incorporates international political economy, sanctions regimes, multilateral

diplomacy, and institutional design. INSTEX reveals that the effectiveness of SPVs in politically charged contexts depends as much on strategic alignment and international legitimacy as on their technical and regulatory architecture. This insight is crucial for understanding how SPVs can evolve as tools of economic statecraft in an increasingly fragmented global order. Furthermore, the article serves as a functional example demonstrating the analytical capacity and explanatory efficacy of regime theory in interpreting and understanding emerging entities like INSTEX within the political arena. Advocating for a united front against secondary sanctions with cross-border ramifications, the study highlights the importance of fostering shared norms and regulations. This approach not only underscores the potential of such mechanisms to mitigate the adverse effects of sanctions but also paves the way for a more effective implementation of initiatives like INSTEX.

References

- Alcaro, R. (2021). Europe's Defence of the Iran Nuclear Deal: Less than a Success, more than a Failure. *The International Spectator*, 56(1), 55–72. <https://doi.org/10.1080/03932729.2021.1876861>
- Cardoso, F. H., & Faletto, E. (1979). *Dependency and development in Latin America*. University of California Press.
- Eichengreen, B. (2019). *Globalizing capital: A history of the international monetary system*. Princeton University Press.
- Fayazmanesh, S. (2021). *The United States and Iran: Sanctions, wars and the policy of dual containment*. Routledge.
- Geranmayeh, E., & Batmanghelidj, E. (2019). Trading with Iran via the special purpose vehicle: How it can work. European Council on Foreign Relations (ECFR). Retrieved from.
- Katzman, K. (2020). Iran sanctions: Congressional research service report. Congressional Research Service.
- Keohane, R. O. (1984). *After hegemony: Cooperation and discord in the world political economy*. Princeton University Press.
- Krasner, S. D. (1982). Structural causes and regime consequences: Regimes as intervening variables. *International Organization*, 36(2), 185–205.
- Kirshner, J. (2014). *Currency and coercion: The political economy of international monetary power*. Princeton University Press.
- March, J. G., & Olsen, J. P. (1989). *Rediscovering institutions: The organizational basis of politics*. Free Press.
- Nephew, R. (2020). *The art of sanctions: A view from the field*. Columbia University Press.
- Posen, B. (2018). The rise of illiberal hegemony: Trump's surprising grand strategy. *Foreign Affairs*, 97(2), 20–27.
- Wallerstein, I. (2004). *World-systems analysis: An introduction*. Duke University Press.
- Young, O. R. (1989). *International cooperation: Building regimes for natural resources and the environment*. Cornell University Press.

Conflict of Interest: None.

Funding: None.

Ethical Approval: None.

Author Contributions: Bahar AKIN (%100)

Çıkar Çatışması: Yoktur.

Finansal Destek: Yoktur.

Etik Onay: Yoktur.

Yazar Katkısı: Bahar AKIN (100%)
