

## Iranian Economy and the US Sanctions

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### Abstract

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*Iran- US relations have a long history with several ups and downs. The current US sanctions are the latest episode. In this paper we briefly look at challenges of Iranian economy that resulted in 1979 Revolution. The role of US in this process will be examined. The main part of paper is about consequences of these sanctions. Paper concludes with some suggested way for the two sides to end hostility.*

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### I- Early History of Iran-US relations

Iran's 19 century history is dominated by a conflict between two major powers of the time; England, and Tsari Russia.<sup>1</sup> The pressure southward towards Persian Gulf by Russians and the counter in the South by British kept Iran formally an independent country that was never colonialized but in effect it was dominated by these powers. With the Bolshevik Revolution Russia, at least for a short while, left the scene. British attempt to completely colonialize Iran backfired<sup>2</sup> and contributed to a sense of nationalism. This, along the Constitutional Revolution of 1907 contributed to major changes, including beginning, in earnest, of modernization of Iranian economy, and society. A south-north railway, a number of modern factories and financial institutions paved the way for economic development.

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<sup>1</sup> England, the hegemonic power at the time, was keen to prevent its rivals, including Russia, to have access to India, its colonial golden goose. Also, control of trade routes between Europe and India and China required its presence in the Persian Gulf area. Later, in early 20<sup>th</sup> century, discovery of oil in the region added another major incentive for its dominance of the region. Russia, although the largest country in the world, was (is) practically a landlocked country. The northern waterways are mostly frozen. The port of Vladivostok in the east is 4000 miles away. Black Sea and Mediterranean are two “lakes” controlled by Russia’s rivals. Black Sea connection to the Mediterranean Sea was controlled by Othman Empire. Entrance to Mediterranean Sea either through Suez Canal or strait of Gibraltar was controlled by England at the time. Russia's best hope, as Peter the Great had suggested, was the “warm waters of the Persian Gulf. In early 19<sup>th</sup> Century, through several wars know as Russo-Persian wars, Iran had lost its northern territories, and had made a number of concessions to Moscow. (See Hunczak, Taras; Kohn, Hans, eds. (2000). **Russian Imperialism from Ivan the Great to the Revolution** (2 ed.). University Press of America. p. 250. [ISBN 978-0761817086](https://www.amazon.com/dp/0761817086).

England on the other hand, had practically occupied southern Iran and northern coasts of the Persian Gulf. (see *Persia and the Persian Question*, Vol. I London. Frank Cass and Co. Ltd. 1966.

<sup>2</sup> **ANGLO-PERSIAN AGREEMENT OF 1919** – Encyclopaedia Iranica : [www.iranicaonline.org/articles/anglo-persian-agreement-1919](http://www.iranicaonline.org/articles/anglo-persian-agreement-1919)

Modern Judiciary and educational system drastically reduced the role of clergy and religious institution. Iran's move towards modern economy and secular society was not, however, accompanied by political freedom (free press, modern civil society, political parties, free elections, and so on).

Despite its declared neutrality, Iran was invaded by Soviet Union from the north and British and Americans from the south during the Second World War. Its railroad systems and ports were utilized to send troops, weapons and logistics to the Eastern Front against Nazi Germany. This was so critical that in their summit in Tehran in 1943 Roosevelt, Churchill, and Stalin dubbed Iran "the Bridge to Victory"<sup>3</sup> They promised to withdraw their forces after the war was over and compensate Iran financially. Americans and British did, Soviet Union, however, did not withdraw and kept northwestern Iran under occupation. Only after a UN resolution, pushed by the US, Soviets complied<sup>4</sup>. This, and lack of a colonial history viz-a viz Iran, gave the US a rather positive image among most Iranians.

All of these changed by 1950s. Us, emerging from WWII as the hegemonic power, started to meddle in affairs of many more countries. In Iran, the democratically elected prime minister Mohammad Mosaddeq, wanted to pursue an independent foreign policy, including selling Iranian oil in open markets. The "Seven Sisters" oil cartel, of which BP was a member, were controlling global oil markets and opposed Mosaddeq's attempt. Iran could not sell a barrel of oil for 2 years. In the end the Eisenhower administration, pressured by oil companies, British government, and new mindset of "if not with us, you are against us" of Dulles brothers (John, the secretary of state, and Allen the head of CIA) helped to organize a coup that overthrew Mosaddeq<sup>5</sup> and brought the Shah (monarch) back from exile. This was beginning of a twenty five years process that made Iranian regime under the Shah a close ally and partner of the US in the region<sup>6</sup>.

## II- Causes of the 1979 Revolution

The 1979 Revolution was not primarily "anti-American" though US was severely criticized for arranging the 1953 Coup and its subsequent support for Shah's regime and its suppressive and authoritarian reign for almost a quarter of a century. The Revolution was not "Islamic" (in terms of its demand) either. It became both in a brutal process that took a few years and thousands of executions of dissidents; suppression of all opposition forces, and changing of the newly minted constitution in order to give the "Supreme Leader" powers that an absolute monarch would have dreamed of.

To understand real causes, and original demands of the 1979 Revolution one must know about evolution of Iranian society, economy and polity in the 20<sup>th</sup> Century. With discovery of oil in 1906 suddenly the state had a source of revenue that was much more than taxes collected. This was beginning of Iran becoming an "state capitalism" with Dutch Disease.<sup>7</sup> There were positive and negative consequences.

### A- Economic issues

The positive aspect was that "primitive accumulation" became less painful. State invested some of the oil revenues in infra-structures such as roads, tele-communication, and even basic industries that are needed for moving from a pre-modern, subsistence economy to an industrial or semi-industrial one. These sectors, and "public goods"<sup>8</sup> in general, while needed, are not profitable.

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<sup>3</sup> **Iran Under Allied Occupation In World War II: The Bridge to Victory & A Land of Famine**  
BY MOHAMMAD GHOLI MAJD UNIVERSITY PRESS OF AMERICA 2016.

<sup>4</sup> Same source.

<sup>5</sup> For a detailed account see Ervand Abrahamian; **Iran Between Two Revolutions** (Princeton Studies on the Near East) 1982.

<sup>6</sup> Frenemies: Iran and America since 1900 | Origins: Current Events in <https://origins.osu.edu/article/frenemies-iran-and-america-1900>

<sup>7</sup> Dutch disease is an economic term for the negative consequences that can arise from a spike in the value of a nation's currency. It is primarily associated with the new discovery or exploitation of a valuable natural resource and the unexpected repercussions that such a discovery can have on the overall economy of a nation. <https://www.investopedia.com/terms/d/dutchdisease.asp>

<sup>8</sup> A public good is a product that one individual can consume without reducing its availability to others and from which no one is deprived. Examples of public goods include law enforcement, national defense, sewer systems,

Thus “market mechanism” which operates based on profitability will not produce (enough of) them. In most cases the “primitive accumulation” has happened via policy measure forced by the state, in favor of capital and against labor. Mercantilist policies of 17<sup>th</sup> Century England in protecting capital both internally against British workers, and externally at the expense of people of colonial lands is the classic example, but by no means the only one. Historically such policies have been more of a rule than exception. 1970s South Korean “garrison factories” and Chaebols (large, usually family-owned business group) are a more recent example. Case of China, a state capitalism without Dutch Disease, thus relying on “blood, sweat and tears” of workers for “primitive accumulation,” is another major recent example.

Decades of oil revenue enabled Iran to avoid some of this pain. But it created some other major problems. One is that ties with the state apparatus (holder of oil revenues) becomes the main criterion for funding a project, not the need for or efficient production of it. The recipients of subsidies (direct funds, foreign currency below market price, cheap energy for production, high import tariffs on similar foreign made products...) are very inefficient and produce low quality products. This also opens the door for high levels of corruptions, bribery, and nepotism. Under the Shah it was the royal family who benefited from this situation, as is today the case in Saudi Arabia, UAE, Qatar, and Kuwait.

In the early stages of a capitalist economic development, where market mechanism is weak and “private sector” almost non-existent, this oversized role of state in economic decision making is tolerated, and arguably, needed. As economy grows and market and private sector gains strength, state’s role must shift from a direct producer to a regulator of market activities.<sup>9</sup>

To the extent that the 1979 Revolution had an economic demand, it was against the over-sized economic role of state, particularly that of royal family and their allies. Iranian economy had been witnessing high rate of growth for some years in the 60’s and 70s. With the quadrupling of OPEC oil prices in 1973-4 a huge sum of money entered Iranian economy the increased the gap between “haves and have nots.” It would have been reasonable to expect after the revolution a reduced direct involvement of state in production and a shift towards “regulation.” But the opposite happened. Islamic republic inherited all state-owned enterprises of the previous regime plus a lot more. A number of “private sector” captains of industry, most of them highly connected to the Shah’s regime, ran away and left their businesses behind. These fell into the laps of the new regime and made state even more involved in the economy. A severe shortage of qualified managers with necessary expertise to run these enterprises made things even worse. The Iran-Iraq war of 1980-88 forced a “war economy” with rations and coupons. This further increased role of state. The subsequent “privatization” policies gave these state-owned enterprises to individuals, and more so, “Revolutionary” entities connected to the regime. Offices and foundations related to the Supreme Leader, religion-based fiefdoms and institution, Revolutionary Guards and other military and security units, new “nomenclature” (children of high-ranking officials and the clergy) were benefactors of these “privatizations”. Some have referred to this as a mafia type network, with little to no supervision by the government and official regulatory agencies such as the Central bank<sup>10</sup>. Those benefiting from these murky conditions are powerful enough to prevent joining FATF, which is a must for any Economy that wants to be engaged in global trade and finance<sup>11</sup>. It is not unreasonable to say these structural problems are more of an impediment to a healthy economy than sanctions. With or without sanctions Iranian economy, a corrupt state capitalism, will not prosper without major structural changes that include restructuring state-economy relations; by breaking up the hold of nomenklatura, and increasing transparency and reigning down the “quasi-state” autonomous institutions.

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and public parks. As those examples reveal, public goods are almost always publicly financed.  
<https://www.investopedia.com/terms/p/public-good.asp>

<sup>9</sup> See Ghorashi, Reza in Economic globalization and the prospects for democracy in Iran, Taylor and Francis 2003 <https://www.taylorfrancis.com/books/e/9780203221013/.../10.../9780203221013-14>

<sup>10</sup> See for example Mahdavi Sh, Can the Vienna Agreement Solve Iran's Problems? By SH Mahdavi, Brandeis University: <https://www.brandeis.edu/crown/publications/meb/MEB96.pdf>, 2016.

<sup>11</sup> For more information see Ghorashi, Reza, Iran's Post-Sanction Economic challenges, American International Journal of Humanities and Social Science Vol. 2 No. 1; February 2016, [aijhss.cgrd.org/images/Vol2No1/3.pdf](http://aijhss.cgrd.org/images/Vol2No1/3.pdf)

## B- Democracy

Another major shortcoming of state capitalism is lack of incentive for democracy. The “no taxation without representation” does not apply here. State does not rely upon capitalist class. Indeed, with the presence of Dutch Disease, it is the other way around, as was pointed out above. While Iran took major steps towards economic modernization and social tolerance and secular values, there was little to no political freedom and democracy under close to 50 years of Pahlavi dynasty, except for the few years of Mosaddeq era.

The 1979 Revolution’s main demand was political freedom. For a few months after the revolution Iran was one of the most open and democratic societies in the world. But gradually it was realized that in order to have a democratic society it is not enough to overthrow the tyrant. You need an advanced civil society to prevent democracy becoming tyranny of majority. There was practically no civil society independent from the regime, under shah. Only religious institutions (such as mosques) were tolerated as far as they were pro regime, or apolitical. The vacuum of lack of civil society institutions was picked up by these groups during the revolution<sup>12</sup>. Few months afterward they moved to consolidate their power, sometimes brutally and via bloodshed, and the process of “Islamizing” the society began.

## C- Iran US Relations After the Revolution

Despite widespread blame of the US for its support of the Shah, mostly from the left, the leadership of Islamic Republic was not anti-American. Recently released CIA documents reveal extensive contacts and negotiations between Khomeini camp and US government<sup>13</sup>. In fact, when some leftist groups took over the American embassy three days after the revolution and took US ambassador hostage, the just appointed foreign minister, Dr. Yazdi rushed to the embassy and freed the hostages<sup>14</sup>. The Nov. 4<sup>th</sup> 1979 takeover of US embassy, this time by Islamist supporters of the regime, originally meant to be a 2-3 days affair, protesting US’s permission for the Shah to come to the US<sup>15</sup>. Tremendous response of the frustrated Iranian public, looking for someone to blame for unfulfilled promises of the revolution, gave the Islamists an ideal opportunity to flame anti-American sentiments of the masses. They used this to get rid of their rivals within the government (the “Provisional government” and its prime minister were gone within two days<sup>16</sup>). Furthermore, they used the threat of hostile acts, including war and invasion, by the “Great Satan” to shut down all opposition newspapers and close their headquarters and suppress people’s democratic rights. The Revolution began to become “Islamic” in content and anti-American in manifestations.

The “hostage crisis” was taken advantage in the US in a variety of ways as well. One was to overcome the “Vietnam Syndrome” and re-start increasing militarism and military spending.<sup>17</sup> Jimmy Carter used it via his “Rose Garden” campaign to crush Ted Kennedy’s challenge in Democrats’ primary elections. Ronald Regan used it to attack Carter from the right, particularly after the failed military attempt in April of 1980 to rescue them.<sup>18</sup> Various US administrations have used Islamic Republic as a boogie man to justify their militarism.

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<sup>12</sup> There is a reach body of literature dealing with these issues. See for example: Nomani, Farhad & Sohrab Behdad, *Class and Labor in Iran; Did the Revolution Matter?* Syracuse University Press. 2006. ISBN 0-8156-3094-8. Also, Society for Iranian Studies, *Iranian Revolution in Perspective*. Special volume of Iranian Studies, 1980. Volume 13, nos. 1–4.

<sup>13</sup> See for example: <https://www.theguardian.com/world/2016/jun/10/ayatollah-khomeini-jimmy-carter-administration-iran-revolution>. Also: *America's secret engagement with Khomeini* <https://www.bbc.com/news/world-us-canada-36431160>

<sup>14</sup> <https://www.nytimes.com/1979/02/15/archives/armed-iranians-rush-us-embassy-khomeinis-forces-free-staff-of-100-a.html>

<sup>15</sup> [http://www.parstimes.com/history/embassy\\_takeover.htm](http://www.parstimes.com/history/embassy_takeover.htm)

<sup>16</sup> Lynn Berat (26 May 1995). *Between States: Interim Governments in Democratic Transitions*. Cambridge University Press. p. 132. ISBN 978-0-521-48498-5. Retrieved 10 August 2013.

<sup>17</sup> See for example: Robert Higgs; *The Cold War Economy opportunity costs*. <http://www.independent.org/publications/article.asp?id=1297>

<sup>18</sup> See for example:

'Hostage' in Rose Garden? Carter rethinking strategy - CSMonitor.com <https://www.csmonitor.com/1980/0428/042832.html>

The sanctions of Islamic Republic started by Jimmy Carter's freezing of over 20 billion dollars' worth of Iranian assets in the US after takeover of the US embassy in 1979 (later Obama returned a small fraction of them)<sup>19</sup> and have continued since. Every US president has added some more sanctions for a variety of reasons.<sup>20</sup>

### III- Nuclear Sanctions

#### A- Background

Iran's nuclear programs started under the Shah's regime, with help from the US. "By the time of the 1979 revolution, Iran had developed an impressive baseline capability in nuclear technologies"<sup>21</sup> In 1979 Revolution Ayatollah Khomeini denounced Shah's nuclear program<sup>22</sup>. But in the late 80s and early 90s the Islamic Republic regime re-activated the program. After revelation in 2002 that some secret nuclear sites existed, intense rounds of negotiations between Iran and IAEA, five permanent members of the Security Council (particularly England and France) and Germany (the so-called 5+1), and the EU followed. Several agreements were signed that committed each side to certain restraints (usually freeze for freeze; Iran would freeze its uranium enrichment, the 5+1 would freeze sanctions)<sup>23</sup>. But none survived. One way or another they all collapsed and era of nuclear sanctions began. In August 2006 "The first Security Council resolution to address the Iranian nuclear program, Resolution 1696 did not contain sanctions, but was the basis for future sanctions resolutions Specifically it:

- Demanded that Iran suspend all enrichment-related and reprocessing activities, including research and development, to be verified by the IAEA.
- Called on states to follow their existing domestic law and international law to "exercise vigilance and prevent the transfer of any items, materials, good and technology that could contribute to Iran's enrichment-related and reprocessing activities and ballistic missile programmes."<sup>24</sup>

In [Resolution 1737](#), adopted by the Security Council in December 2006, an initial series of sanctions against Iran was implemented because it did not suspend its uranium enrichment program. Resolution 1747, adopted on March 2007, "introduced the following new sanctions:

- Called on states to "exercise vigilance and restraint" in the supply, sale, or transfer of major military weapons systems and related material to Iran, as well as the provision of any technical assistance, financial assistance, or other service related to the provision of these items.
- Called on states and international financial institutions "not to enter into new commitments for grants, financial assistance, and concessional loans" with the Iranian government unless for humanitarian or developmental purposes."<sup>25</sup>

Resolution 1803 adopted in March 2008 added more sanctions. IRI, under president Ahmadinejad, was defiant. In practice no one was pushing their enforcement very rigorously. Besides, Iranian government and Revolutionary Guards had set up an elaborate mechanism of going around sanctions. In short, these sanctions were not biting.

#### B- Sanctions under Obama

On Sept 2008 the Security Council Adopted Resolution 1835. "In contrast to its predecessors, Resolution 1835 was not adopted under Chapter VII of the UN Charter, nor did it set out new provisions that Tehran was required to comply with. Instead, it simply reaffirmed the four previous resolutions, as well as a statement made by the Security Council's President on March 29, 2006. It then reaffirmed the council's commitment "to an early negotiated solution to the Iranian nuclear issue."<sup>26</sup>It seems that the major powers had realized that their approach does not work.

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<sup>19</sup> For more details see: <https://theiranproject.com/blog/tag/irans-frozen-assets/>

<sup>20</sup> For a brief chronology of sanctions see: <https://www.atlanticcouncil.org/blogs/new-atlanticist/a-brief-history-of-sanctions-on-iran>. For a timeline of sanctions see: <https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran>

<sup>21</sup> <https://www.nti.org/learn/countries/iran/nuclear/>.

<sup>22</sup> <https://foreignpolicy.com/2014/10/16/when-the-ayatollah-said-no-to-nukes/>

<sup>23</sup> For a good summary of these negotiations see Nuclear Threat Initiative:

<https://www.nti.org/learn/countries/iran/nuclear/>

<sup>24</sup> <https://www.armscontrol.org/factsheets/Security-Council-Resolutions-on-Iran#res1696>

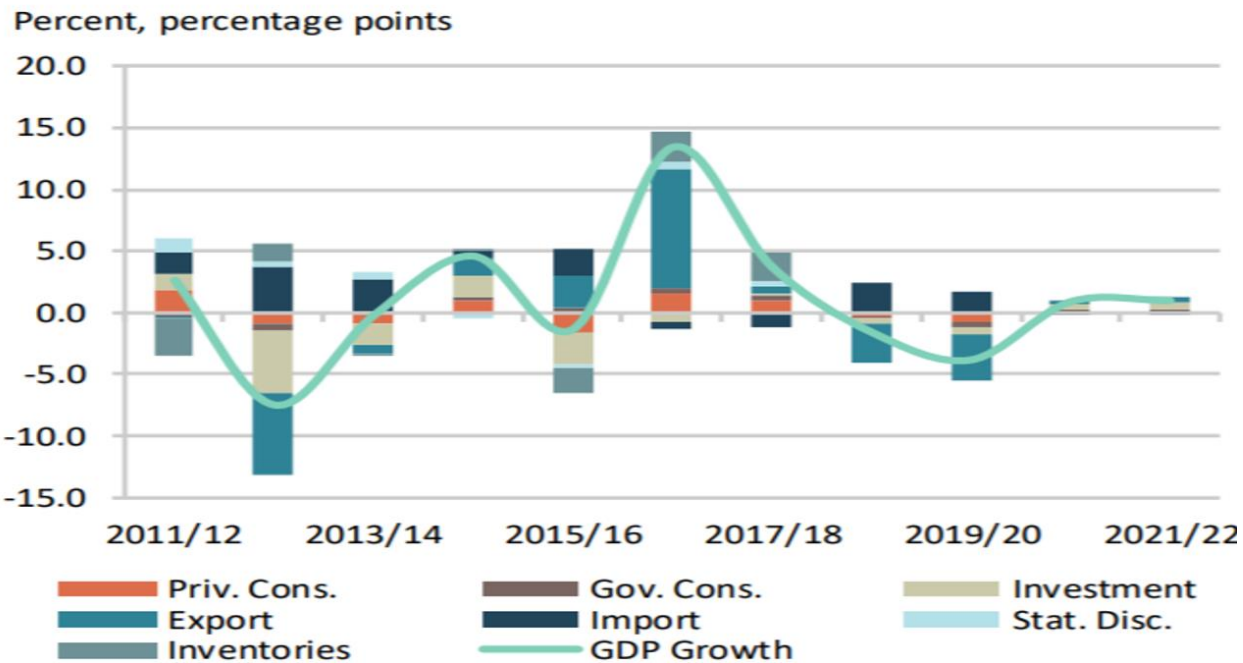
<sup>25</sup> <https://www.armscontrol.org/factsheets/Security-Council-Resolutions-on-Iran#res1747>

<sup>26</sup> <https://www.armscontrol.org/factsheets/Security-Council-Resolutions-on-Iran#res1835>

The real change, however, was election of Barak Obama as president of the US. Bush administration was dominated by “Neo-cons” who were not believers of negotiation and diplomacy and were more into “regime change.” Although their first step in “resolving” the problem of “Axis of Evils” had been nothing short of a major disaster in Iraq, they were not very keen on economic sanctions and preferred “military solution” for resolving Iranian nuclear issue, as for other challenges that the “sole superpower” and world hegemon faced. Obama, on the other hands, believed in “soft power” and diplomacy as first option and military as the last resort.

President Obama put together a “coalition of willing” and firmly implemented the sanctions, and meticulously closed loopholes that Iran was using to go around them<sup>27</sup>. Denying Iran’s access to SWIFT was particularly crippling. Iran’s ability to engage in international financial transactions was practically impossible<sup>28</sup>. The impact on Iranian economy was sever. It started to witness substantial negative rate of growth. As the following chart<sup>29</sup> indicates, Iranian economy was benefiting from a positive rate of growth, due to substantial increase in global oil prices. But when Obama administration and its allies, mainly EU countries, started enforcing the sanctions the rate of growth started to go down and became negative.

Iran’s GDP and its components, from Demand side.



Sources: Based on CBI data and World Bank staff estimations.

Figure 1

<sup>27</sup> For a detailed list of sanctions see: <https://www.treasury.gov/resource-center/sanctions/programs/pages/iran.aspx>. Also, for a chronology of sanctions see: [Timeline of Nuclear Diplomacy with Iran](https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran), Arms Control Association: <https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran>

<sup>28</sup> <https://www.wsj.com/articles/SB10001424052970203718504577178902535754464>

<sup>29</sup> <https://data.worldbank.org/country/iran-islamic-rep>

The main impact of sanctions, that were enhanced with Resolution 1929<sup>30</sup>, other than denial of access to SWIFT, was reduction of Iran’s oil exports. The goal was to limit Iran’s export to 1 million barrels per day. As figure two (production) and three (exports) show, they both took a nose dive by second half of 2011<sup>31</sup>.

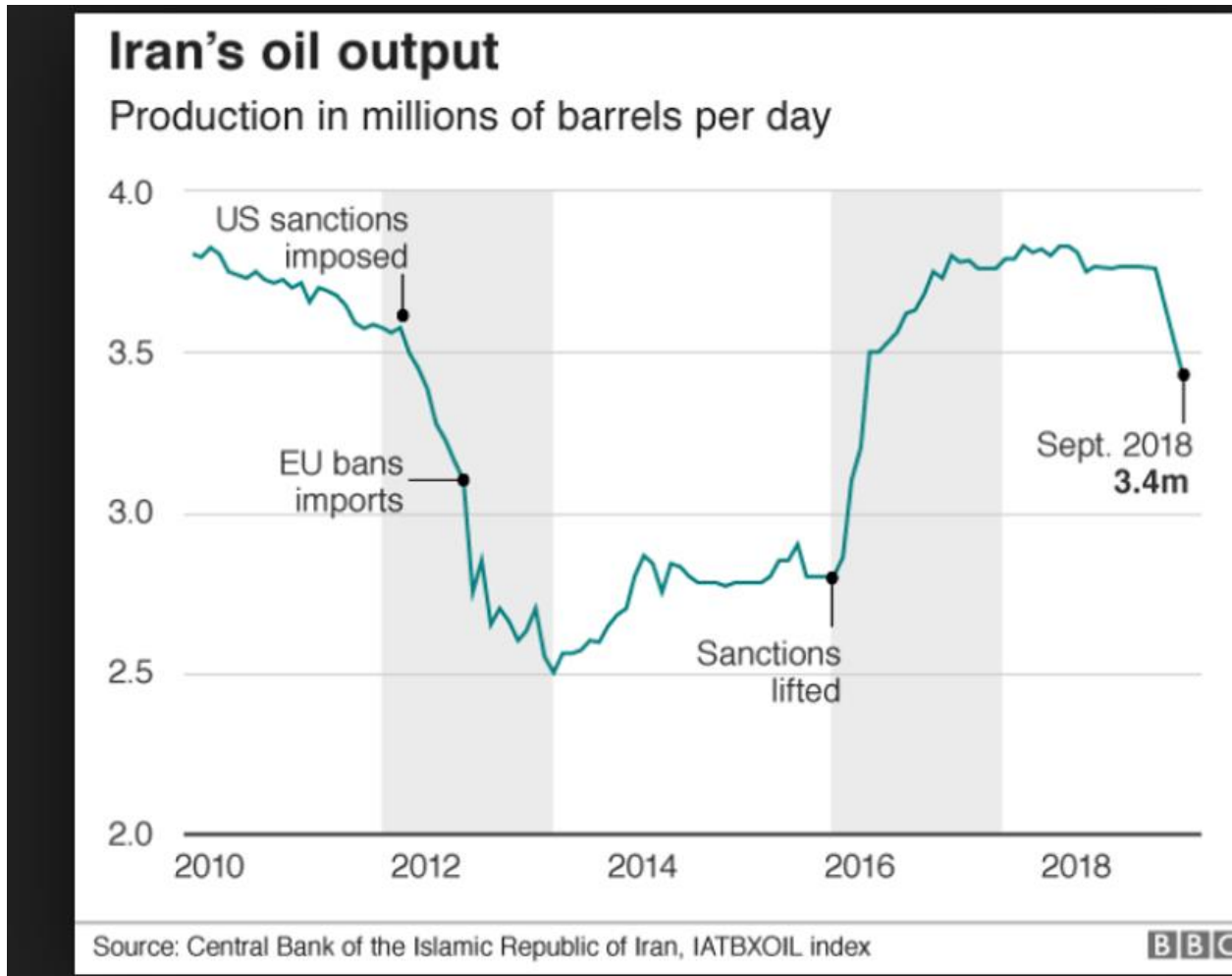


Figure 2

<https://www.armscontrol.org/factsheets/Security-Council-Resolutions-on-Iran#res1929><sup>30</sup>

<sup>31</sup> Source for chart 2 is Iran Central Bank, quoted in BBC, and for chart three is IMF quoted in FRED.

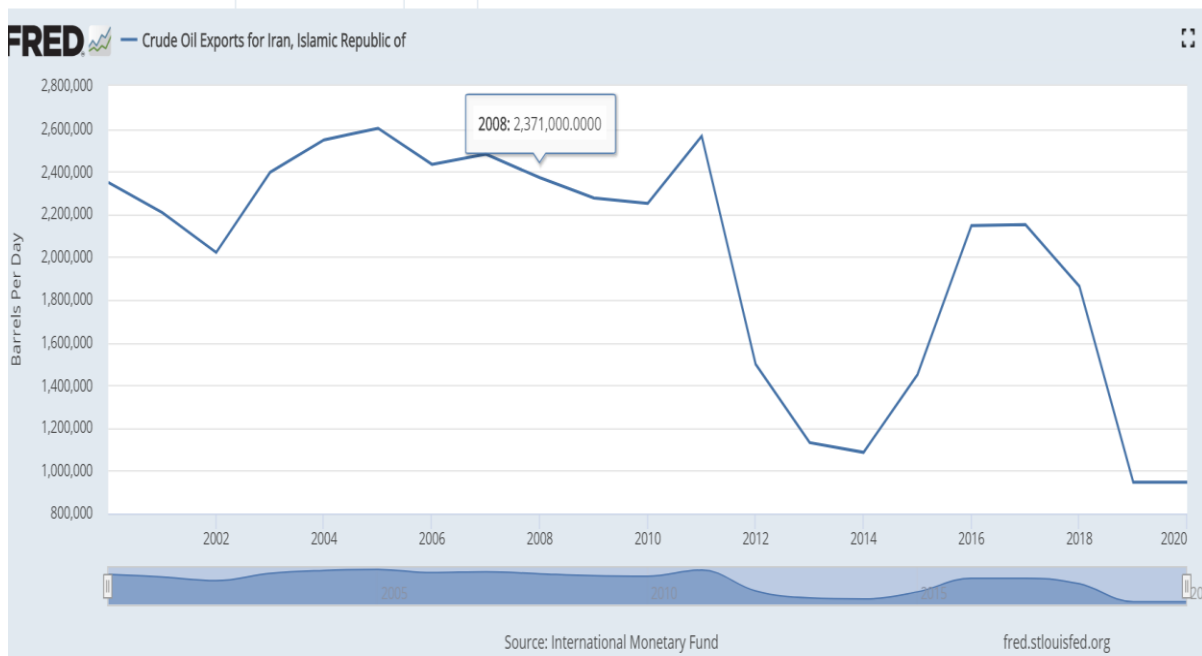


Figure 3

#### IV- The Joint Comprehensive Plan of Action

Alongside the stick of sanctions Obama offered the carrot of negotiations. Indeed, as early as May 2009 via Omani intermediaries Obama's and Supreme Leader Khamenei's envoys were secretly in contact, unbeknown to the then president Ahmadi Nejad.<sup>32</sup> But it is from Sept. 2013 that the just elected president Rouhani's Foreign Minister, Javad Zarif and foreign ministers of 5+1 began serious negotiations. After several round of negotiations, including some one on one between Zarif and US Secretary of State John Kerry, in July 14 2015 Iran and 5+1 announced they have reached agreement. The Joint Comprehensive Plan of Action (JCPOA) is a 150-page document that spells out every step that each side must take<sup>33</sup>. They avoided calling it a "treaty" or "agreement" because a treaty required ratification by the US congress. The Republican controlled Congress was in no mood of ratifying any deal with Iran, partly because of saying "no" to anything that Obama would put forward, but mainly due to lobbying of Israel and Saudi Arabia that would preferred a hostile Iran in the region that would justify presence of the US military in the region, and results in US's continued reliance on its regional allies.<sup>34</sup> The opposition was not confined to Republicans.

<sup>32</sup> For a chronology of these meetings see: <https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran>

<sup>33</sup> See: [Iran nuclear agreement – DocumentCloud https://assets.documentcloud.org/documents/.../full-text-of-the-iran-nuclear-deal.pdf](https://assets.documentcloud.org/documents/.../full-text-of-the-iran-nuclear-deal.pdf). For a summary see: *A Guide to the Iran Nuclear Deal* <https://www.investopedia.com/articles/investing/072715/dummies-guide-iran-nuclear-deal.asp>

<sup>34</sup> Here are some examples of attempts to nullify the deal:

**March 3, 2015:** Prime Minister Netanyahu delivers a speech to a joint session of Congress. His speech claims that the Iran deal "would all but guarantee that Iran gets [nuclear] weapons, lots of them."

**March 9, 2015:** Senator Tom Cotton and 46 other senators sign an open letter to the Parliament of Iran. The letter warns that any deal reached without legislative approval could be revised by the next president "with the stroke of a pen."

**April 14, 2015:** The Senate Foreign Relations Committee unanimously passes legislation authored by Senator Bob Corker (R-Tenn.) that will require the President to submit the deal to Congress for a vote of approval or disapproval. According to the legislation, the President will not be able to waive sanctions during the 30 day Congressional review period.

**May 7, 2015:** The Senate passes the Corker legislation 98-1 on congressional review of an Iran nuclear deal."



A good number of Democrats were opposed to it, because of same reasons. After some closed-door negotiations, the Obama administration managed to salvage the deal.<sup>35</sup>

JCPOA’s impact on Iranian was positive and immediate. Between 100 to 120 billion dollars of Iranian assets were released from foreign banks<sup>36</sup>. Iran’s economy started to witness a reverse, from negative to positive, rate of growth, as is evident in figure 1. Several giant multinational corporations returned, or entered to Iranian markets, particularly in the fields of energy (Total) and car manufacturing (Renault). But these changes were limited and modest.

Iran had lost its oil export markets, primarily to Saudi Arabia. An aggressive marketing enabled it to retake most of these markets. Oil exports went up from 1 million barrels per day to 2-4 mbd by 2017.<sup>37</sup> Direct foreign investment, although low in comparison to similar size economy, had gone down further due to sanctions. As figure 4 shows<sup>38</sup>, they started a comeback due to JCPOA.

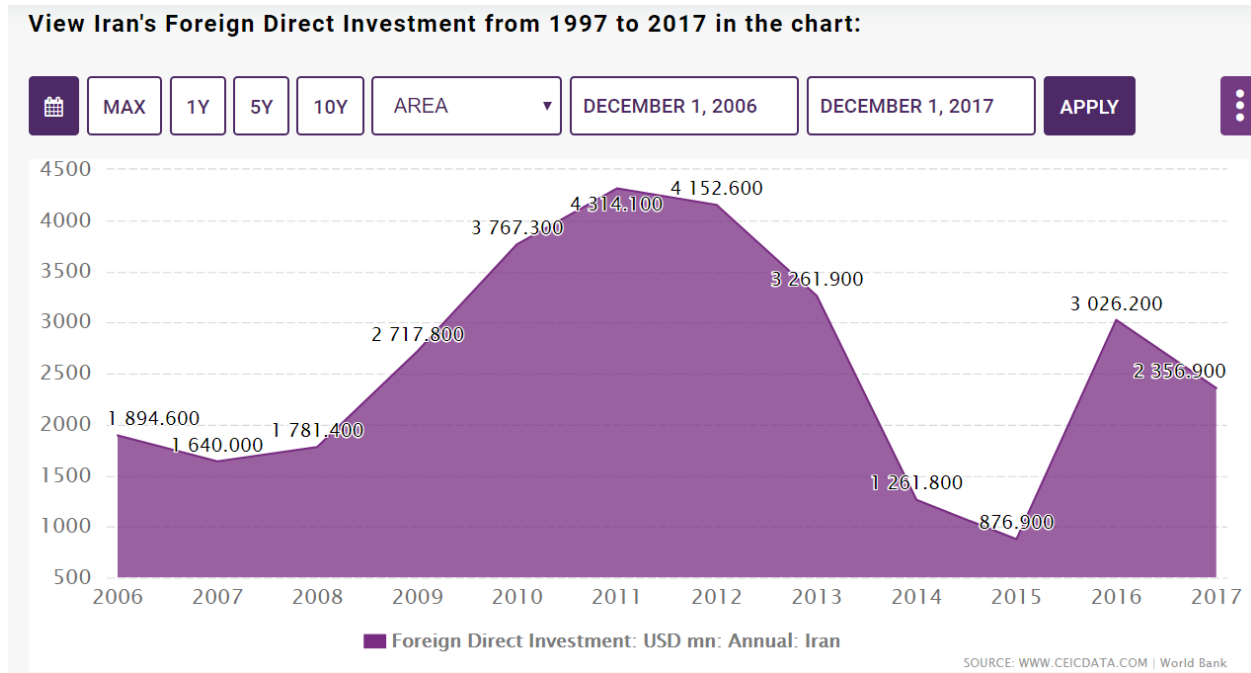


Figure 4

<https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran>

<sup>35</sup> “September 2, 2015: The 34th Senator announces support for the nuclear deal with Iran, meaning that Congress will not have the support to override a presidential veto on a resolution disapproving of the deal.

September 8, 2015: Four additional Senators announce that they will support the nuclear deal with Iran, bringing the total number to 42. This important milestone will prevent the Senate from reaching the 60 vote threshold required for ending debate and moving to vote on a resolution of disapproval.

September 10, 2015: A vote to end debate and move to vote on a resolution of disapproval fails to reach the required 60 votes on the Senate floor. The measure fails 58-42. Four democrats joined the 54 Republicans in favor of moving to vote on the resolution of disapproval. Similar votes fail on Sept. 15 and Sept. 17.

September 11, 2015: A vote on a resolution of approval fails in the House of Representatives, 269-162, with 25 Democrats voting joining the Republicans in voting against the measure.

September 17, 2015: The congressional review period ends without passage of a resolution of approval or a resolution of disapproval.” <https://www.armscontrol.org/factsheet/Timeline-of-Nuclear-Diplomacy-With-Iran>

<sup>36</sup> Garver, Rob. "Here's what's in Iran's \$100 billion in assets that will become unfrozen by the nuclear deal". *Business Insider*. Retrieved 27 April 2016.

<sup>37</sup> “Iraq and Iran Boost Oil Exports in Sales Battle with Saudis,” Bloomberg, October 9, 2017.

<sup>38</sup> <https://www.ceicdata.com/en/indicator/iran/foreign-direct-investment>

## V- Limitations of JCPOA

JCPOA was neither expected nor able to solve major economic problems of Iran. It was not able because Iran's economic problems are primarily due to its faulty structure. As was mentioned above, as a state capitalism with Dutch Disease (control of oil revenues), political power and connections, not necessarily economic efficiency, is the criterion that counts<sup>39</sup>. This results in major corruption and wastefulness, as was pointed out previously. The solution is a fundamental restructuring of economy and government's economic role.<sup>40</sup> More transparency (particularly financial institutions and transactions), rule of law (level playground all players, no special privileges for certain institutions and foundations), respect for privacy (basic human rights of freedom of speech, movements, and no discriminations based on religion, ethnicity, gender, or similar biases). In short "polity" should adjust itself to be compatible with "economy."

JCPOA did not intend to solve Iranian major international issues either. In the beginning it seemed to be the case; everything on the table. When president Obama "extended his hand" towards Iran the intention was to end thirty years of hostility and "bring Islamic Republic" back to international community as a normal member.<sup>41</sup> That was the goal of negotiations when they started. But towards the end, mainly due to insistence of Supreme Leader Khamenei and Iranian hard-liners, JCPOA became a much-limited deal about restrictions and transparency on Iran's nuclear program in exchange for removal of sanctions related to Iran's nuclear activities (not removal of all sanctions).<sup>42</sup>

The agreement, while positive and helpful, would not enable Iran to reach a level that it deserved and was capable of. In 1977, the last "normal" year before revolution, Iran's economy was ranked 17<sup>th</sup> in the world, ahead of South Korea, Turkey, and Saudi Arabia.<sup>43</sup> Despite all the mismanagements and sanctions, IMF's Oct 2018 ranked it 40<sup>th</sup> in the world based on nominal GDP.<sup>44</sup>

"There is no doubt, Iran has a lot of potential. It is a country that boasts a domestic market of 70 million people, 11% of the world's proven oil reserves, 15% of the world's proven gas reserves, 11 petrochemical complexes, and much more.

Iran is certainly a unique market in the Middle East. It is populous, rich in natural resources and apt to technological progress and international developments. The country's natural resources create a significant wealth. In fact, based on a resource-based evaluation, the Iranian economy is the 20th strongest in the world.

Some of the features are highlighted below:

- 1. Strategic Location:** A unique geographical location at the heart of a cross-road connecting the Middle East, Asia and Europe, empowered by many inter- and trans-regional trade, customs, tax and investment arrangements.
- 2. Market Potentials and Proximity:** Vast domestic market with a population of 65 million growing steadily as well as quick access to neighboring markets with approximately 300 million inhabitants.
- 3. Labor Privileges:** Large pool of trained and efficient manpower at very competitive costs in a diversified economy with an extensive industrial base and service sector.

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<sup>39</sup> By "efficiency" here we mean "market" i.e. capitalist criteria. As problematic as "market efficiency" is, what is going on in Iran is even worse! The fact that market (capitalism) has many fundamental problems and must eventually be completely replaced does not mean that any "non-market" mechanism replacing it is necessarily a better one.

<sup>40</sup> There is a relation between economy and polity (state) all the times. The "laissez faire" is a fairy tale. "Markets" can not operate without the state's support. State's role evolves as economy grows; from a direct producer to a regulator and "enforcer of contracts."

<sup>41</sup> See for example: [http://www.nbcnews.com/id/29785710/ns/politics-white\\_house/t/obama-reaches-out-iran-video/](http://www.nbcnews.com/id/29785710/ns/politics-white_house/t/obama-reaches-out-iran-video/)

<sup>42</sup> [https://www.realclearpolitics.com/video/2013/11/24/obama\\_on\\_deal\\_iran\\_must\\_accept\\_strict\\_limitations\\_on\\_its\\_nuclear\\_program.html](https://www.realclearpolitics.com/video/2013/11/24/obama_on_deal_iran_must_accept_strict_limitations_on_its_nuclear_program.html)

<sup>43</sup> <http://en.classora.com/reports/t24369/general/ranking-of-the-worlds-richest-countries-by-gdp?edition=1977&fields=>

<sup>44</sup> <http://statisticstimes.com/economy/projected-world-gdp-ranking.php>

**4. Developed Infrastructure:** Territory developed networking in the area of telecommunication, roads and railways across the country.

**5. Low Utility and Production Cost:** Diversified range of energy, telecommunication, transportation, as well as public utilities.

**6. Abundant Natural Resources:** Varied and plentiful reserves of natural resources ranging from oil and gas to metallic and non-metallic species reflecting the country's accessibility to readily available raw materials.

**7. Climatic Characteristics:** A four-season climatic endowment as a privilege to agricultural activities throughout the country and throughout all seasons...."<sup>45</sup>

"Opening Iran's market place to foreign investment could also be a boon to competitive multinational firms operating in a variety of manufacturing and service sectors, worth \$600 billion to \$800 billion in new investment opportunities over the next decade."<sup>46</sup>

Despite these potentials Iran has attracted very little direct foreign investment, even before the "nuclear sanctions." In no year the investment has reached 5 billion dollars. This is particularly important to know that the need is less financial and more technological. For close to forty years Iran has been cut off of the latest technology in many fields. Investors, particularly industrial investors that sometimes require years to reach profitability, are very cautious. Without assurances regarding clarity and stable political environment they will not move in. Mere threat of sanctions by Trump made many major multinational corporations to abandon Iranian markets.

In short, Iran's economic problems are political. Rather than helping the economy, wrong policies have cost economy in variety of the ways. The shortcomings of internal policies are briefly discussed above. Islamic Republic's ideologically oriented foreign policy has cost Iran a lot. In today's nation-state system, unfortunately, "right" and "wrong" don't matter; "might" does. Nations don't have "friends" and "foes"; they have "interest." Here, too, there must be a major restructuring of polity and economy in Iran; a break and re-orientation from ideological purity to national interests.

## VI- Sanctions under Trump

Despite its shortcomings, JCPOA, helped Iran's economy to survive. All of these were reversed with Trumps exiting from the deal in and reintroducing US sanctions.<sup>47</sup> Indeed, he went further and reinforced the previous sanctions and added new ones. Under Obama era sanctions (before JCPOA), Iran could export crude oil up to 1 million barrels per day, Trump administration is intending to reduce this to zero. They have been reduced to 300000 bpd in June 2019.<sup>48</sup> This is while "Hence, the expected petroleum export revenue to support the government's budget becomes \$25.7 billion, which—considering that the Iranian government has assumed a crude oil price of \$54 per barrel—translates to a crude oil export quantity of approximately 1.5 million barrels per day (bpd)."<sup>49</sup>

The primary victim of these sanctions are people, not rulers, of Iran. Trump administration is not shy to admit in order to force Iranian rulers to "negotiate" is putting pressure on Iranian people.<sup>50</sup> The "misery index" (sum of inflation and unemployment) for Iran has gone up drastically.<sup>51</sup> A reliable indicator of people's hardship is rate of inflation. As figure 6 shows, there has been a significant jump in this rate since re-imposing the sanctions.

<sup>45</sup> <http://www.iran-investment.org/irsubpage1.html>

<sup>46</sup> **Iran Investment and Business Guide** Volume 1 Strategic and Practical Inform, Paperback – January 1, 2016 by **Inc., Ibp.**

<sup>47</sup> See for example: <https://www.apnews.com/cead755353a1455bbef08ef289448994>

<sup>48</sup> <https://www.reuters.com/article/us-oil-iran-exports/as-trumps-sanctions-bite-irans-oil-exports-slide-further-in-june-idUSKCN1TP1F0>

<sup>49</sup> <https://www.atlanticcouncil.org/blogs/iransource/iran-s-crude-oil-exports-what-minimum-is-enough-to-stay-afloat>

<sup>50</sup> <https://www.apnews.com/3b9108c6cbbb496380a81eb7b3bbb979>

<sup>51</sup> "In its latest report the Statistical Center of Iran (SCI) says that the "misery index" in the country reached 39% last winter, whereas a year earlier it stood at 19.4%. Misery index is an informal measure of the state of an economy generated by adding together its rate of inflation and its rate of unemployment. Based on the SCI report, the unemployment rate in Iran was 12.1%, while the inflation rate soared to nearly 19.4% in the last quarter of last

### Iran's Annual Inflation Rate



Sources: Bonbast.com, Central Bank of the Islamic Republic of Iran, U.S Bureau of Labor Statistics  
 Calculations by Professor Steve H. Hanke, The Johns Hopkins University  
 Note: These inflation rates are implied from the black-market IRR/USD exchange rate using PPP; values under 25% should be considered unreliab

Figure 6

What is alarming is the rapid rise of food prices. Iran is self sufficient in most categories of food consumption. Imports have a small segment of food market, mostly non essentials.<sup>52</sup> So, re-imposing of sanctions should have had little to no effect on these items. Actually, as figure 7 indicates, food inflation is faster than general level of price increases. This is partly due to fall of Rial (Iranian currency) against dollar which makes exporting these items to neighboring countries more profitable. Even after banning the exports of these items smuggling has continued.

Iranian calendar year (December 2018-March 2019).” <https://en.radiofarda.com/a/iran-s-misery-index-up-as-production-and-oil-exports-crash/30045590.html>

<sup>52</sup> <https://financialtribune.com/articles/economy-domestic-economy/69255/iran-s-food-industry-growing-at-fast-rate>

### Iran's Rate of Food Inflation

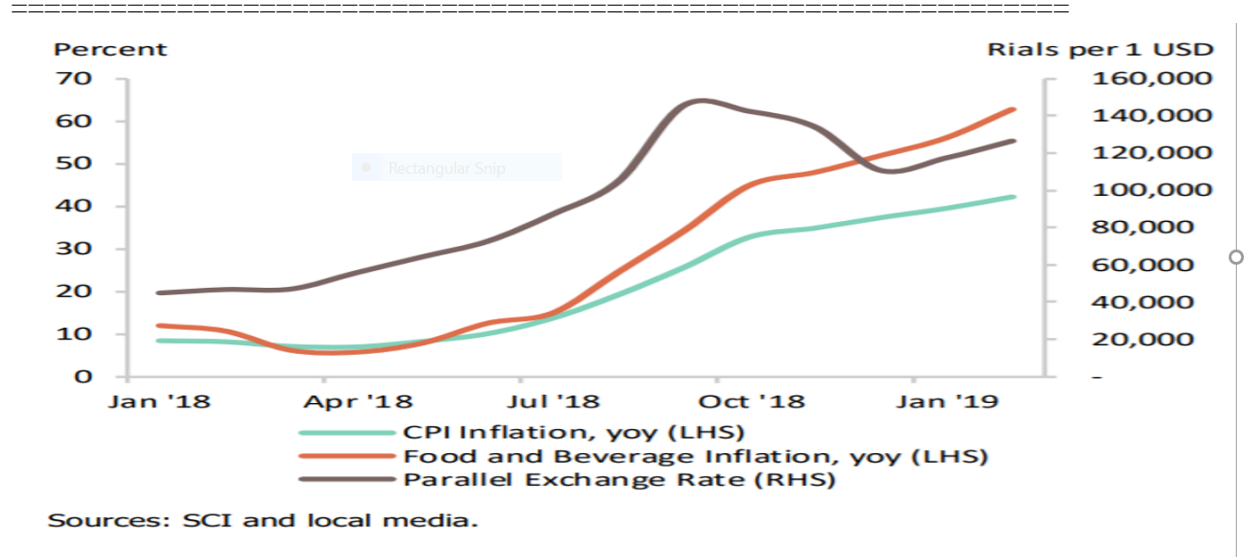


Figure 7

Sanctions have helped “merchants of sanctions” (a term that Rouhani administration uses to describe them). This is a 25 billion dollars affair<sup>53</sup>. These are not a bunch of petty thieves. They are directly or indirectly linked to major centers of power who are not accountable to legal authorities and elected offices. Most notable, and notorious, are the ones linked to the Revolutionary Guards who have their own ports to export and import materials. This is separate, and in addition to “authorized”, albeit secret, steps that Iranian authorities take to “go around” sanctions. Understandably there are no known numbers or channels. The bottom line is that sanctions have increased the role of these shadowy elements and have made the state and quasi-state institutions even more dominant in the economy.

### VII- Conclusion

Trump administration's re-imposing sanctions is illegal and inhumane because it results in major pain and hardship for people of Iran, intentional or not, and benefits shadowy organizations. Iran's foreign minister has referred to the sanctions as “economic terrorism.”<sup>54</sup> According to Trump, they are intended to “force” Islamic Republic leaders to “negotiate,” something that they, particularly Supreme Leader, have vigorously rejected until recently. The fact that Trump first walked out of JCPOA, then offered to renegotiate makes his claimed intentions highly suspect. Even worse, it enhanced the hand of hard-liners and “merchants of sanctions” in Iran. They have opposed negotiating with US as pointless on the grounds that US government is unreliable, and “negotiation” to Trump means “surrender.” Of course “hard-liners” in the US, such as National Security Adviser John Bolton and regional allies such as Israeli and Saudi Arabian current governments don't want negotiation either. A peaceful Islamic Republic with normal relations with the rest of the world is not necessarily the best option for them. A “bad” Islamic Republic, albeit weaker, serves their purpose better and justifies their high level of militarism and request for US military presence in the region.

There is no doubt that sanctions hurt. But most likely Islamic Republic will survive. There are some signs already; Dollar to Rial ratio that exploded in the 2018 has been stabilized and even slightly been lower. Same is true for rate of inflation. Latest IMF prediction is that Iran's GDP growth rate will turn positive in 2020.<sup>55</sup> But “surviving” is not thriving. For that to happen there is a need for major structural reforms internally, both economic and political. Something that is beyond capacity of Islamic Republic as is. Additionally, it needs a major change of attitude and policy externally. It needs to put national interests above ideological affinities.

<sup>53</sup> <https://www.al-monitor.com/pulse/fr/originals/2015/02/iran-smuggling-traffic.html>

<sup>54</sup> <https://www.washingtonpost.com/>

<sup>55</sup> <https://en.mehrnews.com/news/148065/IMF-predicts-Iran-s-economy-to-be-improved-in-2020>

It is in the national interests of Iran and US to negotiate towards normalizing their relations. Negotiations should not be limited to nuclear issues. The two countries have other common interests. One is to keep Persian Gulf and Straights of Hormuz open and safe from terrorist groups. The fact that for three decades there have been no such "incident" (until last few weeks) is a miracle. It would not have been possible without high coordination and cooperation between Iranian and US navies. Negotiating a more formal agreement on how to keep these waterways open and safe is in the interest of both countries, and the world. The two governments support Iraqi and Afghani elected regimes, against terrorist groups such as ISIS and Taliban. Here too, there is room for (more) and formal coordination and cooperation. Iran is the best gateway to several land-locked countries in Central Asia. It could be a good hub for investment and production of goods aimed at these markets.

Obviously, the first step is to lower current tensions that could easily and quickly escalate to a major disaster, something that neither country wants or benefit from. Despite all the nay sayings there are potentials for de-escalation, if there is a will there is a way. For example, "freeze for freeze" that French president Macron has proposed,<sup>56</sup> or recent hint by Foreign minister Zarif that "sunset clause," which has been candidate Trump and later on Trump administration's main objection to JCPOA, is negotiable<sup>57</sup> are potential first steps out of the current impasse.

Normalization of US Iran relations benefits people of the two countries, particularly Iran, tremendously. Unfortunately, there are powerful forces in both sides that prefer hostilities to continue.

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<sup>56</sup> <https://www.politico.eu/article/france-tries-to-calm-us-iran-nuclear-tensions/>

<sup>57</sup> <https://en.radiofarda.com/a/iran-suggests-new-alternative-plan-to-de-escalate-tensions-with-u-s-/30073048.html>