

Advisory Panel on the Question of Iran

The Economic Crisis

Forum	Advisory Panel on the Question of Iran
Issue:	The Economic Crisis
Student Officer:	Tobias Weber
Position:	Deputy President

Introduction

In recent years, Iran has faced deteriorating economic circumstances. Following the re-imposition of international sanctions, much of the country's international trade, activity within international markets and investments were severely restricted. By extent they have crippled many of the country's revenue streams. Resulting fiscal deficits have left the national government no other choice but to rely on monetary policies such as money issuance to support its expenditures. The resulting outcome has been record high inflation and systemic unemployment. Both developments have contributed to an immense devaluation of Iran's currency, the rial, only worsening the standards of living for millions of Iranians.

With a population of 88 million people and a GDP of just over 1.3 trillion USD, it amounts to the world's 18th largest economy, and remains a critical player within the middle eastern region and OPEC. Traditionally manufacturing, agricultural, petroleum, and service industries have been at the heart of the Iranian economy. Possessing the world's second largest natural gas reserves and fourth largest crude oil, economic activity and government revenues have however always primarily been reliant on oil exports, and by extent are to be considered particularly volatile.

Having been nationalized in 1951, Iran's oil industry has since then suffered from continuous mismanagement of resources and government corruption. Both have stood in the way of economic growth and an effective recovery of the economy. This, alongside worsening economic and social inequality, has led to increased social unrest and discontent within the country regarding the government and its policies.

Definition of Key Terms

JCPOA



The Joint Comprehensive Plan of Action is, more commonly known as the Iran nuclear deal, is an agreement between China, Russia, the United States, France, the United Kingdom, Iran and Germany, under which Iran would dismantle much of its nuclear program in exchange for billions of dollars worth of sanctions relief.

GDP

The Gross Domestic Product, the total value of all produced goods and services within a country over a year. GDP is the sum of all consumption, investment, government expenditures, and net exports (exports – imports) in a country.

Real Growth

As expressed by GDP, a measure of economic growth, adjusted for inflation.

The Islamic Revolution

A revolution that took place in Iran in 1979, in which a series of events would lead to the eventual overthrow of Mohammed Reza Pahlavi, Iran's last Shah, and the creation of the Islamic Republic of Iran.

AD

Aggregate Demand, the total demand for all goods and services produced in an economy. AD is an important macroeconomic concept used to understand why and how recessions come to be.

CPI

The Consumer Price Index shows the overall change in price for all goods and services consumers buy, based on the change of price of a representative basket of goods and services over time.

FDI

Foreign Direct Investments are those made by foreign entities in assets, that give those entities direct control of said assets.

Informal Economy

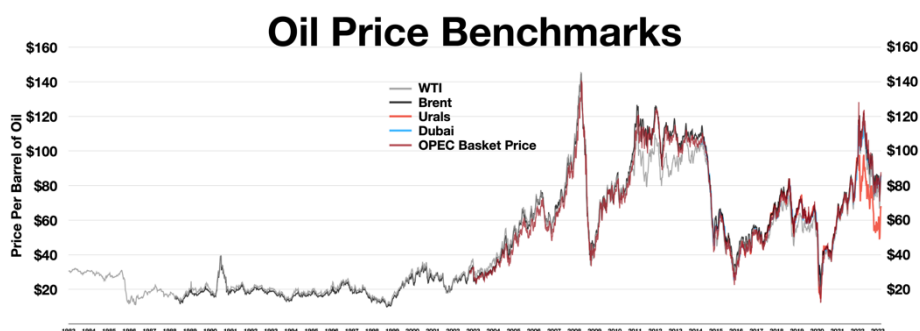


A segment of the economy not regulated by the government, nor taxed. This stands in contrast to the Formal Economy, which pertains to the areas of the economy which the government is fully aware of.

General Overview

Revolutionary Period

In the period leading up to the Islamic Revolution, Iran's economy saw rapid growth, accompanied by large scale modernization and industrialization. By the late 1970s, oil exportation in particular had become Iran's main economic industry. With an annual revenue exceeding 20 billions USD, economic growth was henceforth largely dictated by fluctuating oil markets. The advent of the Islamic Revolution in 1979 would however drastically alter the course of Iran's economy. Though oil exports would remain lucrative in the short term, the overthrow of the Pahlavi Dynasty brought with it a substantial drop in foreign investments, as a reaction to the increased political instability. Iran's newly formed Islamic governments would in the years to come focus on domestically tackling unemployment and further sought to increase economic independence. In doing so, in the years following the revolution, it would nationalize over 80% of Iran's major industries. The government henceforth utilized 5 year socio-economic planning to structure and organize the country's economy.

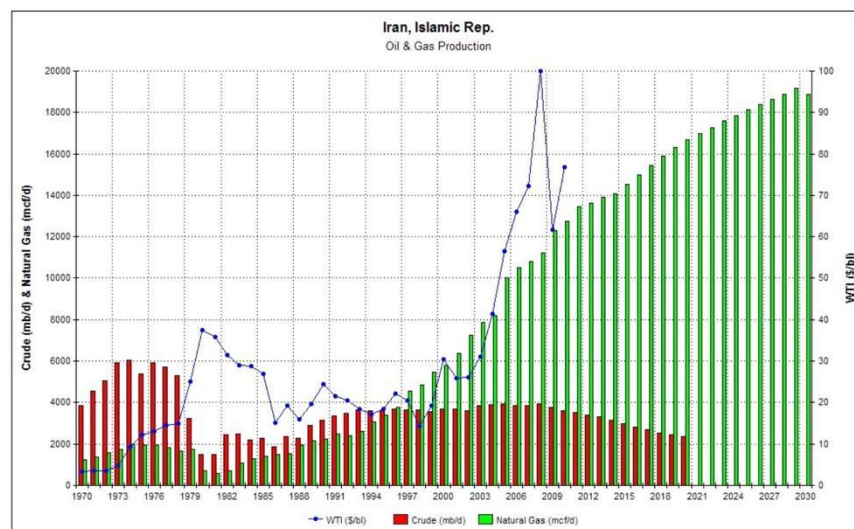


Economic Decline

The 1990s would bring with them numerous significant economic reforms geared towards economic growth and liberalization. Economic mismanagement, however, alongside declining living standards and high inflation would come to define the ensuing economic period. For starters, by 1988 Iran had accumulated an estimated 500 billion USD of economic losses in its war with neighboring Iraq. In the following years, a worldwide drop in oil prices, alongside Iran's inability to increase its oil production, were the leading cause of a period of continuous economic decline. Inflation would reach an all time high of 49.4% in 1995. In the period from 1993-1996, population growth averaged 3% annually. Economic growth would nevertheless stagnate at around half that, meaning a per capita decline in GDP.

A Downward Spiral

In macroeconomic terms, negative economic growth coincides with a decline in aggregate demand. Measurable levels of spending and investment then drop, which in turn leads to a decline in production. Employers, seeking new ways to reduce risk and spending, oftentimes resort to making cuts in their labor force. Resulting unemployment in turn worsens aggregate demand, further deepening the already ongoing recession. By the turn of the century, for Iran, this economic spiral would mean their unemployment rate would rise to 12%.



Reforms and Revival

By 1997, Mohammad Khatami's reformist government saw partial success in instating policies aimed at creating jobs and fostering foreign investment. Private consumption too saw a gradual increase at the turn of the century. As oil prices once more continued to rise in the first half of the 2000s, Iran's economy saw an economic revival. Under president Mahmoud Ahmadinejad (2005-2013), these funds gained from ever rising oil prices were utilized to finance populist policies, such as extensive cash handouts. Ironically, this policy proved to be ineffective, and only worsened economic circumstances for countless Iranians, as the government's unsustainable spending soon induced inflation. On the international stage, the turn of the century would furthermore bring with it a new found international urgency around Iran's fast growing nuclear developments. Sanctions and Foreign Pressure would soon follow.



Sanctions, Foreign Pressure and the JCPOA

By 2010, economic growth would see another sharp decline as international sanctions intensified over controversies around the Iranian nuclear program. Once more, gross net investments as a share of national product declined. Unemployment would be on the rise too, with a mere 28% of the Iranian population having been formally employed in the last decade. Economic relief would soon come, however. In 2015, a large proportion of sanctions were lifted as under the terms of the JCPOA. The provision proved to be a turning point for the Iranian economy, no longer constrained by



crippling foreign pressures. The period would nevertheless be short lived, as the Trump administration withdrew from the JCPOA in 2018, reasoning that the deal “failed to protect American national security interests”. The sanctions imposed by the Trump administration in 2018 would strain Iranian foreign relations worldwide, and rapidly enlarge unresolved fiscal deficits for the Iranian



government, as their ever important exports of oil greatly declined. In the 10 months that followed the US's withdrawal from the JCPOA, Iranian crude oil and condensate exports would drop by over 2.2 million bpd; a decrease of roughly 82%. Unable to finance its expenditures, the Iranian government once more resorted to selling government assets and a monetary policy largely based on money issuance.

Post JCPOA Period

As the pandemic only worked to further aggravate the economic situation in 2021, the consequences of Iran's monetary policy would become apparent; Gross National Product would stand at a mere 57% of its pre-revolutionary peak back in 1976. Iran's inflation rate for that year was 43%, up 13% from the year prior. The statistics center of Iran estimated that enduring inflation has led the CPI to rise over 483% in the last 5 years alone. Given nominal wages have failed to keep up with the swelling inflation, it is estimated that between 33% to 50% of the Iranian population now lives below the poverty threshold. The endemic inflation, combined with ensuing political instability, corruption, and increased geopolitical tensions, has made the Iranian rial world's weakest currency. As of 2023, 1 USD can buy you just over 42,300 Iranian rials. The weakness of their currency prevents the import of certain goods and services which would greatly aid standards of living for countless impoverished inhabitants.

Economic Projections

Since the economic recession in 2020, Iran has seen relatively slow real GDP growth. The world bank estimated that Iran's real economic growth will fall short of 2% for both 2023 and 2024, narrowly avoiding recession. The government of president Ebrahim Raisi, who took office as president of the Islamic Republic in 2021, has pledged to stabilize the economy in the coming years. He and his advisors have frequently prompted the need to make the Iranian economy more independent and resilient from foreign influence.

Major Parties Involved

The Government of Iran

Due to Iran's economy being plan based, the government of Iran carries significant influence on many of Iran's major industries, such as oil, finance and manufacturing. Over 80% of Iran's formal industries and economic activities are estimated to be part of the country's state sector (State owned enterprises or semi-state owned). These remain centrally controlled and planned to this day.

Bonyads

Large charitable trusts once established by the Shah and nationalized after the revolution, these organizations are by some accounts estimated to hold over a fifth of Iran's economic activity. The Bonyads hold a privileged position when it comes to government contracts and tax policy, often times receiving exemptions and opt outs.



The Islamic Revolutionary Guard Corps

The IRGC, as a major player within the Iranian political landscape, has come to hold influence over many major industries within the country. Nowadays it operates its own telecommunications infrastructure, alongside financial institutions and numerous investment companies. The Iranian regime has frequently awarded large construction and energy contracts to IRGC affiliated conglomerates, in what is estimated to amount to billions of dollars in arrangements.



The United States

The role of the United States in the Iranian economy has primarily been through restrictions and sanctions. The USA has imposed numerous economic sanctions since the revolution in 1979. Sanctions were imposed in response to regime changes, Iranian aggression to US allies and foreign interests in the region, and in particular in response to Iranian nuclear and ballistic missile program developments. Since withdrawing from the JCPOA in 2018, Iran took it upon itself to defect from several terms of the JCPOA, pertaining to uranium enrichment and the operation of centrifuges. In 2021, President Biden told the media the US would not be willing to lift economic sanctions until Iran returns to complying with the terms of the JCPOA.

The People's Republic of China

As Iran's number one trading partner, trade with China accounts for just under one third of all of Iran's exports and imports. Bilateral trade between the two countries has expanded, encompassing a range of products, including machinery, electronics, chemicals, and textiles. Chinese petroleum companies, such as the CNPC and Sinopec too have participated in joint ventures and investments alongside Iranian companies. All things considered, China has made many meaningful contributions to Iran's economy, through financial and infrastructural investments.

The European Union

In much of its policies towards Iran, the EU takes a firm stance, emphasizing its commitment to human rights. In previous years, the EU has condemned the use of force against protesters, and called for an end to what it views are discriminatory and unethical practices. For such reasons, the EU has sanctioned numerous entities within Iran associated with such human rights violations. The EU's economic policy in dealing with Iran thus remains bound by its humanitarian policy and views.

Turkey

Turkey is one of Iran's largest trading partners, being the recipient of over 20% of all Iranian exports. The country too has made great investments in a diverse range of economic sectors, such as oil and infrastructure. Numerous transport networks, such as the Tabriz-Ankara pipeline, continue to supply the country with large amounts of Iranian gas imports to this day.



Timeline of Key Events

Date	Description of event
March 15 th 1951	Nationalization of Iranian oil
February 11 th 1979	The Islamic Revolution
November 14 th 1979	First US sanctions under Executive order 12170
1980 – 1988	The Iran-Iraq War
August 2 nd 1990	The Oil Price Shock
August 5 th 1996	Iran and Libya Sanctions Act (US)
2000 – 2012	A multitude of sanctions issued against Iran for disputed over their nuclear program
2007 – 2008	The Financial Crisis leads to a large drop in oil prices
2013 – 2016	The Oil Supply Glut
July 14 th 2015	Joint Comprehensive Plan of Action
May 8 th 2018	US Withdrawal from JCPOA and reimposition of sanctions

UN involvement, Relevant Resolutions, Treaties and Events

- In 2006 the UN Security Council expressed concern for Iran's intents with its nuclear program and called for a halt on all uranium enrichment. The resolution imposed a first round of sanctions against entities and individuals associated with Iran's nuclear program and bared the sharing of any sensitive intellectual capital with Iran deemed useful for the creation of nuclear technologies. (S/RES/1696)
- Following resolution 1696 the UN Security Council intensified sanctions a few months later, by expanding the list of individuals subject to travel bans and asset freezes. Furthermore, additional sanctions regarding nuclear materials and technologies were placed on Iran. (S/RES/1737)
- In 2007 the UN Security Council established a two-way arms embargo on the republic of Iran, and once more expanded the list of entities and individuals sanctioned. The resolution



further called for increased caution regarding goods headed to or originating from Iran.
(S/RES/1747)

- The UN Security Council would once more strengthen sanctions in 2008 (S/RES/1803)
- With Resolution 1929 the UN Security Council significantly escalated sanctions against Iran. The resolution entailed increased restrictions on the sharing of nuclear related technologies with Iran and targeted Iran's banking and financial sectors. By now, other assets of over 40 Iranian companies had been frozen. The resolution further noted the role of the IRGC in proliferation and targeted businesses related to the organization. A panel of experts were established to oversee the implementation of sanctions and the development of the situation. (S/RES/1929)
- As per the terms of the JCPOA, the UN Security Council adopted a resolution supporting the agreement and lifting many nuclear related sanctions. Importantly, the resolution established an overall framework for implementing further sanction relief as Iran started adhering to the terms of the JCPOA.

Possible Solutions

Diversification

Addressing the economic challenges facing Iran's economy could come in many forms. For starters economic diversification could go a long way in reducing reliance on oil and gas revenues, thus producing a more resilient overall economy. Promoting non-oil industries, such as agriculture, manufacturing, tourism and technological services would be meaningful ways of achieving this goal.

Investment Climate

Given that domestic unrest and economic instability has crippled FDI in Iran, policies aimed at creating a more attractive investment climate in the country could be greatly beneficial to the health of the country's economy. Tackling government corruption, enhancing transparency and introducing new streamlined regulations could all be means to this end. The development of modern infrastructure necessarily and beneficial to trade would also help position the Iranian economy more favorably for investors.



Private Sector

For many, prompting the further development of the private sector in the country is further seen as a key way to tackle Iran's systemically unstable economy. The promotion of small and medium sized companies would result in a more diverse and resilient overall economy. These companies stimulate economic growth, and most importantly job creation.

Exports

The diversification and expansion of exports could go a long way in aiding to sustain economic growth, while diversifying the revenue sources for the Iranian economy. Policies aimed at expanding trade partnerships and increasing export competitiveness through quality requirements are some ways in which this could be achieved.

JCPOA Revival

The revival of the JCPOA with the re-entry of the USA to the agreement would furthermore go a long way in ensuring economic stability for Iran, by resulting in the lifting or easing of economic sanctions. This would benefit Iran's investment climate giving it resulting in an overall decline in geopolitical tensions, and furthermore aid the country in overcoming the spiraling devaluation of its currency.

Bibliography

- "Iran Inflation Rate, CPI." Macrotrends,
<https://www.macrotrends.net/countries/IRN/iran/inflation-rate-cpi>.
- Balke, Nathan, and Oliver Imhof. "Determinants of Inflation in Iran and Policies to Curb It." IMF Working Paper WP/22/179, International Monetary Fund, 2022,
<https://www.imf.org/en/Publications/WP/Issues/2022/09/09/Determinants-of-Inflation-in-Iran-and-Policies-to-Curb-It-523280>.
- Bar'el, Zvi. "Iran's economy facing 'double disaster' of US sanctions, corruption." Arab News, 2015, <https://www.arabnews.com/node/749126/amp>.
- Bertelsmann Stiftung. "Transformation Index BTI 2022: Iran Country Report." BTI Project, 2022, <https://bti-project.org/en/reports/country-report/IRN>.
- Central Intelligence Agency. "Iran." The World Factbook, CIA,
<https://www.cia.gov/the-world-factbook/countries/iran/#economy>.



- Council on Foreign Relations. "What Is the Iran Nuclear Deal?" CFR, <https://www.cfr.org/background/what-iran-nuclear-deal>.
- Dubowitz, Mark. "Iran's Economic Morass: Mismanagement and Decline under the Islamic Republic." The Washington Institute, 2015, <https://www.washingtoninstitute.org/policy-analysis/irans-economic-morass-mismanagement-and-decline-under-islamic-republic>.
- European Council. "Iran: Council Approves Conclusions." European Council, 2022, <https://www.consilium.europa.eu/en/press/press-releases/2022/12/12/iran-council-approves-conclusions/>.
- Fathi, Ali. "The Dynamics of Corruption and Conflict in Iran." *Iranian Studies* 49, no. 4 (2016): 563-588, <https://www.jstor.org/stable/25597543>.
- Foroudi, Roxana Mohammadian. "The Weakest Currencies in the World." *Forbes*, 2022, <https://www.forbes.com/advisor/money-transfer/weakest-currencies-in-the-world/>.
- Ghodsi, Mahdi. "Dark Comedy or Tragedy? The Dire Straits of Iran's Economy." *Clingendael*, 2021, <https://www.clingendael.org/publication/dark-comedy-or-tragedy-dire-straits-irans-economy>.
- Hosseini, Seyed Ali, and Ali S. Haghighat. "Corruption in Iran's Petroleum Sector: A Historical Perspective." *Journal of Contemporary Iran and the Middle East* 4, no. 4 (2019): 58-70, <https://www.al-monitor.com/originals/2019/08/corruption-iran-petroleum-sector-economy.html>.
- International Monetary Fund. "Islamic Republic of Iran: 2010 Article IV Consultation." IMF Country Report No. 10/74, 2010, <https://www.imf.org/external/pubs/ft/scr/2010/cr1074.pdf>.
- Jones, Seth G. "Iran's Nuclear Program: Status." RAND Corporation, 2009, <https://www.jstor.org/stable/10.7249/mg821osd.12>.
- Katouzian, Homa. *The Political Economy of Iran under the Qajars: Society, Politics, Economics, and Foreign Relations, 1796-1926*. Routledge, 2013, https://books.google.nl/books?id=yf05D9WrMPcC&q=economy+of+Iran&redir_esc=y#v=snippet&q=economy%20of%20Iran&f=false.
- Katzman, Kenneth. "Year One of Raisi: The Economy." *The Iran Primer*, 2022, <https://iranprimer.usip.org/blog/2022/sep/14/year-one-raisi-economy>.
- Mohseni, Payam. "Corruption and State in Iran's Transition from the Shah to the Islamic Republic." In *Politics and Governance in the Middle East*, edited by Mazen Hassan and Mandy Turner, 89-108. Palgrave Macmillan, 2021. https://link.springer.com/chapter/10.1007/978-3-031-06263-6_6.



Salehi-Isfahani, Djavad. "Corruption, Internal Conflict, and the Resource Curse in Iran." Economic Research Forum Policy Brief, The Economic Research Forum, 2022, <https://theforum.erf.org.eg/2022/08/29/corruption-internal-conflict-iran/>.

World Bank. "Iran Overview." World Bank, <https://www.worldbank.org/en/country/iran/overview>.

Appendix or Appendices

When researching in order to better comprehend the issue make sure to look into the following sources:

<https://bti-project.org/en/reports/country-report/IRN>

<https://www.economicsobservatory.com/what-are-the-big-economic-challenges-facing-the-government-in-iran>

<https://www.mdpi.com/2072-4292/13/22/4620>



