

INTERNATIONAL SANCTIONS AND THEIR IMPACTS ON IRAN'S ECONOMY

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By

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January 2013

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*I want to dedicate my thesis to all those who are striving for world peace
and prosperity*

APPROVAL PAGE

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1. The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

2. The program of advanced study of which this thesis is part has consisted of:

- i) Research Methods course during the undergraduate study
- ii) Examination of several thesis guides of particular universities both in Turkey and abroad as well as a professional book on this subject.

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ABSTRACT

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International Sanctions and Their Impacts on Iran's Economy

Iran's nuclear program and the west's response have attracted a considerable attention from the international community since 2003. The United States, the United Nations (UN) and the European Union (EU) have imposed severe sanctions on Iran because of high distrust to the country's pursuance of a nuclear program due to suspicion about nuclear weapon development. Iran has an especial position in the Middle East and any specific changes on this country could affect the security and situation of the region. This thesis accomplished In order to fulfill a gap of implementing a comprehensive study of the western sanctions on Iran and their impacts on Iran's economy in detail; The current study intended to answer one of the most important questions in recent years which is "what are the impacts of western multilateral sanctions on Iran's economy?" the results provide a support for deriving to the conclusion that sanctions along with Iranian government economic mismanagement seriously affected Iran's economy. Moreover, the details of the country economic problems will be given through analyzing the Iran's macroeconomic indicators changes after the multilateral sanction years. Also, the impacts of the sanctions on Iran's GDP; Unemployment rate; foreign direct investment export and import; Iran's oil industry and oil market; banking and financial system; and inflation rate will be discussed.

Key words:

Sanctions, International Sanctions on Iran, Iran's Economy, Economic Sanctions, Western Sanctions, Nuclear Energy, Nuclear Program, Iran

Middle East, United States, United Nations, European Union, Impacts of Sanctions.

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KISA ÖZET

Mahdieh AGHAZADEH KHOEI

Ocak 2013

Uluslararası Ambargolar ve İran Ekonomisi Üzerine Etkileri

Bu tezin amacı Amerika Birleşik Devletleri ve Avrupa Birliği Ülkelerinin İran'a Nükleer programları nedeniyle uyguladığı ambargoların İran Ekonomisi üzerce etkilerini araştırmaktır. Bu amaçla giriş bölümünden sonra İran' a ve Nükleer Programlarına yönelik uygulanan uluslararası ambargoların tarihi arka planı irdelenmektedir. Bu bölümde İran devrimlerinden sonra Amerika ve İran arasındaki politik ilişkilerle bağlantılı olarak uygulanan ambargoların sebep sonuç ilişkileri detaylı olarak tartışılmaktadır. Üçüncü Bölümde İran ekonomisinin temel makro ekonomik değişkenlerinin ambargolardan nasıl etkilendiği araştırılmaktadır. Bu bölümde enflasyon oranı, gayrisafi yurt içi hâsıla oranları, işsizlik oranları ve doğrudan yabancı sermaye yatırımlarında ortaya çöken değişimler karşılaştırılmaktadır. Dördüncü Bölümde de uluslararası ambargoların İran ekonomisinin dış ticaretine, petrol sektörüne ve piyasasına, bankacılık ve finans sistemine ve parasal göstergelere etkileri incelenmekte ve değerlendirilmektedir. İran ekonomisinin uluslararası ambargolarından olumsuz olarak etkilendiği ancak İran Hükümetlerinin bu süreci daha iyi bir şekilde yönetebilseydi bu negatif tesirlerin daha da azaltılabileceği sonucuna ulaşılmıştır.

Anahtar Sözcükler:

Batı ülkeleri, ambargo, İran ambargoları, İran ekonomisi, nükleer energy, Amerika, United Nations, European Union, ambargoların etkileri, OrtaDoğu, birleşmiş Milletler, Avrupa Birliği, ABD.

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LIST OF CONTENTS

Dedication Page	iii
Approval Page	iv
Author Declaration	v
Abstract	vi
Kısa Özet	ix
List of Contents	xi
List of Tables	xiv
List of Figures	xv
Acknowledgements	xvi
I. Introduction	1
1.1. Objectives	5
1.2. Methodology	6
1.3. Thesis and main questions	7
1.4. Thesis structure	7
II. A Historical Overview of Sanctions on Iran and Iran's Nuclear Program	10
2.1. The background of the U.S. sanctions	10
2.2. The background of Iran's nuclear program and Indication of nuclear sanctions	16
2.3. Summary of Iran's sanctions related to Its nuclear program	22
2.3.1. Why economic sanctions?	22

2.3.2.	Classification of Iran’s nuclear related sanctions	26
	a- The United Nation (UN) sanctions	26
	b- The United States sanctions	32
	c- The European Union (EU) sanctions	36
2.4.	Summary and conclusions	39
III. Iran’s Economy and the Analysis of Macroeconomic		
	Indicators after the Multilateral Sanctions	43
	Introduction of Iran’s economy	44
3.1.	Iran GDP and GDP growth	49
3.2.	Iran’s inflation rate	55
3.2.1.	High money supply growth	56
3.2.2.	Iranian targeted subsidy plan	57
3.3.	Iran’s unemployment rate	59
3.4.	Foreign direct investment rate	60
3.5.	Summary and Conclusions	62
IV. Impacts of the Western Multilateral Sanctions		
	On Iran’s Economy	66
4.1.	The impacts of Western sanctions on Iran’s export	
	And Import	74
4.2.	The impacts of Western sanctions on Iran’s oil industry	
	And oil market	84
4.3.	The impacts of Western sanctions on Iran’s inflation rate	93
4.4.	The impacts of Western sanctions on Iran’s bank	
	And financial system	98

4.5. Summary and conclusions	104
V. The Summary and Conclusions	109
Bibliography	115

LIST OF TABLES

Table 3-1: the Main Economic Indicators of Iran's Economy	49
Table 3-1-3: The Correlation Coefficient between Growth of Oil Revenues and Iran's GDP and GDP Components	53
Table 4-1-1: Iran Imports from UAE	78
Table 4-1-2: Iran's Export to Turkey	80
Table 4-1-3: Iran's Import from Turkey	80
Table 4-1-4: Turkey Exports and Imports to Iran	81
Table 4-1-5: Iran Imports from China	82
Table 4-1-6: Iran Exports to China	82
Table 4-3-1: The percentage increase in the consumer goods prices in one month, and its compare to the same period on last year	95
Table 4-3-2: Consumer Prices - Annual Percent Change	97

LIST OF FIGURES

Figure 3-1-1: Iran's GDP (Current USD)	50
Figure 3-1-2: Iran's GDP growth (annual %)	51
Figure 3-1-4: Crude Oil Price - U.S. Dollar per Barrel	54
Figure 3-2-1: Iran's Inflation Rate, Consumer Prices (Annual %)	56
Figure 3-3-1: Iran's Unemployment Rate	60
Figure 3-4-1: Foreign Direct Investment in Iran, Net Inflows (% of GDP)	62
Figure 4-2-1: Iran's Crude Oil Production and Capacity	91
Figure 4-3-3: Consumer Prices - Annual Percent Change	98
Figure 4-4-1: Rial Exchange Rate against Dollar, Both in the Free Market and the Iranian Central Bank Values	101

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I. INTRODUCTION

After the revolution in 1979, Iran's history has entered a new phase of evolution. The concept of the Islamic republic and the Islamic government was a new notion which had an anti-western policy orientation. Discrepancies between Iran and the U.S. had been expanded with time and clashed together with political discords. Islamic Republic of Iran's policy was/is in contrast with the U.S.'s regional and national interests. The peak of the quarrel between the two countries occurred with the Iran's hostage crises (which gave yield to the start point of the U.S.'s sanctions against Iran) and with the tragic events of September 11, 2001.

The challenges present between the U.S. and Iran can be divided into three categories; the first topic is the Terrorism issue, wherein Iran is seriously accused of supporting terrorism groups such as Hezbollah. The second problem is the human right issue; Iran's government has a dense record of human rights violations. The last and most important obstacle facing Iran and the west is related to Iran's nuclear program. The U.S. in particular highly distrusts Iran's pursuance of a nuclear program due to suspicion about nuclear weapon development.

Iran is one of the powerful countries in the Middle East region which is avoiding to obeying and acting in same direction with U.S. policies. Some of Iranian officials believe that the nuclear program is as an excuse to make pressure on Iran and the roots of hostility is related to the post-revolution time in Iran. Chairman of Iranian parliament, Mr. Ali Larijani stated that the U.S. changed its policies against Iran after the Iranian revolution on 1979 and they even strength their hostility with Iran through aiding Iraq when it

was in war with Iran (September 1980 to August 1988).¹ Iranian supreme leader, Ali Khameneyi, declared in one of his speeches that the main reason of U.S. antagonism with Iran is the country's oil and gas resources. He also stated that Iran has the world's most oil and gas resources and U.S. wants to possess them, Iran is resistance against western powers and this is the reason of enmity against this country.²

With overt and covert reasons, Iran has been under sanctions for many years. The U.S. imposed sanctions on Iran immediately following the first days after the Islamic revolution and the hostage crisis. These sanctions are comprised of: a trade embargo between the U.S. and Iran; a ban on the sharing of any goods or technology that would lead to Iranians acquisition of advanced conventional weapons (Iran-Iraq arms nonproliferation act); the ban for Americans in participating in any of the responsibility for the development of Iran's petroleum resources; and the Iran Libya sanctions act (ILSA), which states that all foreign companies may not invest or participate in Iran's oil and gas project developments.

A new chapter of Iran's sanctions history had started when Mr. Alireza Jafarzade - a spokesman of an Iranian opposition political organization, Mujahedin of Iran (MEK) - revealed the existence of two nuclear enrichment sites in Iran. This led Mr. Mohamed ElBaradei - Director General of the International Atomic Energy Agency (IAEA) in 2003 - to inspect Iran's nuclear sites. ElBaradei reported that Iran should have informed the IAEA before it started to engage in any nuclear enrichment, in addition, the following agency inspections couldn't convince the IAEA that Iran would act

¹ "Eight solution of Larijani for resistive economy: Nuclear program is just an excuse." Mehr News, October 22, 2012, <http://www.mehrnews.com/fa/newsdetail.aspx?NewsID=1725924>.

² "Ayatollah Khameneyi declared that the main reason on western hostility with Iran is its oil and gas resources." Jamejam Online, March 21, 2012, <http://khabarfarsi.com/ext/2276086>.

according to the obligations as promised, which resulted in Iran being introduced to the UN Security Council.

Because of the U.S.'s interests in the Middle East and Persian Gulf, it is worried about Iran's potential ability to develop nuclear weapons. Moreover, should Iran obtain nuclear weapon there is a higher possibility of the nuclear weapons reaching terrorist groups. It is worth noting that, observing its past experiences, the U.S. has realized that unilateral sanctions have not been enough to change Iran's behavior. Accordingly, the United States had successfully assembled the western countries to produce effective multilateral sanctions on Iran. Consequently, the first Resolution against Iran was adopted in 2006 by the UN Security Council because of the west's distrust of Iran's nuclear activities. This was the beginning of the severe sanctions which were later adopted by the United States, the United Nations and the European Union.

The multilateral sanctions on Iran are generally divided into four segments: the prohibition of accessing the international SWIFT networking, therefore stopping financial transfers and freezing the Iranian bank asset; trade sanctions; insurance embargoes; and the prohibition of investment on Iran's oil, gas and petrochemical industries or any technical assistants which could be related to Iran's energy- including nuclear- programs. The SWIFT sanction, Iran's central bank sanction and Iran's oil export sanctions are the most intense level of sanctions among all.

Multilateral sanctions have frozen the assets of most of the Iranian banks in many countries. Iranian banks are cut off from the international finance system - SWIFT - which poses serious difficulties to Iran in making its payments. The sanction on Iran's central bank has made drastic problems for the country in making financial transactions. Trade sanctions have forced

Iran to stick to trading partners from typically non-western countries such as China, Russia and Turkey. While Iran previously depended on the west for industry technology, after the sanctions China has replaced the European countries in providing needed technologies and investment in Iran's industries.

Moreover, the west has tried to close any way for Iran to bypass the sanctions. The United States along with its allies have found an effective method of pressuring Iran in sanctioning Iran's oil industry. Iran's economy is highly dependent on oil revenues and hindering Iran's oil export has/will present problems for the Iranian government's funds. The European Union had imposed a ban on the import and insurance of Iran's crude oil and petroleum products, an export ban on technology and products related to Iran's oil and gas industry development and prohibition of investment on Iran's oil, gas and petrochemical industry.

Notably, The United Kingdom's Foreign Secretary, William Hague stated that sanctions have had serious effects on Iran's economy.³ As a result of the oil export, insurance and investment sanctions, Iran has lost its majority of its oil customers. Japan and South Korea suspended oil purchases from Iran as a result of the EU insurance ban on tankers transporting Iran's crude oil. The oil production in Iran has now decreased due to the lack of foreign investment, financial resources and high adequate technologies.

Under those circumstances, Iran is trying to confront the sanctions by being self-reliant in the production of the needed goods and increasing the private sector's participation in the economy. The Iranian government is

³ "William Hague: Iran sanctions show EU is taking very strong lead in world affairs." The Telegraph News, Jan 23, 2012, <http://www.telegraph.co.uk/news/politics/william-hague/9032764/William-Hague-Iran-sanctions-show-EU-is-taking-very-strong-lead-in-world-affairs.html>.

trying to make a favorable relationship with private sectors. Also Iran's supreme leader– Mr. Ali Khameneyi – called for a resistant economy in order to overcome the sanctions.⁴ The resistant economy could reduce Iran's dependence on oil revenues, but this could only happen if the government is successful in convincing the Iranian people to endure the difficulties of the impending economic situation.

However, some economists believe that Iran could convert the sanctions into opportunities and develop the economy, but opponents argue that this would be difficult because of the country's internal conflicts. At the time being Iran is in less unity than the Islamic revolution time. People's dissatisfaction from the Iranian government operation along with sanctions are the reasons of government's need to make double effort in order to try to keep people passive and obedient; in such a situation any decision by Iran's government is very critical for the country's future.

1.1. Objectives

This thesis is intended to accomplish two goals:

- To study the sanctions against Iran and their impact on the country's economy
- To study the Iranian government reactions to deal with the sanctions

Given that the writer is of Iranian nationality, the motive for choosing this subject stems from personal interests. The sanctions and nuclear program subject is one of the most important issues in Iran's history which is determining the future economic and political path of Iran. Iran's nuclear program and the west's response have attracted a considerable attention from the international community since 2003. Iran has an especial position in

⁴ "Resistance economy can pave the way for progress: leader." Tehran Times online newspaper, August 07, 2012, <http://tehrantimes.com/politics/100377-resistance-economy-can-pave-the-way-for-progress-leader>.

the Middle East and any specific changes on this country could affect the security and situation of the region. Sanctions on Iran could have important short-term and long-term effects, but the question is whether or not they can bring Iran to negotiations, and whether or not Iran can bypass them and become more uncontrollable than before.

In order to fulfill a gap of implementing a comprehensive study of the western sanctions on Iran and their impacts on Iran's economy in detail, some major steps had been taken. First, this thesis attempts to provide the history of U.S. interaction with Iran and tracking the main efforts done by U.S. and events which led to accompany of western countries with U.S. to sanctioning Iran. Second, the sanctions variety will be explained in detail. Third, the impacts of international sanctions on Iran's economy will be study and finally the Iranian government approaches to confronting to these sanctions will be discussed.

1.2. Methodology

There are many articles written about sanctions on Iran, but this paper will take a unique approach by providing comprehensive view of the multiple impacts of sanctions on different parts of the economy. The collection of information about Iran's current economy situations and comparisons with before the sanctions have been tried, however was difficult, because of the lack of data and the complexity of the direct impacts of the sanctions. Iran's nuclear sanctions occurred at the same time as Iran's subsidy reform plan, so the impacts of both issues at the same time had a particular effect. This paper strives to collect all the information about the Iranian government's reactions to the sanctions and the way they endeavor to overcome and manage the situation. Many books and articles in this field have contributed to strengthening the thesis with studies and surveys.

With the purpose of more focus on the economic impacts of the sanctions against Iran, this thesis has assigned two main chapters to study

the Iranian economy and the sanctions effects on main macroeconomic indicators. Chapter three provides an introduction of the economy of Iran and investigates the main macroeconomic indicators. Chapter four, which reviews the impacts of the sanctions, has been divided into four major categories: The impacts of western sanctions on Iran's exports and imports; on Iran's oil industry and oil market; on Iran's banks and financial system; and on Iran's inflation rate. Such a division helps to examine the impacts in a more effective way; all parts are explained in detail with economic graphs and analysis.

1.3. Thesis and Main Questions

This study intended to answer one of the most important questions in recent years both in detail and with a boarder view: What is the impact of the international sanctions on Iran's economy? The answers could be very significant for both the west and for Iran's government in terms of defining the next steps which will taken in their political relation regarding each other. The answered questions in this paper are as follow:

- What are the main reasons of sanctions against Iran?
- Which sanctions were imposed on Iran by western countries (United States, European Union, and United Nations)?
- What are the impacts of the sanctions on Iran's economy?
- How is Iran's government overcoming and managing the sanctions?

1.4. Thesis Structure

This thesis will follow a logical five-chapter as follow: the first chapter which included the introduction of the whole thesis, objectives, main questions and methodology. The second chapter contains the history of Iran's nuclear program and Iran's unilateral and multilateral sanctions before and after the nuclear issue is given. The third chapter provides an explanation of Iran's economy and a comparison of the economic indicators

before and after the sanctions. Chapter four expands upon the sanctions effects data and examines their comprehensive economic and political consequences as a whole. At last, the summary, conclusions and recommendations are given in the fifth chapter.

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II. A HISTORICAL OVERVIEW OF SANCTIONS ON IRAN AND IRAN'S NUCLEAR PROGRAM

Despite good relations of Iran and the U.S. before the Iranian revolution, things changed after that turning point; Relation between two countries became strained and it stepped into a new era. The U.S. policies against Iran could be analyzed as policies to prevent this country from becoming an axis of power in Middle East. From Iran's revolution and the hostage crisis on 1979 till 2006 time period, the U.S. had imposed unilateral sanctions on Iran which the results were not successful and Iran didn't make any change in its politics and behavior. Nevertheless United States was successful to accompany European Union and United Nations to impose sanctions on Iran after 2006, multilateral sanctions were intensified during the time and currently they made many economical problems for the Iranian government. In this chapter, the background of the U.S. unilateral sanctions, the history of Iranian nuclear program, the steps were taken by west to prevent Iran from following its nuclear program and the multilateral sanctions which were the result of Iran's resistance to peruse its nuclear enrichment will be discussed in detail.

2.1. The Background of the U.S. Sanctions

The history of U.S sanctions against Iran goes back to the first days of the Iranian revolution with the leadership of Khomeini (1979). Before elaborating upon these sanctions it is beneficial observe the definition of sanction according to Oxford Dictionary, which defines it as "measures taken by a state to coerce another to conform to an international agreement or norms of conduct, typically in the form of restrictions on trade or official sporting participation."⁵ In addition the House Committee on Ways and Means defined a U.S sanction in a Feb 18, 1998 addressed to the U.S

international Trade Commission Chairman, as any one-way economic restriction made by the U.S. on another country with political or national security reasons.⁶ Sanctions have had a significant role in United States and Iran's relations from 1979 till now.

Notably, Jahangir Amuzegar has accurately summarized the reasons of conflict between Iran and the U.S. as due to:

- Iran's attempting to export the Islamic revolution to other Muslim countries in the Middle East and North Africa (Ayatollah Khomeini declared about his intention to export the revolution to other parts of the Muslim world⁷); Hamas and Hizballah could be exemplified as such groups which Iran is directly or indirectly assisting them.
- Supporting terrorism by Iran.
- Iran aspiring to be a hegemonic power and position in the Middle East and Persian Gulf region by importing and producing arms and weapons (such as nuclear weapon).
- Human rights abuses by the Iranian regime.⁸

The reason for the first U.S sanction on Iran is related to the Iran hostage crisis. Following the Iranian revolution, on Nov 4, 1979 Iranian students took 52 American hostages inside the U.S. embassy in Tehran and held them for 444 days. Soon after President Carter ordered the end of diplomatic relations

⁵ "Sanction," Oxford Dictionary, <http://oxforddictionaries.com/definition/english/sanction>.

⁶ United States Government Accountability Office (GAO), Iran Sanctions: Impact in Furthering U.S. objectives is unclear and should be reviewed (United States: GAO report, 2007): 1-7.

⁷ "Khomeini speeches on 05 July 1989," The center of preserving and publishing the works of Iran's supreme Ali Khameneyi, <http://farsi.khamenei.ir/newspart-print?id=2127&nt=2&year=1368>.

⁸ Jahangir Amuzegar, "Iran's Economy and the U.S. Sanctions," Middle East Journal 51, No. 2 (1997): 186-187.

with Iran,⁹ he froze all Iranian government assets in the United States and deprived Iran of using over \$12 billion of its assets and interest properties. According to executive order of April 1980, President Carter imposed a trade embargo on Iran and he prohibited certain transactions such as the prohibition of making any payment or transfer of any property except for purposes of family remittances; the ban on direct or indirect import of Iranian goods or services to the U.S with the exception of news publications; and the prohibition of any transaction of a the U.S. citizen by any foreign person who travels to Iran after the embargo legislation.¹⁰

During the presidential period of Ronald Reagan, the trade embargo was tightened because of Iranian government policy toward supporting the terrorism.¹¹ According to Akbar Torbat, These policies continued with the increasing of the U.S. concerns about Iran's development of military equipments and also the threat for American interests in the Persian Gulf.¹² The U.S. considers the hegemony of Persian Gulf as the future power superiority enabling domination of the energy resources of this region and hence the control of oil supply and oil prices. Consequently the U.S. implemented the Iran-Iraq Arms Nonproliferation Act of 1992, banning any transfer of goods or technologies that led Iranians or Iraqis to obtain chemical, biological, nuclear or destabilizing numbers and types of advanced conventional weapons.

⁹ R. K. Ramazani, "Iran's revolution patterns, problems and prospects." *International Affairs (Royal Institute of International Affairs 1944)* 56, No 3 (Summer 1980): 455.

¹⁰ Executive Order No 12211, Prohibiting Certain Transactions with Iran (United States: U.S. Federal, 1980).

¹¹ Executive Order No 12613, Prohibiting Imports from Iran (United States: U.S. Federal, 1987).

¹² Akbar E.Torbat, "Impacts of the US Trade and Financial Sanctions on Iran," *The World Economy* 28, No. 3 (2005): 409.

With the same previous reasons, the U.S. initiated further sanctions on Iran on 1995. According to executive order of 15 March 1995, the entry into or performance of a United States person or a guaranty of another person's performance in a contract that includes any responsibility for the development of petroleum resources located in Iran was prohibited.¹³ President Clinton stated in his letter to Congressional leaders on Additional Economic Sanctions against Iran that he took additional actions because of Iranian's continuing support for international terrorism, and because of her efforts to acquire weapons of mass destruction.¹⁴

The boycott of a country could be especially effective when it legislates as multilateral rather than unilateral. Unilateral sanctions, especially economic sanctions, would cost much for the sanction legislator. Above all, unilateral economic sanctions would be inconclusive because the trade world is so wide and keep track of the sanctioned products (in order to control that if they would be reach to the sanctioned country or not) is a hard and costly job. Under the multilateral blocking circumstances, the sanctioned country would be under such a massive pressure that results to change its actions in favor of the sanction imposer countries. Robert Carswell also concluded in his paper that policy makers of the U.S. should exhaust every possible multilateral sanctions before considering unilateral embargoes and the U.S. should be even accept modifications in order to attain a united front with other industrialized and key regional countries.¹⁵

¹³ Executive Order No 12957, Prohibiting Certain Transactions With Respect to the Development of Iranian Petroleum Resources (United States: U.S. Federal, 1995).

¹⁴ Sasan Fayazmanesh, *The United States and Iran: Sanctions, wars and the policy of dual containment* (USA and Canada: Routledge, 2008): 76.

¹⁵ Robert Carswell, "Economic Sanctions and the Iran Experience," *Foreign Affairs* 60, No. 2 (1981): 265.

However, there was a need for U.S. allies cooperate to support the sanctions in order to attain the desired targets of the United States. Akbar Torbat has provided a good description of this issue in his article, he noted that the U.S. expected its allies to boycotting purchase of Iranian oil, but none of them did so. U.S allies' trade amount with Iran was higher than the U.S. trade level and they had much to lose if they stopped doing business with Iran. Countries like France, the UK, Germany and other European nations did not assent to take part in the U.S. sanctions. In addition they did not believe that the embargoes could have the desired impacts on Iran's behavior. Consequently the U.S. had to take more actions to pressure other countries to sanction Iran, this was the reason of signing of the Iran and Libya sanctions act (ILSA-5 August 1996) which was an embargo on foreign companies and persons who participated in Iran's oil and gas project developments and exported petroleum products or technologies to Iran.¹⁶

Due to the established trade relations between the Europe and Iran, The ILSA raised conflict between the U.S. and Europe as well as Japan. Many countries around the world abstained from obeying ILSA to the extent that the French company Named Total disregarded the U.S. laws and on 28 of September 1997 signed a contract with Iran to develop the south pars gas field. Sasan Fayazmanesh described that the unenforceability of ILSA as well as the increasing pressure from the U.S. corporations to remove such sanctions made the pursuit of the economic sanctions by the United States and Israel less intense during the second half of the Clinton presidency.¹⁷

¹⁶ Akbar E.Torbat, "Impacts of the US Trade and Financial Sanctions on Iran." *The World Economy* 28, No. 3 (2005): 409-412.

¹⁷ Sasan Fayazmanesh, "The politics of the U.S. economic sanctions against Iran," *Review of Radical Political Economics* 35, No. 3 (2003): 231.

For example The Clinton Administration on April 28, 1999 lifted the sanctions by ending the embargo on the U.S. commercial sales of medical and food products to Iran, Libya, and Sudan. They notified the reason of this action as a reason of humanitarian sakes, as Stuart Eizenstat - the President Clinton's deputy secretary of the treasury - stated that "food and medicine generally do not contribute to a nations military capabilities and/or support for terrorism."¹⁸ Easing of the U.S. sanctions against Iran went further by the U.S. lifting imports sanctions in March 2000, on some key Iranian non-oil goods such as carpets, dried fruits and pistachios.

However, during the George W. Bush administration, The White house and the senate approved for the extension of sanctions against Iran. President GW Bush signed into law on August 2001 a five-year renewal of the ILSA. According to Eghtesad Energy - an Iranian journal - senator Schumer described the reason of this act as based on the fact that the ILSA could have been effective for preventing Iran and Libya of supporting terrorism by lowering their oil and gas industries development and subsequently diminishing their financial capability.¹⁹ Later the ILSA was renamed On September 2006 to the Iran Sanctions Act (ISA) since it was no longer applied to Libya. Moreover, the rapprochements between Iran and the U.S. had been ended after the tragic events of 11 September 2001. President Bush labeled Iran as an "axes of evil"²⁰ in his famous speech on January 29, 2002; the speech provided more tensions in the relations between two countries.

¹⁸ Akbar E.Torbat, "Impacts of the US Trade and Financial Sanctions on Iran," *The World Economy* 28, No. 3 (2005): 412.

¹⁹ Saeed Khoshru, "U.S. sanctions against Iran." *Eghtesad Energy*, No: 26 (June 2001): 24.

²⁰ "Bush Axis of Evil," YouTube, <http://www.youtube.com/watch?v=3DqHyIcsO8E>.

In a broad view, the U.S. sanctions were not successful in changing Iran's politics or behavior against the U.S. and international community. Both the unilateral nature of these sanctions and Iran's good internal situation could be named as the reasons of such a result. According to Nasser Asadi the main reasons of low efficiency of the unilateral U.S. sanctions against Iran could be summarized as lack of proportion between goals and means; non-legitimacy of the sanctions; Iran's compensation of economic defects by oil revenues; and not much internal economic pressure on Iranian ordinary people.²¹ What is clear here is that the United States used its previous experiences and it was successful to accompany other countries to impose multilateral sanctions due to Iran's nuclear program in a situation that Iran is suffering from both internal conflicts and economical problems.

2.2. The Background of Iran's Nuclear Program and Indication of Nuclear Sanctions

The origin of the Iran's nuclear program dates back to the 1950's, when Iran was ruled by Shah Mohammad Reza Pahlavi. According to Sasan Fayazmanesh, in 1957 the Shah signed an agreement for cooperation in research on the peaceful usage of nuclear energy. Under this agreement the U.S. provided technical assistance to Iran.²² During this time, not only the United States, but also other countries such as France and Germany tried to sell Iran the nuclear equipments.

Additionally, according to New York Times the United States and Iran had announced the signing of a major economic agreement including \$7 billion given to Iran to spend on the development projects largely devoted to

²¹ Nasser Asadi, *Coercive diplomacy: comparative study of American politics towards Iraq, Libya and Iran* (Iran: Imam Sadiq University publications, 2011): 128-133.

²² Sasan Fayazmanesh, *The United States and Iran: Sanctions, wars and the policy of dual containment* (USA and Canada: Routledge, 2008): 124.

purchasing the nuclear power plants, along with associated water desalting plants. Also it noted that "Iran has made a major policy decision to develop nuclear power, anticipating that her oil supply will decrease sharply in the next few decades. Iran had already agreed to buy two power plants from France and two from West Germany."²³ It is interesting to see that the Iranian nuclear program actually started with the participation and support of the same countries that today try to make Iran abandon its nuclear program.

Iran signed the Nuclear Non-Proliferation Treaty (NPT) in July 1968 and ratified it on 1970, making Iran's nuclear program subject to International Atomic Energy Agency (IAEA) confirmation including using the benefits of peaceful nuclear technology. The NPT has three main pillars: non-proliferation, disarmament and peaceful uses of nuclear energy. The Shah had signed many contracts in order to developing the nuclear program, but all efforts stopped after the Iran's revolution; the foreign investors left Iran and projects which worth billions of dollars remained incomplete.

Moreover, after the revolution the relation between Iran and the U.S. has changed, at this time the U.S. and its allies changed their status against Iran which could no longer expect help for developing the nuclear program. Due to the hostile manner taken by Iranian government against the U.S, It is not surprising that when the U.S. and Israel realized about Iran's nuclear program activity, they were concern about that Iran would purposed to attain a military nuclear capability.

On 14 August 2002, Alireza Jafarzadeh- a spokesman of an Iranian opposition political organizations, Mujahedin of Iran (MEK)- announced the existence of two nuclear sites under construction, which were a uranium

²³"Iran will spend \$15-Billion in U.S. over Five years; 8 Nuclear Plants Ordered -Accord Described as Biggest of Its Kind," The New York Times (March 12, 1975): 01.

enrichment facility in Natanz and a heavy water facility in Arak. In response to MEK's declaration, Mr. Reza Aghazadeh, Vice-President of Iran and President of the Atomic Energy Organization of Iran, Noted in his statement to International Atomic Energy Agency (IAEA) in 16 Sep 2002 that Iran, on the basis of its Islamic tenets, has always opposed the possession of weapons of mass destruction. He also stated that "Iran was embarking on a long-term plan to construct nuclear power plants with a total capacity of 6000 MW within two decades."²⁴

Followed by this statement, IAEA Director General visited Iran from 21 to 22 February 2003. After this visitation, IAEA reports concluded that "Iran has failed to meet its obligations under its Safeguards Agreement with respect to the reporting of nuclear material, the subsequent processing and use of that material and the declaration of facilities where the material was stored and processed."²⁵ The IAEA's report did not state that Iran had or tried to have a nuclear weapons program but it presented some questions for the international community: is Iran pursuing nuclear weapon production? Avoiding more concerns being raised on Iran's nuclear program, Iran invited EU 3 countries consisting Britain, France and Germany to Tehran. In this meeting, held on 21 October 2003, Iranian government announced that it has decided to interact in full cooperation with IAEA in order to clarify any uncertainties.

In order to promote confidence, Iran decided voluntarily to temporarily suspend all uranium enrichment. Taking place on 14 November

²⁴ "Speech of Reza Aghazadeh, Vice-President of Iran and President of the Atomic Energy Organization of Iran" in the 46th General Conference of the IAEA in Vienna, September 16, 2002.

²⁵ International Atomic Energy Agency (IAEA), Implementation of the NPT safeguards agreement in the Islamic Republic of Iran (IAEA reports, 6 June 2003): 07.

2004, this decision was called the Paris Agreement; reciprocally, three EU countries – France, Germany and the UK - decided to “recognize the right of Iran to enjoy peaceful use of nuclear energy in accordance with the nuclear Non-Proliferation Treaty.”²⁶ Because of Iran’s voluntary temporarily suspension of all its uranium enrichment, the Paris agreement also provided the EU claim as “The E3/EU will actively support the opening of Iranian accession negotiations at the WTO.”²⁷

However, in the following months, at the meetings in Vienna in November 2005, the IAEA Board of Governors discussed the report given by the Director General of the agency. It had mentioned in this report that Iran was more forthcoming in cooperation with the agency but that there still remain issues to be resolved. Also it had been noted in the report that “in order to clarify some of the outstanding issues related to Iran’s enrichment program, Iran’s full transparency is indispensable and overdue.”²⁸

Despite all Iranian government’s effort in order to cooperate with the IAEA, the result was not successful. The reason lays in the fact that West distrusted Iran regarding to its nuclear program due to worry over Iran’s likelihood of pursuing nuclear military goals. The anti-western policy orientation of Iran and its regional power-seeking nature after Iranian revolution fed the idea that Iran is following the target of having nuclear weapons, despite the fact that Ayatollah Ali Khameneyi - the supreme leader of Iran - had issued a religious edict - a fatwa - that “forbidding the

²⁶ “Statement by the Iranian Government and Visiting EU Foreign Ministers,” International Atomic Energy Agency (IAEA), Last Modified October 21, 2003, http://www.iaea.org/newscenter/focus/iaeaيران/statement_iran21102003.shtml.

²⁷ “The Paris Agreement,” The France Embassy in Iran, <http://www.ambafrance-ir.org/Paris-Agreement>.

production, stockpiling and use of nuclear weapons.”²⁹ He also said that “Iran is not seeking to have the atomic bomb, possession of which is pointless, dangerous and is a great sin from an intellectual and a religious point of view.”³⁰ The concealment history of Iran’s nuclear program also made an absence of confidence for Western countries. Indeed Iran couldn’t convince west that its nuclear program only has peaceful objectives. In his introduction to the March 2006 National Security Strategy report, President George W. Bush wrote:

“We may face no greater challenge from a single country than from Iran. For almost 20 years, the Iranian regime hid many of its key nuclear efforts from the international community. Yet the regime continues to claim that it does not seek to develop nuclear weapons. The Iranian regime’s true intentions are clearly revealed by the regime’s refusal to negotiate in good faith; its refusal to come into compliance with its international obligations by providing the IAEA access to nuclear sites and resolving troubling questions; and the aggressive statements of its President calling for Israel to be wiped off the face of the earth.”³¹

This utterance had been followed by Iranian President Mahmood Ahmadinejad statement about Israel at the conference in Tehran on October

²⁸ The International Atomic Energy Agency (IAEA), Implementation of the NPT safeguards agreement in the Islamic Republic of Iran (IAEA reports, November 18, 2003): 05.

²⁹ Ali Akbar Salehi, “Iran: We do not want nuclear weapons,” the Washington Post, April 12, 2012, http://www.washingtonpost.com/opinions/iran-we-do-not-want-nuclear-weapons/2012/04/12/gIQAjMNnDT_story.html.

³⁰ James Risen, “Seeking Nuclear Insight in Fog of the Ayatollah’s Utterances,” the New York Times, April 13, 2012, <http://www.nytimes.com/2012/04/14/world/middleeast/seeking-nuclear-insight-in-fog-of-the-ayatollahs-utterances.html?pagewanted=all>.

³¹ National Security Strategy of the United States Report (United States: March 16, 2006): 20.

2005. Ahmadinejad had commented that according to Imam Khomeini's statement which said that Quds (Jerusalem) occupying regime should be disappear from the page of time, we cannot compromise over the issue of Palestine.³² This statement was quickly translated into the media and the feedback was the intensifying the questions against Iran's nuclear activities. President Ahmadinejad's unconsidered and unwise speech resulted to more distrust and tension of International community with Iran and it eliminated any opportunity to build up trust, if there were any chances. subsequently such mistrust resulted to the first step of imposing sanctions against Iran by UN security council: After the last reports of international atomic energy agency, On February 4, 2006, the 35 member board of IAEA adopted the resolution by a vote of 27-3, requesting the IAEA Director General to introduce to the UN Security Council all IAEA reports and resolution about Iran.

Soon after The Washington post wrote that "The United Nations nuclear agency reported Iran to the U.N. Security Council on Saturday, signaling growing worldwide unease about the nature and intent of Iran's nuclear program, and concern that it might be military."³³ Thereupon, Iran responded by announcing its intention to terminate voluntary suspension of uranium enrichment and end voluntary co-operation with the IAEA beyond basic Nuclear Non-Proliferation Treaty requirements. President Ahmadinejad said that "All of Iran's peaceful nuclear activities will continue within the framework of the IAEA and based on the NPT and the agency's

³²Jalil Roshandel, *Iran, Israel, and the United States: Regime Security vs. Political Legitimacy* (USA: Praeger Security International, 2011): 82.

³³ John Ward Anderson and Glenn Kessler, "U.N. Nuclear Agency Reports Iran to Security Council," *The Washington Post*, February 04, 2006.

<http://www.washingtonpost.com/wpdyn/content/article/2006/02/04/AR2006020400470.html>

safeguards."³⁴ Such claims from Iranian government and the IAEA's reporting Iran to The UN was resulted to the first round of the sanctions on Iran, on next pages it will discussed by detail about all the sanctions made by United States, United Nations and European Union.

2.3. Summary of Iran's Sanctions Related to its Nuclear Program

For more than the past six years, there have been efforts made by western countries to compel Iran to end its nuclear enrichment objectives and return to negotiations. They tried to encourage Iran to give up its enrichment program because of the probability of Iran developing nuclear weapons. The economic sanctions have been put in action in order to force Iran to change its behavior. The economic restrictions are a kind of punishment in international relations and they can be generally divided into 3 types: trade sanctions, financial sanctions and trade data transaction sanctions. According to Gary Hufbauer and Jeffrey Schott, economic sanctions are "the deliberate government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations."³⁵ Beside the economic embargoes, Iran has experienced sanctions on individuals and military and arm sanctions as well.

2.3.1. Why Economic Sanctions?

Uncertainties about Iran's nuclear program made the U.S. and western countries to consider all the choices they could have in order to prevent Iran to follow its nuclear program and likely nuclear weapons.

³⁴ John Ward Anderson and Glenn Kessler, "U.N. Nuclear Agency Reports Iran to Security Council," The Washington Post, February 04, 2006.
<http://www.washingtonpost.com/wpdyn/content/article/2006/02/04/AR2006020400470.html>

³⁵ Joseph G.Gavin, Economic Sanctions: Foreign Policy Levers or Signals? (Washington D.C: Cato Institute, 1989): 01.

Thomas R. Pickering presented all the options that the west could have for interacting with Iran. These options are : 1- accepting that Iran develop a nuclear program and even nuclear weapons 2- impose economic and other sanctions in order to make Iran accept to give the insurance that it will not follow the nuclear military program 3- enhancing the second option 4- using military force.³⁶

The first option is not practical, because it could persuade other countries such as Egypt, Saudi Arabia, Turkey and Syria to have nuclear programs. If this happens, nuclear weapons may reach terrorism groups. Mr. Ilan Berman, vice president of the American foreign policy council, stated that the U.S. is worried that Iran is becoming a model for other countries and that many other countries will embark on the path of nuclear weaponry. He also added that two years ago there was only one country with nuclear power in the Persian Gulf and that this has increased to nine countries.³⁷ In addition, if Iran has nuclear energy, this will increase Iran's dignity in the Middle East; hence Iran could force smaller countries to have the same orientation with her. Beside all, the concept of Iran being a modern, advanced and powerful country concerns other nations because of the way Iran may use this power in future.

One of the interesting theories that the West hasn't paid enough attention to is the theory of Kenneth Waltz, a professor in the international relation field. He believes that if Iran has a nuclear bomb, it will be better for the West. Foreign Affairs had the cover of its magazine by the title of "why

³⁶ Thomas R. Pickering, "The Iranian quagmire: how to move forward," *Bulletin of the atomic science* 66, No.6 (2010): 90.

³⁷ "Iranian Nuclear Crisis – latest developments and next steps: Statement of Ilan Berman" in proceeding of the 110Th congress of committee on foreign affairs: first session, (Washington: U.S. government printing office, 2007): 36.

Iran should get the bomb?"³⁸ Waltz explained in his article that the distribution of power in the Middle East is so imbalanced, because Israel has the nuclear bomb and not other countries. So if Iran has the nuclear bomb, this will help to balance and stabilizing the region; But the opponents believe that if Iran has the Nuclear weapon it may result to other countries in the Middle East starting to have the nuclear bomb and even Iran giving the bomb to the terrorists. Waltz answers that no country is going to risk itself by passing a nuclear weapon to other regions where they hold no control. In addition he argues that history has proved that when a country has a nuclear bomb, it would not attack another country which has the bomb as well. He also adds that "Nevertheless, people do not seem to appreciate that nuclear weapons bring peace."³⁹

There are many arguments against using a military force, the last option. As Daniel Byman-director of Georgetown's security studies program-explained in his statement, the military attack could ruin the image of the U.S. in the Middle East, and it could redouble Iran's effort to have a nuclear program and nuclear weapons. The other reason against a strike is that Iran would strike back, and this makes everything worse.⁴⁰ Thomas R. Pickering enumerated the several arguments against the use of military options, some of them are as follows: first, The U.S. has time to examine other choices

³⁸ Kenneth N. Waltz, "Why should Iran get the bomb - Nuclear Balancing Would Mean Stability" *Foreign Affairs* 91, No. 4 (2012): 247-265.

³⁹ Kenneth N. Waltz, "Why should Iran get the bomb - Nuclear Balancing Would Mean Stability" *Foreign Affairs* 91, No. 4 (2012): 247-265. And.

P.J. Tobia, "The Upside of a Nuclear-Armed Iran: A Chat with Kenneth Waltz," *The PBS News Hour*, July 06, 2012. <http://www.pbs.org/newshour/rundown/2012/07/among-those-who-study-international.html>.

⁴⁰ "Iranian Nuclear Crisis – latest developments and next steps: Statement of Daniel Byman" in proceeding of the 110Th congress of committee on foreign affairs: first session, (Washington: U.S. government printing office, 2007): 26.

rather than a strike. Second, the U.S. has imperfect information about Iran's locations of the nuclear program, so the U.S. can't be certain about the targets. Third, even military action can only postpone Iran's nuclear program for a couple of years, so it is not worth the risk and the cost of it. Fourth, Iran would extend its connection with terrorism groups and finally Iran would blockade the Strait of Hormuz to stop oil and gas shipments, the resulting impact on oil and gas prices are inevitable.⁴¹

The selection of the second or even third options are more feasible if they are planned wisely, which means that the west should have accurate information about Iran's economic and administrative situation in order to make the best diplomacy. This approach needs creative negotiations with Iran as well as imposing and selecting such a sanction that could bring Iran to accept stopping the proliferation of the nuclear energy. With an overview on all the options that the U.S. and the west have in order to stop Iran's nuclear program, it is clear that imposing sanctions could be the best choice for the current situation. Economic sanctions are less costly and more practical. As explained above, for Iran's case the military alternative couldn't be a good option. Moreover, the economic multilateral international sanctions are usually hard to evade and Iran is already having economic problems. According to Edward R. Royce statement on 110th congress of committee on foreign affairs, Iran's weak spot is its economy, which is suffering problems like unemployment, inflation, lack of foreign investment, prevalence of corruption and mismanagement of the oil sector.⁴²

⁴¹ Thomas R. Pickering, "The Iranian quagmire: how to move forward," *Bulletin of the atomic science* 66, No.6 (2010): 92-93.

⁴² "Iranian Nuclear Crisis – latest developments and next steps: Statement of Edward R. Royce" in proceeding of the 110th congress of committee on foreign affairs: first session, (Washington: U.S. government printing office, 2007): 02.

2.3.2. Classification of Iran's Nuclear Related Sanctions

Iran is one of the infrequent countries which the international community achieved a consensus to impose multilateral sanctions against. The multilateral nature of the embargoes on Iran is the main reason of so much pressure on the Iranian government and the ordinary people at the time being. Earlier the steps taken by the west to come into an international agreement to make sanctions against Iran because of the mistrust over the country's nuclear program has been explained. In the next pages of this chapter the details of the sanctions will be discussed. Iran's nuclear energy related sanctions can be classified into 3 sections: the United Nation (UN) sanctions, the United States sanctions and the European Union (EU) sanctions. All these embargoes are going to be studied and clarified hereunder.

a- The United Nation (UN) Sanctions

The IAEA reported Iran to the United Nation Security Council because of Iran's refusal to allow full access to the IAEA to its nuclear sites. Iranian activities seemed to demonstrate Iran's interest in nuclear weapon path. Consequently the Resolution 1696 was adopted by the UN Security Council on the 31 of July 2006, passed by the vote of 14 to 1, the only negative vote by Qatar. It has been mentioned in the resolution that there was a gap of knowledge continuing to be a matter of concern about the clarity of Iran's nuclear program and that the IAEA was unable to make assurances about the absence of undeclared nuclear material and activities in Iran. According to the resolution, If Iran wants to be verified by the IAEA, it should suspend

all the activities related to enrichment, including research and development of nuclear program.⁴³

Iran's immediate response came by declaring that the country is strongly against production, stockpiling, development and proliferation of nuclear weapons, emphasizing on the fact that Iran's nuclear program has never diverted from its peaceful path and Iran has no interest in limiting or suspending inspections of its nuclear facilities and activities. It has been noted in Iran's statements that Iran considers that it has the right to make substantial progress in peaceful nuclear technology under the stipulation of the Article 4 of the NPT. Subsequent comments indicate that Iran was willing to discuss about all the issues, but it didn't accept the suspension of the uranium enrichment, believing that there is no logic to abandon its rights.⁴⁴

Indeed, the negotiations were ineffective and the UNSC made the first round of sanctions on Iran on the 23 of December 2006, detailed on the Resolution 1737. The resolution stated that it has been decided for all States that they "shall take the necessary measures to prevent the provision to Iran of any technical assistance or training, financial assistance, investment, brokering or other services, and the transfer of financial resources or services, related to the supply, sale, transfer, manufacture or use of the prohibited items, materials, equipment, goods and technology [which could relevant to Iran's enrichment program or heavy water related activities.]"⁴⁵

⁴³ United Nations Security Council, Resolution Number 1696: Security Council demands Iran suspend Uranium enrichment or face possible economic, diplomatic sanctions (Security Council SC/8792, 2006).

⁴⁴ "Islamic Republic of Iran's Response to the Package Presented on 6 June 2006," Institute for Science and International Security (ISIS), <http://isis-online.org/publications/iran/responsetext.pdf>.

⁴⁵ United Nations Security Council, Resolution Number 1737: Adopted by the Security Council at its 5612th meeting (Security Council S/RES/1737: 2006): 03.

Regarding to the resolution it has also been decided that "all States shall freeze the funds, other financial assets and economic resources which are on their territories at the date of adoption of this resolution or at any time thereafter, that are owned or controlled by the persons or entities designated in the Annex [the list of the name of some Iranian persons and entities include Atomic Energy Organization of Iran]."⁴⁶

The Resolution 1747, passed on the 24 of March 2007, was the second round of the UNSC sanctions against Iran. The resolution made an arm embargo, called upon all the States to restraint the entry into or transit through their territories of individuals who are engaged in, directly associated with or providing support for Iran's proliferation nuclear activities or for the development of nuclear weapon delivery systems. Is also decided that "Iran shall not supply, sell or transfer directly or indirectly from its territory or by its nationals or using its flag vessels or aircraft any arms or related materiel."⁴⁷ In addition, resolution "Calls upon all States and international financial institutions not to enter into new commitments for grants, financial assistance, and concessional loans, to the government of the Islamic Republic of Iran, except for humanitarian and developmental purposes."⁴⁸

Soon after, Iran responded to the resolution 1747 by naming the day of 8 April 2007 as National Day of Nuclear Technology in Iran's calendar which means that not only Iran would not stop its nuclear program but also it is decided to pursue it continuously. On the first National day of nuclear

⁴⁶ United Nations Security Conceal, Resolution Number 1737: Adopted by the Security Council at its 5612th meeting (Security Council S/RES/1737: 2006): 04.

⁴⁷ United Nations Security Conceal, Resolution Number 1747: Adopted by the Security Council at its 5647th meeting (Security Council S/RES/1747: 2007): 02.

⁴⁸ United Nations Security Conceal, Resolution Number 1747: Adopted by the Security Council at its 5647th meeting (Security Council S/RES/1747: 2007): 03.

technology ceremony held at Natanz nuclear site, President Ahmadinejad stated that "Several world powers are using their influence to stop Iranian progress. They should know that the great Iranian nation will not stop allow them to do so."⁴⁹

As of 2008, inspectors had not found any indication of Iran's developing nuclear weapons, but international suspicion has remained. UNSC has passed two resolutions during 2008. The first one, Resolution 1803 approved on March 3, 2008, extended and expanded the list of the prohibited people and entities mentioned on previous resolutions. It also called upon all states to be observant over the activities of financial institutions in their territories with all the banks in Iran, in particular with the Bank Melli and the Bank Saderat, and their branches and subsidiaries abroad, in order to avoid any activity related to the proliferation of nuclear activities.⁵⁰

As well as monitoring for banks activity, the resolution 1803 called upon all states to monitor and inspect Iranian ships and aircrafts, noting that "inspect the cargoes to and from Iran, of aircraft and vessels, at their airports and seaports, owned or operated by Iran Air Cargo and Islamic Republic of Iran Shipping Line, provided there are reasonable grounds to believe that the aircraft or vessel is transporting goods prohibited under this resolution or resolution 1737 (2006) or resolution 1747 (2007)."⁵¹ Also the second resolution adopted on 2008, resolution 1835, Called upon Iran "to comply fully and without delay with its obligations under the above-

⁴⁹ Shah Alam, "Nuclear and foreign policy calculations of Iran." *India Quarterly: A Journal of International Affairs*, No: 64 (2008): 120.

⁵⁰ United Nations Security Council, Resolution Number 1803: Adopted by the Security Council at its 5848th meeting (Security Council S/RES/1803: 2008): 04.

⁵¹ United Nations Security Council, Resolution Number 1803: Adopted by the Security Council at its 5848th meeting (Security Council S/RES/1803: 2008): 04.

mentioned resolutions of the Security Council, and to meet the requirements of the IAEA Board of Governors.”⁵²

With the aim of tightening the sanctions, the last resolution of UNSC passed on the 9 of June 2010. Before the Resolution, the IAEA had released a report on the 31 of May 2010, stating that Iran didn't have the needed cooperation with the agency in order to verify the non-diversion of declared nuclear material in Iran, also Iran had not only not suspended the enriching of uranium, but also continued to enrich up to 20% and implementing new enrichment plants at Fordow.⁵³ This report was in a time which president Ahmadinejad announced that Iran had produced 20 percent enriched uranium and it has the capability to enrich the fuel even further.⁵⁴

Consequently, the UNSC decided to make further sanctions on Iran. It was written in the resolution 1929 that “Noting with serious concern that Iran has enriched uranium to 20 percent, and did so without notifying the IAEA with sufficient time for it to adjust the existing safeguards procedures.”⁵⁵ Resolution 1929 intensified the arm embargoes, prohibiting Iran to take part in any activity related to Ballistic missiles. Also making sanctions on individuals whom related to the nuclear program, by making

⁵² United Nations Security Council, Resolution Number 1835: Adopted by the Security Council at its 5984th meeting (Security Council S/RES/1835: 2008): 01.

⁵³The International Atomic Energy Agency (IAEA), Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions 1737 (2006); 1747 (2007); 1803 (2008); and 1835 (2008) in the Islamic Republic of Iran (IAEA reports, May 31, 2010).

⁵⁴“Timeline of Iran's Nuclear Activities,” The United States Institute of Peace: The Iran Primer, <http://iranprimer.usip.org/resource/timeline-irans-nuclear-activities>.

⁵⁵ United Nations Security Council, Resolution Number 1929: Adopted by the Security Council at its 6335th meeting (Security Council S/RES/1929: 2010): 02.

travel sanctions for them and advising closely watch Iranian individuals and entities when dealing with them.

In addition, resolution 1929 includes financial sanctions, such as the prevention of provision of any financial services or doing business, from or through the territory of all states or persons or financial institutions in their territory, if they have any information that such services or business will be contribute to Iran's proliferation-sensitive nuclear activities, or the development of nuclear weapon delivery systems or to violation of past resolutions. The resolution 1929 also called upon all states that forbidding in their territories of opening new branches of Iranian banks or joint venture of those banks and prohibiting all states to open any new financial institutions or banking accounts in Iran, if they understood that such activity could be related to Iran's nuclear program.⁵⁶

b- The United States Sanctions

The U.S. sanctions which had started from the first days of the Iranian revolution were continued and intensified when the first signs of Iran's decision about following nuclear program were detected. According to the U.S. Government Accountability Office (GAO) report on December 2007, the U.S. sanctions on Iran include three categories: 1- implementing a comprehensive trade and investment ban on Iran 2- sanctioning foreign parties that are related to proliferation or terrorism activities with Iran 3- imposing financial sanctions, including freezing the assets of Iran and banning its access to U.S. financial system.⁵⁷

⁵⁶ United Nations Security Council, Resolution Number 1929: Adopted by the Security Council at its 6335th meeting (Security Council S/RES/1929: 2010): 7-8.

⁵⁷ Government Accountability Office (GAO), Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed: Report to the Ranking Member, Subcommittee on National

The OFAC, The U.S. department of the treasury Office of Foreign Assets Control, conducts the trade and investment ban on Iran. It is described in OFAC's executive order number 13382 that the order had been legislated with the aim of preventing the proliferation of weapons of mass destruction (WMD) and freezing the assets and financial isolation of proliferators of weapons of mass destruction and their supporters. Executive order 13382 sanction programs had been designed on 28 June 2005, These sanctions include blocking the property of people and their supporters whom engaged in proliferation activities, implementing a ban on imports into the United States (direct or indirect importation of goods and services from foreign persons whom were determined) and the prohibition of engaging Americans in any transaction or interacting with the people and institutions that their name were listed in the executive order. The OFAC target banned people and institutions were written in a list named Specially Designated Nationals and Blocked People (SDN) which is orderly updated by OFAC.

The atomic energy organization of Iran, aerospace industries organization, Iran Air (the most important airline of Iran), Iran centrifuge technology company, bank Melli (Iran's oldest and largest bank), bank Mellat, bank Saderat (one of the biggest state-owned banks of Iran), bank Sepah, bank Kargoshaee, bank of industry and mine of Iran, bank Refah Kargaran, Bank Sepah, Bank Tejarat and Mehr bank are included in SDN list.⁵⁸ Sanctioning the banks means that they couldn't have access to the U.S. financial system and that they could no longer transact money through the U.S. banks.

Security and Foreign Affairs, House Committee on Oversight and Government Reform, GAO-08-58,(United States: December 2007): 7-9.

⁵⁸ U.S. department of the treasury's office of foreign assets control, Executive Order Number 13382 (United States: June 28, 2005).

The OFAC went further in order to restrict Iran and create pressure on Iran's government by revoking its "U-Turn" license, authorizing the U.S. banks to transfer funds involving direct or indirect benefit for Iranian banks when the process of payment initiated and ended in a non-Iranian, foreign bank. Firstly the OFAC took a mild step and just revoked the U-Turn license for bank Saderat of Iran on September 2006, but after about 2 years, on November 2008, the U.S. department of treasury announced that the U-Turn transfers have been revoked for all Iranian banks including state-owned banks and private-banks.⁵⁹

Thus, the U.S. terminated Iran's ability to access its financial system indirectly for Iranians through non-Iranian foreign banks. In addition, previously if the transaction were not allowed, a U.S. bank needed only to reject a transaction between itself and the Iranian bank, but after the new order they were forced to block and freeze the funds and report it to the OFAC.⁶⁰ According to Rachel L. Loeffler, some European banks responded to these events and they started to scale back business in Iran. The big Swiss banks UBS and Credit Suisse were the first banks that did so, soon after several large German banks, including Deutsche Bank, Dresdner Bank, and Commerz bank, and some French banks, including Societe Generale and Le Credit Lyonnais, and the British banks HSBC and Barclays, and then the Dubai-based National Bank of Fujairah also terminated their transactions with Iran.⁶¹

⁵⁹ "United States Federal Register: Rules and Regulations," Federal Register 73, No. 218 (2008). http://www.puntofocal.gov.ar/notific_otros_miembros/usa153a1_t.pdf.

⁶⁰ "U.S. Dollar Transactions with Iran are Subject to New Restrictions - Tough Policy Decisions Face International Financial Institutions," Wiley Rein LLP, Last Modified November 28, 2007, <http://www.wileyrein.com/publications.cfm?sp=articles&id=4491>.

⁶¹ Rachel L. Loeffler, "Bank Shots," *The Foreign Affairs* 88, No. 2 (2009): 03.

On the 24 of June 2010, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISADA), was passed by the United States Congress. Regarding Iran's admission of the existence of a secret uranium plant (in a city named Qom) revealed by U.S. officials on Sep. 2009, the U.S. decided to make additional sanctions in order to prevent Iran from continuing its "illicit nuclear efforts"⁶². It is written in CISADA that the government of Iran wasn't cooperative and responsive to president Obama's efforts, the examples for making more clarification are: Iran's ongoing hidden nuclear program as its works on the secret facility at Qom, Iran not fully cooperating with the IAEA, Iran's official announcement to the IAEA that it will enrich uranium to the 20 percent level.⁶³ It is also mentioned in the CISADA that the reason of imposing the act is not only preventing Iran's nuclear program activities, but also urging the Iranian government to respect the human rights and religious freedom in Iran.

The CISADA amends the Iran sanction act (ISA) which included sanctions on persons or companies that make certain investments on Iran's energy sector. The new authorities of CISADA expand these sanctions. According to CISADA, new sanctions would impose on people that provide support for 1- Iran's development of petroleum resources 2- Iran's production of refined petroleum goods 3- exportation of refined petroleum products to Iran. The sanctioned people will be under the imposition of the 3 from a menu of 9 possible embargoes (the previous 6 sanctions existed on ISA and 3 new

⁶² The Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA), (July 01, 2010): 04.

⁶³ The Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA), (July 01, 2010): 04.

ones). Moreover, according to OFAC guidance issue of CISADA, all imports of Iranian origin goods such as rugs, pistachios and caviar were banned.⁶⁴

The original available sanctions, which were listed on ISA, are as follows: 1-rejection of export assistant from the export-import bank of the United States 2-denial of export license for exporting the military or nuclear related goods or technology 3-refutation of U.S. bank loans exceeding \$10 million in one year 4-If the sanctioned person is a financial institution, a prohibition on its services designation as a primary dealer in the U.S. government debt or as a repository of the U.S. government funds instruments 5- repudiation of procurement contracts with the U.S. government 6- a ban on imports to the U.S. from the sanctioned persons.⁶⁵

The 3 new sanctions that the President could choose from them include the prohibition of any transaction in foreign exchange or transfer of credits between financial institutions (banking transactions) or the U.S. property transaction, if that transaction be involved in any interest of the sanctioned person or be subjected to the jurisdiction of the United States.⁶⁶ The ISA and after that the CISADA, could have significant negative impacts on Iran's investment in energy sector and subsequently on Iran's oil production. The U.S. sanctions were worked out on different fronts; President Barak Obama issued 4 other executive orders pursuant of making more pressure on Iran's government to stop nuclear proliferation. Hereby are the summary of these executive orders:

⁶⁴ "No More Rugs, Pistachios, or Caviar; All Iranian Origin Imports Banned," Sanction Law. Last Modified August 21, 2010. <http://www.sanctionlaw.com/2010/08/21/no-more-rugs-pistachios-or-caviar-all-iranian-origin-imports-banned/>.

⁶⁵Kenneth Katzman, "Iran sanctions, Congressional research service: CRS Report for Congress," Congressional research service (2010): 03.

- Executive Order 13553 in September 2010: Blocking Properties of Certain Persons With Respect to Human Rights Abuses by the Government of Iran. Accordingly, all properties and assets of certain persons, that are in the U.S. or will be in the U.S., were blocked.
- Executive Order 13574 in May 2011: tougher sanctions for the certain persons and entities listed in ISA before.
- Executive Order 13590 in November 2011: tightening previous sanctions regarding CISADA plus restriction or prohibition of imports of goods, technology, or services, directly or indirectly, into the United States from the sanctioned person.
- Executive Order 13599 in February 2012: blocking all the properties and assets of the government of Iran or any Iranian institutions, including central bank of Iran, that are in the U.S. or will be in the U.S. after the date of the sanction. As a result, transactions involving entities having the Iran tag on SDN List, would need to be blocked unless exempt or authorized by OFAC.

c- The European Union (EU) Sanctions

The European Union is a political-economical Union consisting of 27 European countries. Based on the European Commission Trade statistics of 2011, Iran is the 27th major trade partner of the EU which is importing 16.3 Billion of Euros from Iran and exporting 10.5 Billion of Euros to Iran. 92% of the EU imports from Iran are oil and related products and 52% of the EU exports to Iran are machinery and transport equipments.⁶⁷ The relation between the EU and Iran had some changes because of the Iranian nuclear program. In addition to the U.S. and the UNSC, the European Union has also

⁶⁶ The Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA). July 01, 2010.

⁶⁷ "Iran Trade Statistics with European Union." Trade.

http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf.

made sanctions on Iran which has been titled as a response to Iran's efforts to develop its nuclear program and its refusal to fully cooperate with the IAEA. It has been stated on the factsheet of the EU and Iran that "While the European Union's objective remains to develop a durable and positive relationship with Iran in order to develop the potential for a constructive partnership, from which both sides could draw benefits, since 2005 the serious concerns over the Iranian nuclear program have dominated the EU-Iran relations"⁶⁸

The EU conceal imposed sanctions in order to compel Iran to response clearly about its nuclear program and make actions to ensure the world about its peaceful use of nuclear energy under the NPT. According to the factsheet of the EU and Iran which released on April 2012, restriction measures of EU are included as below:⁶⁹

- The export-import ban on arms or goods or technologies that could be related to nuclear enrichment or dual-use products such as information security systems.
- Prohibition of Uranium or nuclear related investments by Iranians in the EU.
- Ban on import, purchase and transport as well as related finance and insurance of crude oil and petroleum and petrochemical products from Iran which was executed on first of July 2012.
- Export ban on key equipment and technology for the oil and gas industries.

⁶⁸ The Council of the European Union, Factsheet of the European Union and Iran (Brussels, 2012).

⁶⁹ The Council of the European Union, Factsheet of the European Union and Iran (Brussels, 2012).

- Ban on investment in the Iranian oil and gas and petrochemical industries including exploration and production of oil and gas, refining and liquefaction of natural gas.
- Prohibition to give loans or provide insurance and re-insurance to the Iranian government and Iranian entities (except health and travel insurance).
- No more permission of trade of gold, precious metals and diamonds with Iranian peoples and Iranian central bank.
- Froze the assets of the Iranian central bank within the EU as well as Enhanced monitoring over the activities of EU financial institutions with Iranian banks and the financial transfers to or from Iran.
- Iranian banks may not open branches and create joint ventures in the EU. The same is true for EU banks to open financial institutions in Iran.
- No access for the cargo flights come from Iran to the EU airports.
- Visa bans on persons designated by the UN or those who are providing support for Iran's proliferation of nuclear activities.

The European Union has blacklisted the largest number of people and entities (including Iran's central bank) linked to Iran's nuclear program. Their total is 440, 75 of them have been banned by the UN and the rest by the EU. It is noteworthy to mention that the EU sanctions, specially the oil trade sanction, were one of the most intensive sanctions among others, the impacts of this sanction will be discussed in the next chapters. The other severe sanction made by EU on Iran is a ban on international banking transactions. Generally transferring money from a bank in a country to another country needs to pass through a network named the "Society for Worldwide Interbank Financial Telecommunications (SWIFT)" in Brussels, Belgium. SWIFT is a secure and standardized network that provides reliable exchange of information between financial institutions in 210 countries

around the world. On 15 March 2012, SWIFT disconnected all Iranian banks from its international network.

Following an EU Council decision, SWIFT announced that it has been instructed to intercept the Iranian banks and financial institutions (which were subjected to sanctions) to access the network. Lazaro Campos, CEO of SWIFT, has said that to heighten the financial sanctions on Iran SWIFT had shockingly disconnected the banks of Iran.⁷⁰ The SWIFT action means that the sanctioned banks in Iran could no more make the international payments and this means almost financial isolation for Iran. It also prevents the ordinary Iranian people to transfer money between them and their friends or relatives in other parts of the world. This was the first time that the international society completely cuts off a country from the international finance system.

2.4. Summary and Conclusions

From the first days after the Islamic revolution, Iran's new orientation and behavior led to the U.S. sanctions and some years after the Multilateral sanctions by western countries as well. The reasons of Iran's sanctions could be summarized as the following: Iran's attempting to develop the idea of Islamic revolution to other Muslim countries, affecting the Arab world, assisting and supporting terrorism groups by Iran, and Iran's nuclear proliferation program which is believed that Iran is trying to achieve nuclear weaponry in order to have hegemonic power in the Middle East and the Persian Gulf. Some scientists and Iranian officials believe that the main reasons of the U.S. sanctions against Iran is actually the target of the U.S. to

⁷⁰ "SWIFT instructed to disconnect sanctioned Iranian banks following EU Council decision," SWIFT, Last Modified March 15, 2012.

http://www.swift.com/news/press_releases/SWIFT_disconnect_Iranian_banks.

control Iran because of American interests in the Persian Gulf in order to dominate the energy resources of this region and hence the control of oil supply and oil prices.

Moreover, Iran was under the U.S. sanctions even before its nuclear issue. These sanctions are mainly on the trade embargo between the U.S. and Iran, prohibition of making any payment or transfer between the two countries, ban on shifting of any goods or technology which leads to obtaining Iranians to any types of advanced conventional weapons (Iran-Iraq arms nonproliferation act), the ban for American people to participate in any development of Iran's petroleum resources and the ILSA (which was a sanction on foreign companies to investment or participated on Iran's oil and gas project developments).

In addition, the new wave of sanctions started when Iran claimed that they had embarked on a long-term plan for constructing nuclear power plants and nuclear proliferation programs. Iran said that it is following a peaceful nuclear program but the U.S. and western countries do not trust this claim and they believe that Iran is trying to make nuclear weapons. As a result, the western countries decided to choose the economic sanctions over Iran in order to prevent Iran from continuing its nuclear program and likely its nuclear weapons.

To enumerate, the sanctions imposed by United Nation are mostly a prohibition on provision of any financial or technical assistance to Iran and any financial transactions to or from Iran which result in proliferation of Iran's nuclear program. Also exporting the dual-use products to Iran is banded. Moreover, opening any new branches of Iranian banks in territories of the UN countries or any new financial institutions of those countries in Iran is prohibited. The UN released a list which includes the names of Iranian

individuals and entities which are under sanctions. In addition, the U.S. intensified the imposing sanctions against Iran after the revealing of Iran's nuclear program; These sanctions are: implementing of trade and investment ban on Iran, imposing financial sanctions including transaction money and freezing the assets of Iran's central bank, a ban on investment and support for development of Iran's petroleum resources, and sanction on Iranian individuals and entities and on foreign parties which are related to Iran's nuclear program (named in SDN list). The U.S. also sanctioned most Iranian important banks from accessing the U.S. financial system and from transacting money to the United States.

In the same way, The European Union conceal also imposed various sanctions on Iran. Restrictions made by the EU can be summarized as below: the export-import ban on goods which are related to Iran's nuclear program, ban on import and insurance on Iran's crude oil and petroleum products from Iran, export ban on technology and products which are related to Iran's oil and gas industry development, prohibition of investment on Iran's oil and gas and petrochemical industry, freezing the assets of Iran's central bank within the EU and financial transactions to or from Iran, and the ban on the SWIFT network which means the sanctioned banks in Iran could not make any international payments.

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III. IRAN'S ECONOMY AND THE ANALYSIS OF MACROECONOMIC INDICATORS AFTER THE MULTILATERAL SANCTIONS

The previous chapters outlined why and how the sanctions have been imposed on Iran. The question is how these sanctions would be effective to force Iran to negotiate its nuclear program with western countries. The United States along with the European Union and the United Nations believe that Iran is seeking to make nuclear weapons, so they asked Iran to curb its nuclear program in order to ensure the international society that the nuclear energy will be used peacefully. After Iran rejected the western countries demands about the nuclear energy, they imposed sanctions on Iran. Economic sanctions had caused economic pressure on ordinary people therefore; it could force Iranian government to change its behavior. The more wisely those sanctions are designed, the more efficient the results become.

In order to investigate the efficiency of the sanctions, studying the structure of Iran's economy and the impacts of the sanctions on it, is necessary. This chapter has been designed to give a comprehensive introduction of Iran's economy as well as answering the following questions: What are the impacts of western sanctions on Iran's economy? How did the Iranian government react to them? This chapter highlights the structure, vulnerabilities and strength points of Iran's economy and the analysis of important economic indicators after the multilateral sanction years.

Introduction of Iran's Economy

Iran has a mixed economic system⁷¹ in which both state and private sector conduct the economy, but the share of state economy direction and centralization in Iran is much more than the share of the private sector, this means that the government is the vital economic artery of the country. Iran's economy is the eighteenth largest in the world by purchasing power parity (PPP).⁷² Some internal and external factors affected Iran's economy; the most important internal factors are the government economic mismanagement, high dependency to oil revenues, targeted subsidy plan, lack of advanced technology, and high business risk which leads to low foreign investment rate; the main external factor that affected Iran's economy for a long time is the multilateral sanctions. In order to determine the extent of the efficiency of the sanctions, Iran's economy structure should be studied and find its vulnerabilities and strengths points.

To understand Iran's economy mechanism, it is important to underline a main issue in the country's economic structure which is the rentier nature of the Iranian state. Iran's government is highly dependent on oil revenues, normally a country which has about %10⁷³ of the world's oil proved reserves should have economic development and high growth rate, but practical experiences has shown that for the rentier states the results were the reverse. The rentier state is obtaining its income mostly from the national

⁷¹ Oxford dictionary has defined the mixed economy system as follow: "an economic system combining private and public enterprise," In other words in this economic system there is a mixture of capitalism and socialism, See:

<http://oxforddictionaries.com/definition/english/mixed%2Beconomy>.

⁷² "The world fact book: Iran," Central Intelligence Agency (CIA),
<https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>.

⁷³ The world fact book: Iran," Central Intelligence Agency (CIA),
<https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>.

resources revenues. In this case the share of domestic production sector is not considerable; hence in a time of expansion of oil revenues the economy almost has a good situation and vice versa.

Significantly, Oil revenues are both sources of power and Achilles' heel for Iran's government. Most of the Iranian government income comes from oil earnings; IMF reported on July 2011 that about %63.5 of government budget is consisting of oil and gas export revenues⁷⁴, this means that Iran's economy is based on consumption rather than on production. Consumption based economy makes people dependant to the Government. According to Amir Mohamad Haji Yusefi, rentier states have a sort of independency to the society, but this independency is not permanent and it will be undermined in the time of economic crises.⁷⁵ Government can allocate the oil revenue in the any way that they wish; even they may not benefit the society. People can't have any claim against the government's spending budget because they are not providing the major source of government's revenue by paying taxes, high domestic production or great private sector participation.

Haji Yusefi also stated that the rentier state could consider the goal of country development, but usually this is not the case. The reason is that country development and social welfare could be a threat for the existence of the rentier state. In addition, rentier states need a domestic legitimacy to survive and it provides this legitimacy by the way of distributing of oil

⁷⁴ "Islamic Republic of Iran: 2011 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Iran," International Monetary Fund: IMF Country Report No. 11/241 (August 2011).

⁷⁵ Amir Mohammad Haji Yusefi, *The government, Oil and economic development in Iran* (Iran: Markaz-e-asnade enghelab eslami publications, 2009): 208.

revenues.⁷⁶ The way the government is distributing the revenue of natural resources and managing these rents is the key factor of economic development or under development.

However, during previous years the oil revenues weren't invested for the basis of domestic production and Iran's government as a rentier state didn't make any serious effort to release Iran's economy from high oil revenue dependency. The reason is highly related to the nature of the Iranian government that is to try to keep people obedient. For such a system, the government needs to have a great share in the economy. As per Teimoor Rahmani, a faculty member of Tehran University in Iran, the most significant problem in Iran's economy is involving the government in the most economy sectors.⁷⁷

Moreover, Zamanzade and Alhosseini have explained the most significant reasons of low economic growth in Iran. Most of these reasons are related to the structural economic problems in this country, which means that before the multilateral sanctions, Iran's economy had already been dealing with problems and later sanctions intensified them. Zamanzade and Alhosseini have counted the roots of Iran's economy problems and low growth rate factors as the following: Iran's economy is based on limited competition and the economic freedom for private sector in all part of economy is not much, The rentier state of Iran, The wrong method of allocation of government spending to the non-efficient projects or the projects that private sector can also do them, High inflation rate, Determining the interest rates by government, Lack of technological

⁷⁶ AmirMohammad Haji Yusefi, *The government, Oil and economic development in Iran* (Iran: Markaz-e-asnade enghelab eslami publications, 2009): 209-213.

⁷⁷ "The Roots of economic problems in Iran," Titr Online news website, June 07, 2010, <http://titronline.ir/vdcgrx9w4ak97.pra.html?382>.

development and low productivity, Problems in foreign diplomatic relations and sanctions which led to low foreign investment rate in Iran.⁷⁸

In fact, until the society has an autocratic government, the real economic development is not obtainable. Iran's economic system is a closed system, and private sector is working under the obligations of the government. Structural and fundamental problems of Iran's economy have reduced the economic efficiency. Inappropriate economic structure has led to an inflexible and vulnerable economy. The international sanctions showcase these vulnerabilities and this is why Iran's government is dealing with so many economic problems at the time being. Nader Habibi has well explained that the economic mismanagement and inefficiency have made the Iran's economy more vulnerable to the economic sanctions.⁷⁹ In past years the oil revenues have helped the government to bypass the sanctions but they should find another way to survive after the oil export and insurance sanctions.

However, after the international consensus, sanctions get tougher and new embargoes forced the government to reform the economic policies regarding the privatization. As Iran's supreme Ali Khameneyi named the Iran's New Year -From April 2012 to April 2013 - as 'National Production, support *for* Iranian labor and capital.'⁸⁰ Abolhassan Banisadr, the first president of Iran has claimed that Iran's supreme claim couldn't be

⁷⁸ Hamid Zamanzade and Sadegh Alhosseini, Iran's economy: in straits of development (Iran: Markaz, 2012): 234-248.

⁷⁹ Hamid Zamanzade and Sadegh Alhosseini, Iran's economy: in straits of development (Iran: Markaz, 2012): 234-248.

⁸⁰ Rick Gladstone, "dueling Iranian New Year Greetings from Obama and Khamenei," The New York Times, March 20, 2012,

http://www.nytimes.com/2012/03/21/world/middleeast/dueling-iranian-new-year-greetings-from-obama-and-khamenei.html?_r=0.

happening because the major obstacle for Iran's economy is the government and the system itself. Giving the China and Turkey's examples, Banisadr stated that to the extent that a country can release from despotism, to the same extent it can have economic development.⁸¹ If the government decides to be in the productive path, it should develop not only the economy, but also social, political and cultural dimensions. Development can't be obtainable in one of these elements alone and growth in one aspect needs growth in others as well. This fact implies that Iran's government needs to make some reforms in social, political and cultural features of the country.

In such a situation with deep structural economic and social problems in the country, economic sanctions make the hard conditions for both the Iranian people and the government. The impacts of these multilateral sanctions have made serious problems for Iran's economy and the results had appeared in Iran's macroeconomic indicators. Table 3-1 shows the 2011est. main economic indicators of Iran's economy in accordance with the Central Intelligence Agency (CIA) data. In the next pages of this chapter, the overview of the change of the Main macroeconomic indicators during the time before and after the sanctions will be discussed.

⁸¹ "The interview of Jale Vafa with Abolhassan Banisadr in Sepide Freedom TV Channel: Production oriented economy," Youtube, August 09, 2012, <http://www.youtube.com/watch?v=-mnXL8ZAlxw&feature=youtu.be>.

Table 3-1 : The Main Economic Indicators of Iran's Economy		
Economic Indicator	Rate/Amount (2011 est.)	Country Comparison to The World
GDP (purchasing power parity)	\$1.003 trillion	18
GDP (Real Growth rate)	2%	149
GDP (composition by sector)	agriculture: 10.4% industry: 37.7% services: 51.8%	-
Unemployment Rate	15.30%	151
Budget	revenues: \$131.2 billion expenditures: \$92.63 billion	-
Inflation Rate (Consumer Prices)	22.50%	219
Exports	\$131.8 billion	34
Imports	\$76.1 billion	41

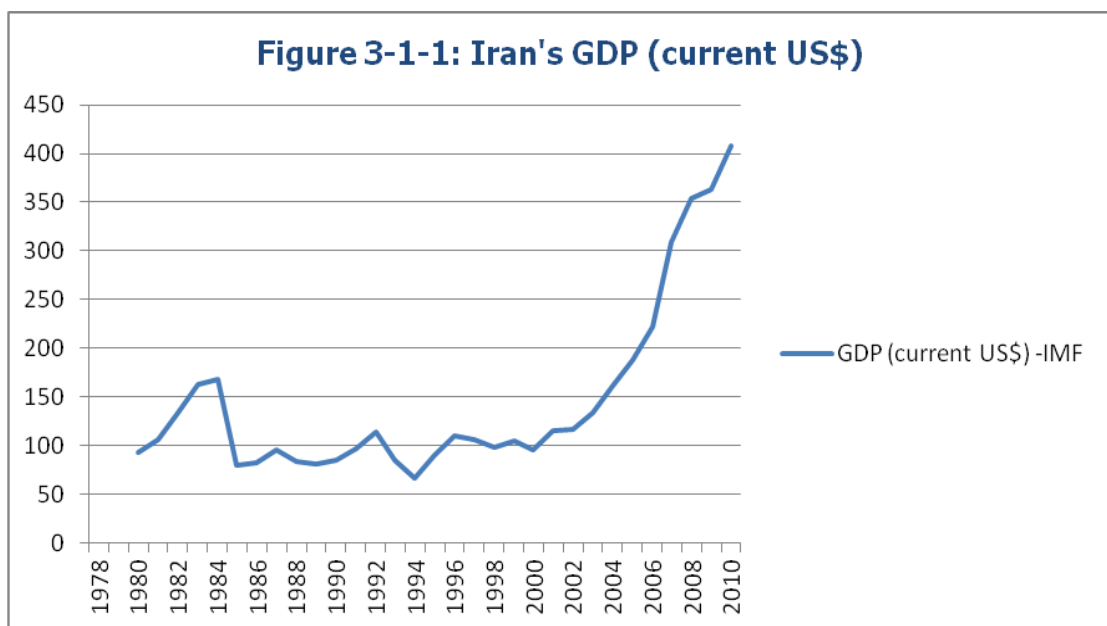
Data source: Central Intelligence Agency (CIA), the world fact book: Iran.⁸²

3.1. Iran's GDP and GDP Growth

The Gross Domestic Product (GDP) is one of the most important economic indicators because of its capability of measuring the production capacity of a country. GDP is the market value of all finished goods and services produced within a country's borders in a given time period (usually in a year). Figure 3-1-1 shows the Iran's GDP based on current U.S. Dollar since Iran's revolution. Between 1980-1988 Iran's GDP had experienced decreasing and unstable level which was related to the war time (Iran-Iraq

⁸² "The world fact book: Iran" Central Intelligence Agency (CIA), <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>.

war), but later on because of improvement in the production level and reduction in population growth rate it was almost in an increasing direction. An important matter to mention here is that at the time being the economic data is not available after imposing the oil sanctions by European Union; this implies that the effect of decreasing the oil export and oil revenues has not been derived yet. The effect of the whole sanctions is shown in Figure 3-1-2: Iran's GDP growth rate.



Data had been extracted from the International Monetary Fund (IMF) data bank.⁸³

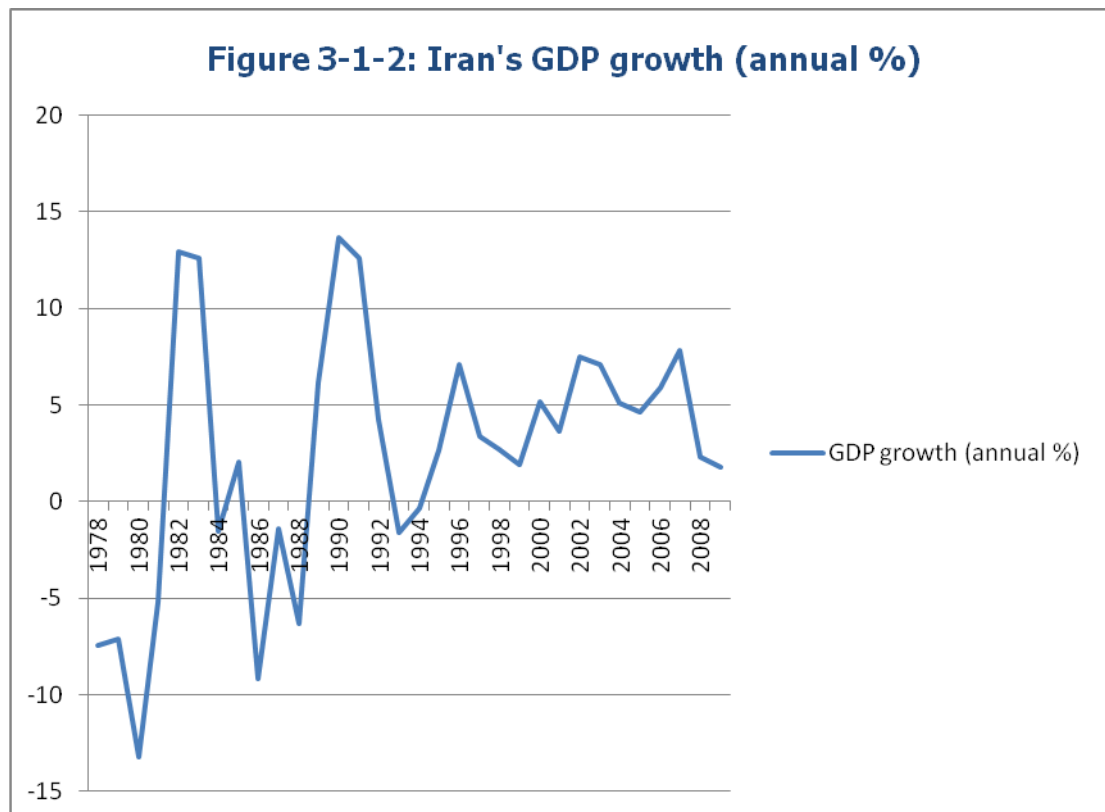
Beside the GDP indicator, the GDP growth rate could also show the economic performance of a country. The GDP growth rate shows how fast the economy is growing. Negative growth commonly shows that the economy is in recession or depression. As it is shown in figure 3-1-2, Iran's GDP growth rate had many fluctuations since 1978. The general reasons of these fluctuations are as in following categories:

- From 1978 to 1988: this period belongs to first years after the revolution and starting the Iran-Iraq war which continued till 1988.

⁸³"World Economic Outlook Database," International Monetary Fund (IMF), <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

The problems of this special period are the reason of the negative GDP growth rate.

- From 1988 to 1995: the years after finishing the war, Iran started to have high positive GDP growth rate. This period was the time of improvement in production level and reduction in population growth rate. On 1992 the fourth round of Iran parliament election had happened, the new parliament had some internal conflicts with the president of that time (Mr. Akbar Hashemi Rafsanjani) and this resulted to the growth rate drop-off.
- From 1995 till now: GDP growth rate had regular fluctuations, the average of the GDP growth rate in these years is about 4.6.



Data had been extracted from the World Bank data Source.⁸⁴

⁸⁴ "World Bank data base by country: Iran, Islamic Republic," World Bank, <http://data.worldbank.org/country/iran-islamic-republic>.

Accordingly, Iran's GDP growth figure indicates that after 2007, when the sanctions get tightened against Iran, the economic growth is decreasing. This means that GDP is increasing but with a decreasing ratio. The question which could raise here is that how could Iran maintain its GDP amount in an acceptable level under the severe sanctions situation? First of all it should be emphasized that the effects of the sanctions are emerging in long-term, and not just after imposing the sanctions. Second, Iran's GDP could be defined as a reflection of oil revenues, when oil revenues are high; GDP is increased as well and vice versa.

As a matter of fact, Oil revenues are affecting Iran's GDP through two major ways: firstly from increasing the net export and subsequently increase in GDP, secondly from the increase in government expenditures. Most of the Iranian government's budget is providing from oil revenues instead of Taxes; Iran's official online news website in 13 June 2012 stated that the share of oil revenues in Iran's GDP is %25⁸⁵, but Abolhassan Banisadr- Iran's first President -claimed that this amount is about %60 of Iran's GDP⁸⁶. In conclusion when the global oil prices are rising, the government expenditures and the GDP are most probably increases as well.

There are many economists whom had studied the impacts of the oil revenues on Iran's GDP such as: Ebrahim Hadian and Hojjat Parsa⁸⁷,

85 "Oil's share of the economy: 25 percent of GDP, 85% of foreign exchange earnings and 65 percent of government revenue," Eghtesad Online, June 13, 2012, <http://www.eghtesadonline.com/fa/content/2954>.

86 "Abolhassan Banisadr audio speeches," Sound Cloud, Last Modified Sep 21, 2010, <http://soundcloud.com/a-banisadr/89-06-30-1>.

⁸⁷ Ebrahim Hadian and Hojjat Parsa, "The study of oil effects on Iran's macroeconomic performance," Journal of Social and Human Sciences, No. 22 (2006).

Mahmood Tavassoli and Masume Fooladi⁸⁸, Behbudi – Motefaker azad and Rezazade⁸⁹. The named researchers had been claimed that oil prices have a direct effect on Iran’s GDP. Tavassoli and Fooladi had stated their conclusions in the table 3-1-3:

Table 3-1-3: The Correlation Coefficient between Growth of Oil Revenues and Iran's GDP and GDP Components					
	GDP	Consumption	Government Expenditures	Investment	Net Exports
The correlation coefficient	0.24	0.02	0.46	0.04	0.37

Table by Mahmood Tavassoli and Masume Fooladi, August 2006.⁹⁰

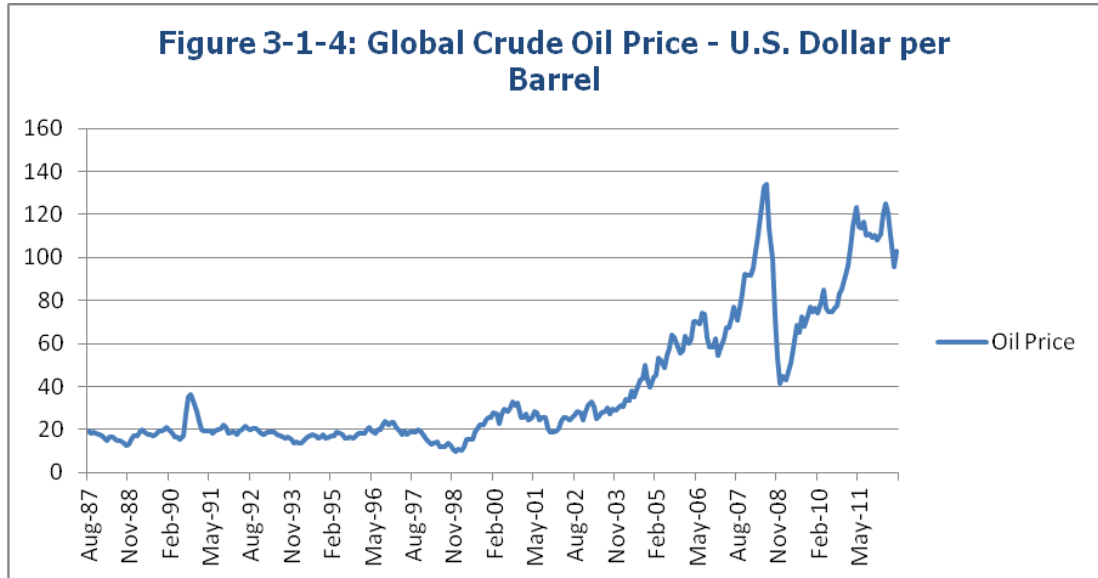
A brief overview of table 6-3 indicates that the correlation coefficient between Iran’s GDP and its oil revenues is 0.24; this means that one unit growth in oil revenues will increase the GDP by %24. Also the share of increase of government expenditures and net exports is more among other factors of GDP. Considering the given explanations, the high global oil prices since 2003 could have had considerable effects on Iran’s GDP increment. Figure 3-1-4 shows the global oil price in U.S. Dollar per Barrel, this graph

⁸⁸ Mahmood Tavassoli and Masume Fooladi, "The study of the effects of oil global prices on Iran’s GDP and employment using an econometric model," The journal of economic research, No.76 (2006): 51-76.

⁸⁹ Davood Behboodi, Mohammad Ali Motefaker Azad and Ali Rezazadeh, "The effects of oil unstable prices on Iran’s GDP," The journal of energy economics, No.20 (May 2009): 33.

⁹⁰ Mahmood Tavassoli and Masume Fooladi, "The study of the effects of oil global prices on Iran’s GDP and employment using an econometric model," The journal of economic research, No.76 (2006): 54.

could demonstrate how Iran’s GDP and GDP growth is consonant with the oil price changes.



Data had been extracted from the World Bank data Source.⁹¹

A comparison between figure 3-1-1, 3-1-2 and 3-1-4 shows that since 2003, after the sanctions, the global oil prices have increased significantly as well as Iran’s GDP (except 2007 till 2008 when both oil prices and Iran’s GDP had decreased). The Iranian government could have compensated the sanction effects by benefiting from high oil prices. In other words, the rising global oil prices have somehow covered the impacts of the sanctions on Iran’s economy for some years. According to IMF report on August 2011, “the rebounding in international oil prices benefits Iran.”⁹² The increase of the oil prices have helped the Iranian government until 2012, however it wouldn’t be the same case after 2012, when the oil sanctions had been imposed. In addition, the Iranian government profligately spends these high

⁹¹ “World Bank data base by country: Iran, Islamic Republic,” World Bank, <http://data.worldbank.org/country/iran-islamic-republic>.

⁹² “Islamic Republic of Iran: 2011 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Iran,” International Monetary Fund: IMF Country Report No. 11/241 (August 2011): 04.

oil revenues which cause many basic economic problems despite maintaining the GDP in an increasing path. According to Patrick Clawson, the Iranian government's spending has caused economic growth for some years, but it didn't solve the country's long-run economic problems.⁹³

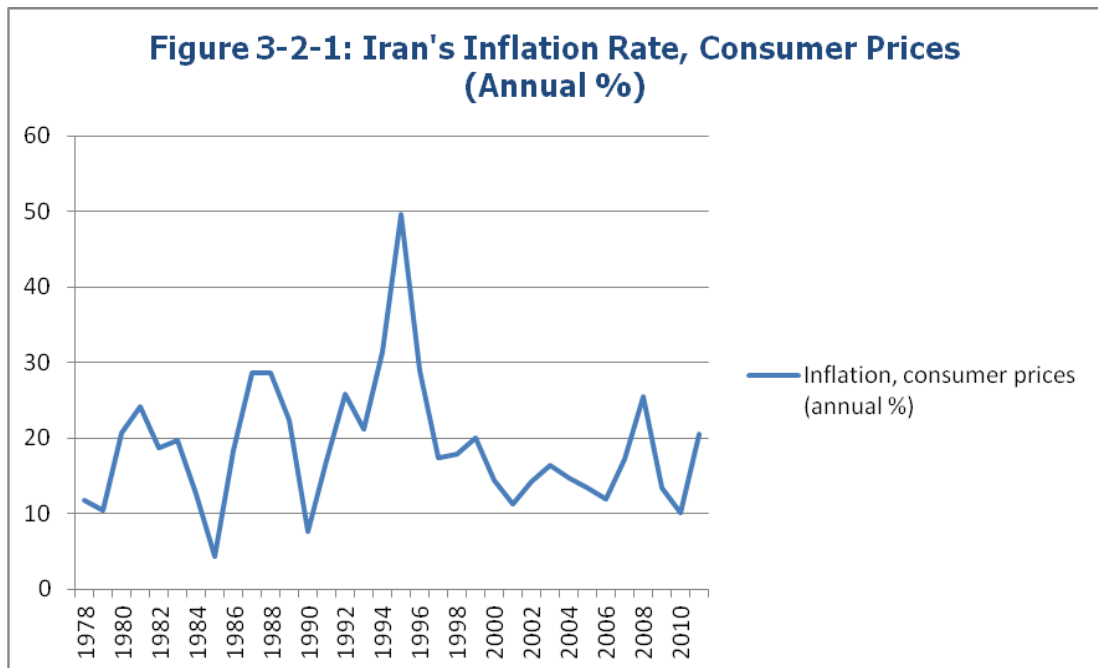
3.2. Iran's Inflation Rate

The High Inflation rate was the most important source of people's economic dissatisfaction from the government during the last 40 years. According to both World Bank and IMF data sources, Iran's annual inflation rate (consumer prices) remained double digit since 1991. High inflation rate decreases the economic growth rate and welfare. Figure 3-2-1 indicates Iran's inflation rate since 1978. The High inflation rate decreases the economic growth rate and welfare. Figure 3-2-1 indicates Iran's inflation rate since 1978. In addition to the high inflation rate being always present, the fluctuations in the inflation rate are also numerous. The average inflation rate of Iran from 1978 to 2011 is about 18.86 percent.⁹⁴ Roots of high inflation rate in Iran can be divided into three segments:

- High money-supply growth
- The Iranian targeted subsidy plan (since 2010)
- The international sanctions (will be discussed in chapter 4)

⁹³ Patrick Clawson, "Could sanctions work against Tehran?" *The Middle East quarterly* 14, No: 01 (Winter 2007): 15.

⁹⁴ The author had calculated the average of the inflation rate by using inflation rate data from World Bank data source, see: "World Bank data base by country: Iran, Islamic Republic." World Bank, <http://data.worldbank.org/country/iran-islamic-republic>.



Data had been extracted from the World Bank data Source.⁹⁵

3.2.1. High Money-Supply Growth

One of the significant reasons of inflation in Iran is the high growth rate of money and quasi-money (include bank deposits, bonds, etc.) supply volume. According to the Quantity Theory of Money, There is a direct relationship between inflation and money-supply growth. In Iran's economy structure the rate of money-supply is determine both by the government and the central bank. According to Zamanzade and Alhosseini, the Iranian government's debt to the central bank and the foreign assets of the central bank were the most important reasons of increase in money supply. . In the time of oil market recession, in order to compensate the budget deficit, the amount of Iran's government debt to central bank has been increased. In the time of oil market boom, the government sold its foreign currencies to the central bank to receive Rial, but the central bank didn't have much freedom

⁹⁵ "World Bank data base by country: Iran, Islamic Republic," World Bank, <http://data.worldbank.org/country/iran-islamic-republic>.

to impose policies in order to sell the foreign currencies and this resulted to inequality of balance of payments. Thus, in order to make equilibrium in balance of payments, Central bank issued money which has increased the money supply.⁹⁶

3.2.2. Iranian Targeted Subsidy Plan

Iran's subsidy reform plan was passed in 2010 - the presidential time of Mahmood Ahmadinejad. The subsidy plan is one of the most important subjects in Iran's economic history. The goal of the subsidy reform plan was to eliminate subsidies on food and energy. Low prices of food and energy had resulted in a waste of energy resources and low economic productivity. The subsidy plan had been established with the aims of modifying the consumption patterns, saving energy resources, more competitiveness of domestic productions and increasing the economic growth rate.

For instance, The amount saved from the canceled subsidies by the government was distributed as 50% towards the poorest level of Iranian people, 20% at the government's disposal and the remaining 30% would be directed towards improving the efficiency of Iran's industries and farming, productivity of fuel and energy production and public transportation development.⁹⁷ The subsidy plan has directly affected the inflation rate. By eliminating the energy subsidies, the cost of energy will rise and subsequently it will increase the cost of the production for domestic producers. As a result, the supply and demand for these domestic products will be changed.

⁹⁶ Hamid Zamanzade and Sadegh Alhosseini, Iran's economy: in straits of development (Iran: Markaz, 2012): 162.

⁹⁷ "Press TV- Iran Today- President Ahmadinejads economy reform plan-01-08-2010- (Part 1)," Youtube, <http://www.youtube.com/watch?v=L-ZhtS4wws>.

In the same way, If there was a supply surplus for some products (because of low competitiveness and non-real prices), after the subsidy elimination, the production costs for the producers would increase; therefore they will be forced to diminish their selling prices. With the decreased selling prices and increased costs for businesses, some of them will leave the market, thus supply decreases and demand increases. Subsequently, market will be in equilibrium. If there is a supply shortage for some products, eliminating subsidies results to an increase in cost of production and in the price level of those products; therefore, demand would be decreased and the market would go into equilibrium. As a result, the targeted subsidy plan brought the market into equilibrium point. Also, this plan intended to diminish the inflation rate by decreasing the money-supply. According to Hamid Zamanzade, if the government expenses don't exceed %20 (the imposed percent for the government expenses in the subsidy plan), it could compensate the budget deficit which results in decreasing the money supply and the inflation rate.⁹⁸

Following this further, the subsidy plan will decrease not only the inflation rate, but also the growth rate in the long-run. The government had projected that the inflation rate would increase in the short-run, but it will start to decrease when the market run into the equilibrium point in the long-run. With the multilateral economic sanctions against Iran, The anticipations get more complicated. The demand for some necessary goods increased because people were worried that the inflation rate would increase even more. The import of some production inputs were in difficulty and the money transaction for payments was hard. All of the sanction problems made difficult economic situations both for people and firms. Now, it is hard to

⁹⁸ Hamid Zamanzade, "The impacts of Iran's subsidy plan on price level," Donyaye Eghtesad Newspaper, 19 April 2010.

separate the impact of the sanctions and the subsidy plan on the inflation rate in Iran, but there is no doubt that these two simultaneous events faced the government with many problems.

3.3. Iran's Unemployment Rate

Like any other market, the Labor market is determined by the labor supply and demand. Labor supply consists of the number of workers willing and able to work for a given wage. Labor demand is affected by many factors especially the production level. Iran's unemployment rate has been shown in figure 3-3-1 since 1990. On the years after the revolution and war, the 70's and 80's decades were the time of the population boom in Iran. The children born on that time confronted with many problems following the high population rate of their generation. The highest unemployment level belongs to the 70's and 80's generations, who formed the labor supply on the 90's and the 2000's decades.

Clearly, the population was not the only reason for the increasing of the unemployment rate. A comparison between figures 3-1-2 and 3-3-1 indicates that since 2007 – when the sanctions get tougher- the growth rate is falling and the unemployment rate is increasing. After the multilateral sanctions – especially the central bank and SWIFT sanctions – the firms in Iran were faced with problems and many of them went into bankruptcy. Many of the foreign firms and representatives in Iran leaved their businesses such as General Motors, Mitsubishi, Peugeot, Nokia, Edison, Vestel and Selpak.⁹⁹ Consequently, leaving of the foreign firms from Iran because of the

⁹⁹ Herein a brief introduction of the companies which left their business in Iran: General Motors is an American multinational automotive corporation and the world's largest automaker by vehicle unit sales in 2011. Mitsubishi is a Japanese multinational conglomerate comprising a range of autonomous businesses which share the Mitsubishi brand, trademark and legacy. Peugeot is a major French car brand –the second largest carmaker based in

sanctions situation and difficulties for domestic companies increased the unemployment rate in Iran.



Data had been extracted from the International Monetary Fund (IMF) data bank.¹⁰⁰

3.4. Foreign Direct Investment Rate

Truly, the unfavorable business environment in Iran caused the low foreign investment in Iran. Iran is ranked 129th out of 183 economies in doing business in 2011. The Index of Economic Freedom gave Iran a score of 42.1, making its economy the 171st freest in the 2011 index. The doing business index consists of 9 other sub-indexes as follows: starting a business, dealing with construction permits, registering property, getting credit protecting investors, paying taxes, trading across borders, enforcing

Europe by world ranking of International Organization of Motor Vehicle Manufacturers on 2008. Vestel is one of the leading trademarks of Turkey's home appliances sector and international electronic manufacturers. Selpak is a Turkish brand producing paper towels and napkins. Selpak is a sub-brand of Eczacibasi holding.

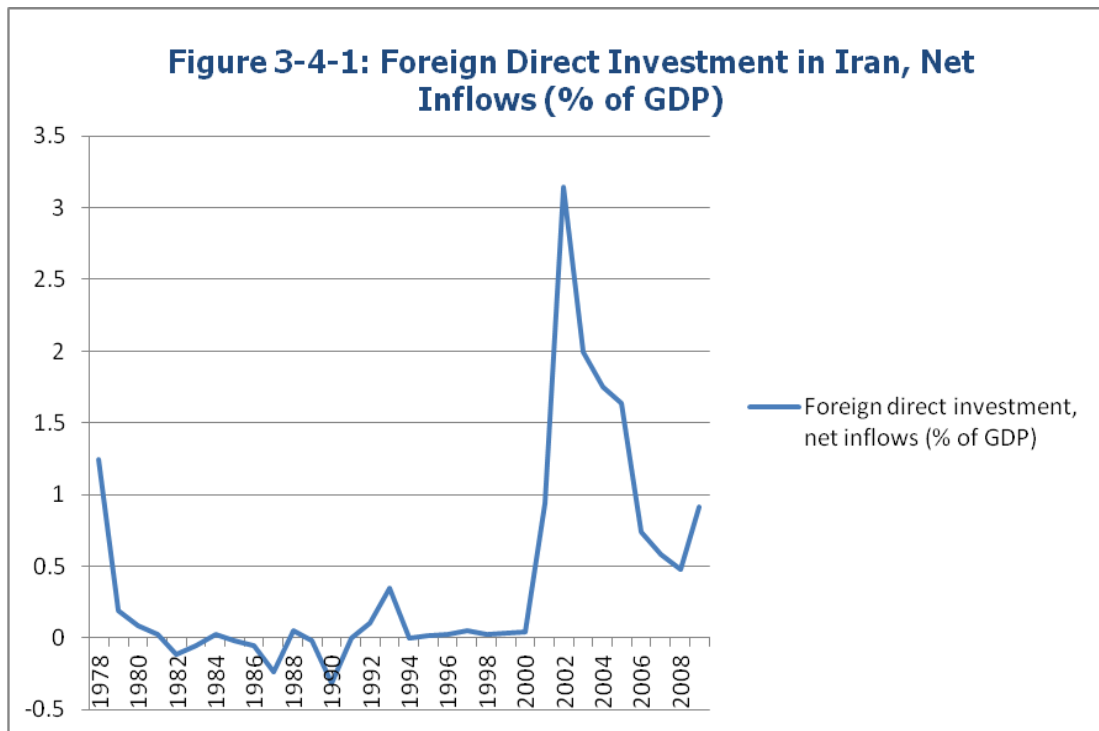
¹⁰⁰ "World Economic Outlook Database," International Monetary Fund (IMF), <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

contracts and resolving insolvency.¹⁰¹ The Bureaucratic system of the Iranian organizations is one of the reasons which decrease the rate of doing business index in Iran.

While Iran has a great investment potential because of its especial geographic and strategic regional situation as well as inexpensive raw material and labor force. However, the economic and bureaucratic problems plus sanctions made inappropriate conditions which resulted in a decrease in foreign direct investment. For example, one of the major economic problems in Iran is the inflation. With the high inflation rate, it is not worth it for the investor to make new production lines or investments, because the consumer prices are going to be high and get even higher during the time, which means the high business risk.

Figure 3-4-1 shows the FDI net inflows as a percent of the GDP since 1978. It is obvious how foreign direct investment decreased after the multilateral western sanctions because of the especial economic conditions in Iran. The economic situation of the host country is one of the most important criteria for investors to choose a country, but because of Iran's case sanctions and economic problems, there is an increased risk of investment for the investors. Foreign direct investment could affect economic indicators such as exports and imports, exchange rates, interest rates, government tax revenues, economic growth, the unemployment rate and importing advanced technology into the country. Nowadays it is almost impossible to have economic development without international economic cooperation. Therefore, losing the foreign investors could have irreparable effects on Iran's economy or any other countries.

¹⁰¹ Numerical data have been extracted from "Business Environment Snapshot for Iran," World Bank Data source, <http://rru.worldbank.org/BESnapshots/Iran/default.aspx>.



Data had been extracted from the World Bank data Source.¹⁰²

3.5. Summary and Conclusions

The Islamic Republic of Iran has a mixed economy structure in which the share of private sector activity is not much. Many internal and external factors are affecting the country's economy. The most important internal factors are the government mismanagement, the dependency to oil revenues, the targeted subsidy plan, the lack of advanced technology and the high business risk which leads to the low foreign investment rate. The main external factor that has affected Iran's economy for a long time is the multilateral sanctions. In order to find out the extent of the efficiency of the sanctions, it is important to study Iran's economy structure to find out its vulnerabilities and strengths. In this chapter Iran's main macroeconomic indicators such as the GDP, the economic growth rate, the inflation rate, the

¹⁰² "World Bank data base by country: Iran, Islamic Republic," World Bank, <http://data.worldbank.org/country/iran-islamic-republic>.

unemployment rate and the foreign direct investment rate have been discussed.

As a fact, Iran's economy is highly dependent on the oil revenues. The correlation coefficient between Iran's GDP and its oil revenues is 0.24; this means that the increase of one unit growth in oil revenues will increase the GDP by %24. Since 2003, the global oil prices have been increased considerably, as well as, Iran's GDP. In other words, the rising global oil prices have covered the impacts of the sanctions on Iran's economy. However, this shouldn't be the same case after 2012, when the oil sanctions have been imposed.

In addition, other macroeconomic indicators, such as the inflation rate, show that Iran has experienced a double-digit inflation rate since 1991. The main roots of this high inflation rate can be divided into three categories: the high money-supply growth rate, the international sanctions and the Iranian targeted subsidy plan. The goals of the reform plan were, to eliminate the subsidies on food and energy, and to allocate the saved money towards improving the domestic production efficiency and the economic development. It is hard to separate the impact of the sanctions and the subsidy plan on the inflation rate of Iran, but there is no doubt that these two simultaneous events have caused the government many problems.

Moreover, Iran has a young population who need the government to generate new jobs, but high unemployment rate shows that the government was not successful in providing enough jobs. On the other hand when the sanctions got tougher the firms in Iran were faced with problems and many of them went into bankruptcy. Many foreign firms left Iran and many employees lost their jobs. The sanctions and unfavorable business environment, many bureaucratic procedures and high economic risk, are all

reasons for the low foreign investment rate in Iran, although it has a great investment potential because of its especial geographic and strategic regional situation as well as its inexpensive raw materials and labor force. Losing foreign investment in Iran had also had impacts on the oil production which will be discussed in the next chapter.

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IV. IMPACTS OF THE WESTERN MULTILATERAL SANCTIONS ON IRAN'S ECONOMY

Sanctions have been a part of the United States and the European Nations policies against the peaceful aims of Iran's nuclear program since 2006. The considerable effects of sanctions on Iran's economy would make long-term Subsistence problems for Iranian ordinary. Also they may compel Iran's government to take a new path regarding its nuclear program nuclear program. To determine the impacts of multilateral western sanctions on Iran's economy, some questions should be answered: did international sanctions have an impact on Iran's economy? On which parts of Iran's economy did sanctions have more effects? How intensive are the impacts of the sanctions? How is Iranian government dealing with sanctions? This chapter has tried to go deeper on the sanctions effects on Iran's economy and to answer these questions through analyzing the main macroeconomic indicators of Iran's economy and by studying the difficulties and problems that sanctions brought for Iran's economy.

Evaluating the impacts of the sanctions is very important both for economical and political aspects of the sanction imposers (USA, United Nations and European Union) and the sanctioned country (Iran). It is important for Iran either to know the sanctions impacts and find ways to overcoming them or to decide starting negotiations with west to curb its nuclear program. Also it is important for west to find out how efficient the sanctions are to determine the next steps regarding Iran. There are many articles written about Iran sanctions, but there is not much about a comprehensive view to the multiple impacts of sanctions on different parts of the economy, as this paper will do so.

The U.S. previous sanctions which were non-related to Iran's nuclear program had impacts on Iran's economy, but they have never been so much extensive that change Iran's politics or behavior toward the United States. Herein Jahangir Amuzegar writes that although Iranian officials tried to report that the impacts of the U.S. sanctions on their economy were marginal, but the fact was different. The reports are overstated, and the real direct and indirect impacts are considerable. The U.S. sanctions have raised the trade's cost with Iran and caused many problems for the economy, but they couldn't change the Iranian government's behavior. He also believes that the current sanctions will gradually impact, and the regime will give up.¹⁰³

Admitting Amuzegar's idea, Ray Takeyh and Suzanne Maloney believe that despite the economic pressure caused by the sanctions during more than 3 decades, Iran did not show any sign of flexibility on its foreign policy. Iran's severe sanctions lead to many economic problems such as decreasing Iran's trade with Europe, recapitalizing its banks, and even forcing to use barter instrument in foreign trade. Takeyh and Maloney also state that Iran's sanctions have made many constraints and problems for Iran, but yet they have failed to deter Iran from perusing its policies, particularly its effort to develop its nuclear program.¹⁰⁴

Elsewhere Maloney explains that the U.S. unilateral sanctions didn't succeed toward Iran's policy because of the three reasons: first the natures of the U.S. sanctions were unilateral; second Iran's reprisal acts, and finally

¹⁰³ Jahangir Amuzegar, "Iran's economy and the U.S. sanctions," *Middle East Journal* 51, No. 2 (1997): 191-194.

¹⁰⁴ Ray Takeyh and Suzanne Maloney, "The self-limiting success of Iran's sanctions," *International Affairs* 87, No.6 (2011): 1305-1312.

the Iran's security policy and durability against the economic pressures.¹⁰⁵ One of the important points that should be bold here is that before the nuclear issue U.S. sanctions were unilateral, but later by the President Barak Obama's policies and the accompaniment of the United Nation and the European Union gradually the sanctions became multilateral. As it will explain on the next pages of this chapter, multilateral nature of the sanctions has a great potential to isolate Iran and cause severe pressure on Iranian economy; therefore, economic problems are the cost of having nuclear utilization for Iran.

Generally the ultimate goal of international sanctions is to bring pressure to bear on a government to persuade it to change its policy and behavior in accordance with the international community. There are some argues about Iran's case that the main target of the current sanctions against Iran is either to force the government to accept the West's request or to collapse the country through the economic sufferings of Iranian people. Mahmood Yazdanfam states that there is no a huge gap between economy and politics, and they are interdependent to each other. in fact, the economic chaos could result in collapsing the regime, that's why there is a probability that government changes its behavior under such situation in order to prevent failing down.¹⁰⁶ But history didn't show the same result for same cases. For instance, in Iraq in 1991, many people, including children were died under the pressure of the U.S. and the UK economic sanctions because of the mass starvations and diseases, while Saddam Hussein had

¹⁰⁵ Suzanne Maloney, "Sanctioning Iran: if only it were so simple," *The Washington Quarterly* 33, No.1 (2010): 140.

¹⁰⁶ Mahmood Yazdanfam, *International sanctions and Iran's national security*, 19 February 2007, the journal of strategic studies No: 34, pp.795-796.

remained unaffected, and even he had gotten political advantages by them.¹⁰⁷

In addition, Iran has a renter state which controls the whole economy because of oil revenues. The basis of the economy is not on the production, but on the consumption of the rents of natural resources. As Iraq experience shows, the economic sanctions for such countries would result in increasing the government's control over the economy, and subsequently over the people. Oil revenues make the people dependent on the government. The consumption based economy lets the government to take advantage of this opportunity in favor of its own interest, which shows how the government could use the sanctions situation for increasing despotism over people. In this context, Mahmood Yazdanfam states that under the sanctions, the opposition groups of the government could get weaker more than the government itself. Government could use the nationalist sentiment of its people against the opposition group by claiming that opponents are in favor of sanction imposer countries.¹⁰⁸

Iran's government has tried to deny the impacts of the sanctions on Iran's economy since the first days after the sanctions. In 16 March 2007 the President Mahmood Ahmadinejad called the security council resolution as a "worthless paper"¹⁰⁹, November 24th, 2008 he claimed that western countries can issue resolutions against Iran as much as they want¹¹⁰,

¹⁰⁷ "Effects of Iraq sanctions," Global Issues, Last Modified October 02, 2005, <http://www.globalissues.org/article/105/effects-of-sanctions>.

¹⁰⁸ Mahmood Yazdanfam, "International sanctions and Iran's national security," Strategic Studies Journal, No.34 (2007): 798.

¹⁰⁹ "How was Ahmadinejad talking about sanctions before?" Farda News, October 14, 2012, <http://www.fardanews.com/fa/news/223932>.

¹¹⁰ "Masood Behnood review Iran's journals," BBC Persian News, October 10, 2012, http://www.bbc.co.uk/persian/iran/2012/10/121010_i03_mb_press_wed.shtml.

because he believed that sanctions are ineffective.¹¹¹ Also Ali Khameneyi, the supreme of Iran formerly said that Iran is vaccinated against the sanctions because of 30 years endurance of the sanctions.¹¹² Iran's supreme and Iran's president had denied the impacts of the sanctions, while some others like Ali Larijani ,Iran's parliament chief, admitted the impacts of the sanctions by stating that "under the sanctions Iran's productive units are working lower than %80 of their capacity."¹¹³ He claimed that "20 percent of Iran' economic problems relate to the sanctions."¹¹⁴ He not only accepted that sanctions are not ineffective, but also declared that one of the current Iran's economic problems relates to the sanctions.¹¹⁵

Therefore, the economic and political effects of the sanctions are intertwined together. The economic impacts will affect the political aspect, and vice versa. At this time there are two points of view that sanctions could generate: first, the Iranian government could not manage the situation ultimately, which results people to put more pressure on the government, chaos in the country, and more external dominance of foreigners on Iran's future. All of them would result in giving the government up against western

¹¹¹ Nzila Fathi, "Iran leader calls nuclear sanctions ineffective," The New York Times, February 02, 2007,

http://www.nytimes.com/2007/02/02/world/middleeast/02iran.html?_r=0.

¹¹² "Khameneyi dismisses sanctions on Iran," Radio Farda News, July 11, 2012,

<http://www.radiofarda.com/content/f5-khamenei-dismisses-sanction-on-iran/24642135.html>

¹¹³ Iranian Student's New Agency (ISNA), 3 July 2012,

<http://old.isna.ir/isna/NewsView.aspx?ID=News-1964508&Lang=P>.

¹¹⁴ Radio Farda, Larijani admits on some sanctions pressure, 18 July 2012,

<http://www.radiofarda.com/content/f5-iran-larijani-admits-on-some-sanctions-pressures/24648366.html>.

¹¹⁵ "Sanctions are not ineffective," BBC Persia, July 17, 2012,

http://www.bbc.co.uk/persian/iran/2012/07/120717_l45_larijani_sanctions_inflation.shtml.

countries, and curbing its nuclear program as they asked for. Second is to escape from the hardness situation of sanctions by using all the remained power and opportunities of the country. Iranian officials believe that they could overcome the sanctions by more concentration on private sector and resistance of people in counter of problems to pass this path and achieve economic self-sufficiency.

In addition, Iranian official economic newspaper, Donyaye Eghtesad, issued that Iranian economists are trying to find a way to convert the threats of the sanctions into opportunities. It is a long time that economists are seeking for a method to decrease the Iran's economic dependence on oil revenues. They believe that if they can manage the oil sanction situation properly, they may achieve this inquire. They try to creatively provide a competitive atmosphere for the private sector to invest on non-oil parts of the economy. Donyaye Eghtesad also issued that Iran's chief of the chamber of commerce, Mohammad Nahavandian, claimed that if there is a restriction, there will be a solution as well. The more the sanctions develop, the more there will be the motivations for endurance and bypass them.¹¹⁶

Now, a question which could rise here is that how much the Iranian officials are realistic about the current situation of Iran's economy. If they are exaggerated of their statements in order to maintain calmness in the society. Patrick Clawson, the director of research at the Washington Institute for Near East Policy, believes that "because of Iranian leadership's self-reliance prevail attitude, it is hard to persuade Iran to cooperate with the West. But, despite the Iranian leaders' self-confidence, Iran's economy is vulnerable. If the international community can alert Iran about the isolation

¹¹⁶ "Making opportunities from the sanctions," Donyaye Eghtesad Newspaper, NO 2707, August 05, 2012.

consequences, the nuclear debate in Iran could be change.¹¹⁷ Western countries have already confirmed the sanctions effects on Iran's economy, and hence much problems for Iranian government. Unlike Iranian officials, Western officials have clearly admitted the severe effects of the sanctions. Since 2006, the impacts of the western sanctions on Iran's economy have varied because the sanctions have intensified over time, and their impacts have increased.

For example in the early years after the sanctions, in December 2007, U.S. Government Accountability Office (GAO) reported that the general impacts of the U.S. sanctions include the decreasing of foreign investment on Iran's petroleum sector, and denying the access of the Iranian proliferation and the terrorism related groups to the U.S. financial system. Also, the volume of the U.S. trade with Iran had been declined since the early years of the sanctions, and the type of the trading goods between two countries had been changed. . But Iran was able to replace its trade-loss with the U.S. through trading with other countries, such as China. In addition, both the demand for Iran's oil, and the oil rising prices were the reasons of decreasing the sanctions' efficiency. It is also stated in this report that the overall impacts of the sanctions are unclear, and the U.S. agencies didn't collect information about the direct results of their imposed sanctions.¹¹⁸

Then, over the time, the sanctions effects intensified, by sanctioning Iran's oil export, insurance of the tankers which transport Iran's oil, and

¹¹⁷ Patrick Clawson, "Could sanctions work against Tehran?" *The Middle East quarterly* 14, No. 1, (Winter 2007): 13-14.

¹¹⁸The United States Government Accountability Office (GAO), *Iran Sanctions: Impact in Furthering U.S. objectives is unclear and should be reviewed* (United States: GAO report, 2007): 3-36.

embargo on any investment on Iran's oil and gas projects developments as well as the SWIFT sanction on Iran by the European Union¹¹⁹, So, the economic situation of Iran has got more and more in troubles. Iran is no more able to make the international payments easily. Also, foreign countries have many limitations for investment in Iran, and there is a high business risk in this country. Especially, in the oil and energy sector Iran bears many problems, needing foreign investment to develop the oil and gas projects, but there are many barriers on these projects due to the sanctions.

Also, Meghan L. O'Sullivan did a survey on the Iran's sanctions in a broad view. She explained her statements with some examples of other countries sanction experiences to clarify Iran's case. She expressed that by passing the time, Iran's economy would get the desired effects, forcing Iran to come back to the negotiation table. Sullivan added that the sanctions would cause Iran to discipline the society, which will lead to some difficulties for Iranian people.¹²⁰ In October 5th, 2012, Ban Ki-moon, Secretary-General of the United Nations, also stated that international sanctions had serious effects on Iran's economy and Iranian people, and they even may have negative effects on humanitarian operations in Iran.¹²¹

Now, after studying Iran's economy and the imposed sanctions, in order to get more efficiency and clarification in conclusions, the study of the sanction impacts is divided into four major parts which are: The impacts of western sanctions on Iran's export and import, Iran's oil industry and oil

¹¹⁹ These sanctions have been explained in detail in Chapter 2.

¹²⁰ L. O'Sullivan, Meghan, "Iran and the Great Sanction Debate," *The Washington Quarterly* 33, No.4 (2010): 8.

¹²¹ Michelle Nichols and Louis Charbonneau, "U.N. chief says sanctions on Iran affecting its people," Reuters News Website, October 05, 2012, <http://www.rtheEuters.com/article/2012/10/05/us-iran-sanctions-un-idUSBRE89412Z20121005>.

market, and Iran's Inflation Rate, and Iran's banks and financial system. By this segmentation, the answer of the main question of the thesis could be better specified: what are the impacts of the Western sanctions on Iran's economy and politics? Therefore, on the next pages of this chapter, it is tried to answer the above question through studying these four named major affected parts of Iran' economy by the sanctions.

4.1. The Impacts of Western Sanctions on Iran's Export and Import

In a broad view, the development of the economy needs production factors and inputs. In a normal situation a country should provide these factors both from internal production and imported goods. No country can provide all the necessary products by itself. Indeed, the trade is an important part of an economy, but when it comes across the embargoes; its negative impacts are inevitable. Iran and any other country's economy need to participate in international markets to be competitive and survive.

Moreover, till 2006, the U.S. sanctions results were both differed the United States volume, and type of the trading goods with Iran. The trade volume between Iran and the U.S. has declined, but Iran's both export and import has increased. According to GAO report, Iran has been able to compensate the U.S. trade leakage through trading with other countries, especially Asian countries, such as China and Japan. Iran's export grew through 1987 to 2006 from \$8.5 billion to \$70 billion, and on the same years Iran's imports also grew from \$7 billion to \$46 billion.¹²²

Indeed, after the multilateral sanctions, things were not the same as the time of the U.S. bilateral sanctions. Now, not only the United States, but

¹²² The United States Government Accountability Office (GAO), Iran Sanctions: Impact in Furthering U.S. objectives is unclear and should be reviewed (United States: GAO report, 2007): 26-33.

also the European countries impose trade sanctions on Iran. Even some other countries, which didn't impose embargoes on Iran, avoided making direct trade with this country in order to prevent problems that may arise due to the high sensitivity of the West to Iran. In addition, the risk of business with Iran has increased because of money transferring problems due to SWIFT and Iranian banks sanctions. On the other hand, for Iranians also under the sanction situation, participating in international markets has many obstacles, increasing the cost of business for Iranians. The UN, EU and U.S. sanctions made hard circumstances for businessmen to do business with Iran, from the financial, transportation (shipping) and insurance aspects.

According to the own experiences of the writer, Sanctions made troubles for the Iranian trades' people to participate in international exhibitions and collect marketing information due to the strained relation of Iran and some other countries and many difficulties of getting Visa for Iranians as a result of the sanctions. Also, the loss of Rial's (Iran's currency) value in comparison with Dollar makes the trip to foreign countries more costly for Iranians. But, despite all these problems, in order to survive the business, most of the businessman's choose to pay the related costs and go to foreign countries to establish a foreign company for themselves as an intermediate company to work with Iran, bypassing the sanctions. This is one of the main reasons that the trade volume between Iran and some other countries like Turkey and the UAE have been increased.

So, the major impact of the sanctions on Iran's export and import links toward changing the countries, which trade with Iran. During the last years, Iran's trade with Turkey and Gulf Cooperation Council or GCC (including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) has been increased. This fact shows Iran's economic and diplomatic efforts to compensate the cost of the unwillingness of many

countries to make business with Iran regarding the sanctions. Iran is forced to use re-export strategy to import and export the desired products into and out of the country, which is not an easy job due to the careful control of the United States on the companies and financial institutions, working with Iran. In addition, GCC countries are one of the major countries that their trade with Iran has been increased due to Iran's sanctions. Previously, the relation between Iran and most of the GCC countries were not based on trust, which was sensitive.¹²³

In other words, Prof. Nader Habibi explains this issue well in his article. He describes that Iran choose a diplomacy to increase the volume of the trade and investment with GCC countries for two reasons: first, to overcome the difficulties resulting Iran's sanctions to do business with European countries by re-exporting through GCC countries, and second, Iran's effort to improve its relations with GCC countries because of their developing cooperation with U.S. in order to isolating Iran.¹²⁴

Moreover, according to Habibi, the volume of both exports and imports between Iran and GCC countries has been increased. Iran's import value

¹²³ The sources of mistrusts are related to the post 1979 revolution of Iran. The main dispute between UAE and Iran is related to the ownership of three small islands in Persian Gulf: Greater Tunb, Lesser Tunb and Abumusa. In addition, Iran's nuclear program and perusing to have hegemony power, The Shiite and Sunni (the two major denominations of Islam) domination and political relations are the other subjects of unease relations of both countries. Saudi Arabia and UAE are concern about the influence of the Shiite in Arab world (See: Nader Habibi, "The impact of sanctions on Iran-GCC Economic Relations," Crown center for the Middle East studies, No.45 (November 2010): 2-6. And. Karim Sadjadpour, The Battle of Dubai: The UAE and the U.S. - Iran cold war. (Washington D.C: The Carnegie Papers, 2011): 9-14).

¹²⁴ Nader Habibi, "The impact of sanctions on Iran-GCC Economic Relations," Crown center for the Middle East studies, No.45 (November 2010): 2.

from GCC has been rose from \$1.3 billion in 2000 to \$13.4 billion in 2008, and the Iran's export value to GCC countries has increased from \$630 million in 2000 to \$2.62 billion in 2008. For both import and export the most share of the trade between GCC countries with Iran is related to United Arab Emirates. The investment opportunities, ease of travel and Dubai's free trade zone have allowed Iranian's to establish their own companies in Dubai and develop their business there.¹²⁵

In addition, As Karim Sadjadpour declared in his article, Iran was the second major re-export partner for UAE on 2010. The amount of re-exports from UAE to Iran has been increased during the last years. Dubai had re-exported about \$5.8 billion worth of goods to Iran in 2009.¹²⁶The Western sanctions had discouraged many countries to do business directly with Iran, Dubai let these companies to do so indirectly and let Iranians to flow their exports and imports through this country. Table 4-1-1 shows the import value of Iran from UAE during last 6 years. Both the value in USD and the percentage of the trade with UAE from the total Iran imports have been increased. Thus, UAE has been Iran's first main Import partner during last year's.

¹²⁵ Nader Habibi, "The impact of sanctions on Iran-GCC Economic Relations," Crown center for the Middle East studies, No.45 (November 2010): 4-9.

¹²⁶ Karim Sadjadpour, The Battle of Dubai: The UAE and the U.S. - Iran cold war (2011): 7-9.

Table 4-1-1: Iran Imports from UAE		
	Dollar value of Iran Imports From UAE	percentage from the total import value of each year
21 March 2006 to 20 March 2007	\$9,349,421,645	22.50
21 March 2007 to 20 March 2008	\$11,508,447,384	23.78
21 March 2008 to 20 March 2009	\$13,489,983,062	24.16
21 March 2009 to 20 March 2010	\$16,163,397,062	29.45
21 March 2010 to 20 March 2011	\$16,669,232,736	29.91
21 March 2011 to 20 March 2012	\$17,473,056,135	30.41

Data extracted from the Iran's Chamber of Commerce Trade Statistics.¹²⁷

However, since 2008, the U.S. has started to put pressures on UAE by threatening this country and warning it the loss of access to the U.S. market. Consequently, Central Bank of UAE ordered to freeze 41 accounts of the Iranian people and entities.¹²⁸ According to Sadjadpour, the intensifying of Iran's sanctions, more U.S. pressure, and the UAE's anti-Iran federal government have resulted to more difficult situations for Iranian

¹²⁷ "Trade Statistics," Iran's Chamber of Commerce, <http://www.tccim.ir/ImpExpStats.aspx?slcImpExp=Import&slcCountry=&sYear=1390&mode=doit>.

¹²⁸ "UAE freezes 41 Iran-linked bank accounts-reports," Reuters, June 28, 2010, <http://www.rtheEUters.com/article/2010/06/28/iran-uae-sanctions-idUSDAH83496020100628>.

businessmen's in Dubai. They could no more easily trade with Dubai, and the access to the bank currency exchanges for many of them has been restricted, and the transportation of their goods has been hardened.¹²⁹ All these persuade many of Iranian's to increase their tendency toward shifting their business through another country: Turkey.

Iranian businessmen have a lot of difficulties to do financial transactions from Iran to foreign countries. They can't import or export many of sanctioned products, which are considered as dual-use products. Also, they have many obstacles to do business. However, one of the ways they found to escape from this situation is to establish a company in turkey by themselves or via a Persian, who is a Turkish citizen, or through a Turkish colleague. Indeed, the least expenditures are; the paying costs of establishing a company in Turkey and renting the offices, and other office expenses, taxes, payments of the related personals, and custom and products transition cost through Turkey. These expenditures have been forced to pay because of the sanction situation. So, after establishing or finding a new company in Turkey to cooperate with, they can carefully do re-exporting from Iran to European countries and vice-versa.

Avoiding the direct trade difficulties with Europe, Iranian's are forced to use the intermediate companies in Turkey, which results to more trade value statistic reports between Iran and Turkey. According to Iran's chamber of commerce statistics, trade volume (both export and import) with Turkey has been raised over the last years. The Table 4-1-2 and 4-1-3 show that from 21 March 2009 to 20 June 2012 Iran's percentage of the export to Turkey from the total exports, and the percentage of the imports from

¹²⁹ Karim Sadjadpour, *The Battle of Dubai: The UAE and the U.S. - Iran cold war.* (Washington D.C: The Carnegie Papers, 2011): 28.

Turkey of the total imports have been about doubled. However the Turkey's statistics even shows higher rates.

Table 4-1-2: Iran's Export to Turkey		
Time Period	Export Dollar Value	Export To Turkey, rate within total exports
from 21 march 2009 to 20 march 2010	\$592,988,451	2.71
from 21 march 2010 to 20 march 2011	\$1,055,816,939	3.98
from 21 march 2011 to 20 march 2012	\$1,432,574,233	4.24
from 21 march 2012 to 20 June 2012	\$365,834,482	5.41

Table 4-1-3: Iran's Import from Turkey		
Time Period	Import Dollar Value	Imports from Turkey, rate within total imports
from 21 march 2009 to 20 march 2010	\$2,016,871,830	3.67
from 21 march 2010 to 20 march 2011	\$2,464,203,967	4.42
from 21 march 2011 to 20 march 2012	\$3,079,950,785	5.36
from 21 march 2012 to 20 June 2012	\$763,849,852	6.68

Both Table 4-1-2 and 4-1-3 data had been extracted from Iran's Chamber of Commerce Trade Statistics.¹³⁰

As shown in Table 4-1-4, according to the statistics of Turkey's ministry of economy, Turkey's exports to Iran during the first 3 months of 2012, is about triple comparing to the same time last year. Besides, turkey's import from Iran, from Jan to May 2012, is about 1.3 times of the imports in

¹³⁰ "Trade Statistics," Iran's Chamber of Commerce, <http://www.tccim.ir/ImpExpStats.aspx?slcImpExp=Import&slcCountry=&sYear=1390&mode=doit>.

same period in 2011. The results would not be interesting, considering the numerous numbers of Iranian businessmen, who work with Turkey as a trading intermediate country. However, the increase of the volume of trade between 2 countries has another reason as well, which is explained on the next part of this chapter: the impact of sanctions on Iran’s oil industry and oil market. Consequently, sanctions have made the costs of import more for Iranian businessmen, because of both higher currency exchange rates and SWIFT, and Iran’s central bank and other banks sanctions.

Table 4-1-4: Turkey Exports and Imports to Iran				
			January to May	
	May-11	May-12	2011	2012
Exports to Iran	271	1,664	1,434	4,298
Imports from Iran	1,337	1,116	4,877	6,275

Data extracted from the economy ministry of Turkey statistics.¹³¹

Beside Turkey, One of the countries which have good economic and trade relation with Iran is China. The trade opportunities between two countries had been increased after the sanctions. Table 4-1-5 and Table 4-2-6 show that the volume of both Iran’s import from China and Iran exports to China has been increased during last 5 years. Iran’s imports from China have been increased about %75 (about twice) since 2007 and also Iran exports to China have been increased about %436 (fourfold) since 2006.

¹³¹ “Trade statistics by country,” The economy ministry of Turkey,
<http://www.ekonomi.gov.tr/index.cfm?sayfa=7155BE01-D8D3-8566-45208351967592CF>.

Table 4-1-5: Iran Imports from China		
	Dollar value of Iran Imports From China	percentage from the total import value of each year
21 March 2007 to 20 March 2008	\$4,247,023,290	8.78
21 March 2008 to 20 March 2009	\$4,944,726,520	8.86
21 March 2009 to 20 March 2010	\$4,802,030,935	8.75
21 March 2010 to 20 March 2011	\$5,788,316,158	10.39
21 March 2011 to 20 March 2012	\$7,387,518,612	12.86

Table 4-1-6: Iran Exports to China		
	Dollar value of Iran exports to China	percentage from the total export value of each year
21 March 2006 to 20 March 2007	\$1,052,996,801	8.19
21 March 2007 to 20 March 2008	\$1,243,523,764	8.13
21 March 2008 to 20 March 2009	\$2,051,320,534	11.20
21 March 2009 to 20 March 2010	\$3,125,762,675	14.28
21 March 2010 to 20 March 2011	\$4,570,965,673	17.22
21 March 2011 to 20 March 2012	\$5,652,242,564	16.74

Both Table 4-1-5 and 4-1-6 data had been extracted from Iran's Chamber of Commerce Trade Statistics.¹³²

¹³² "Trade Statistics," Iran's Chamber of Commerce, <http://www.tccim.ir/ImpExpStats.aspx?slcImpExp=Import&slcCountry=&sYear=1390&mode=doit>.

In addition, China was among the countries which were in advocate of negotiations with Iran rather than sanctions and economic pressure. Chinese Premier, Wen Jiabao, has announced that China has decided to boost trade with Iran by 2015.¹³³ Iran has also planned to raise its relations with China. In this regards, Hamid Safdel, the head of trade development organization in Iran, has emphasized on development of the relations with China - Iran's strategic partner. He has also pointed out that China could be an appropriate target market for Iranian goods.¹³⁴ Indeed, the reason that China supports Iran is the huge economic profits for it by selling low quality goods in high prices to Iran, a country which has no other choice rather than increasing import from China (Giving privileges for asking support has been the politic of Iran for China). The assignment of the domestic market to Chinese products will increase the unemployment rate in Iran as well.

Beside the normal official trade, an uprising issue is a volume of goods, which are smuggling through Iran and its neighbor countries. Some of the sanctioned goods are delivering to Iran by smuggling trade. Nader Habibi explains that most of the smuggled goods imported into Iran are regular consumer goods, but there are also some strategic goods, which can be carried on small boats among the smuggling goods as well. The Iranian smugglers transport goods from UAE, Oman, Iraq and Turkey.¹³⁵ Iran's official news declares that the value of smuggling goods to Iran each year is more than \$20 Billion.¹³⁶ Also Mostafa Motavarzade, member of Iran's

¹³³ "China Chile to boost trade by 2015: Chinese premier," Press TV, June 27, 2012, <http://www.presstv.ir/detail/2012/06/27/248158/china-chile-double-trade-2015/>.

¹³⁴ "China can be a good market for Iranian Products," Khabar Farsi News, July 11, 2012, <http://khabarfarsi.com/ext/2944459>.

¹³⁵ Nader Habibi, "The impact of sanctions on Iran-GCC Economic Relations," Crown center for the Middle East studies, No.45 (November 2010): 9.

¹³⁶ "What happened after president Ahmadinejad's statement about hidden wharfs?" Khabar Online News, June 23, 2012, <http://www.khabaronline.ir/detail/222701>.

parliament economy commission, states that the value of the smuggling goods is about one third of Iran's official trade.¹³⁷

4.2. The Impacts of the Western Sanctions on Iran's Oil Industry and Oil Market

The oil productions and export play a significant role in Iran's economy. Iran has been ranked by the Central Intelligence Agency (CIA) in Jan 2011, as the fourth world largest oil producer country after Saudi Arabia, Venezuela and Canada.¹³⁸ According to the Energy Information Administration (EIA), Iran has %9.3 of the world's total proven oil reserves and over %12 of OPEC reserves. Also, Iran is the world's third largest crude oil exporter after Saudi Arabia and Russia.¹³⁹

Written in the oil and gas journal in Jan 26th, 2012, Iran's second huge oil importer after China is the European Union. As an example, in the first 9 months of 2011, Iran provided 34.2% of Greece's total oil imports, 14.9% of Spain's, and 12.4% of Italy's.¹⁴⁰ After the sanctions, Iran has to cut its oil export to European Union. Losing the EU as Iran's oil customer has a considerable impact on Iran's economy, regarding the loss of one of the important sources for receiving international exchanges.

¹³⁷ "80 illegal wharfs in Iran," Pars Daily News, July 28, 2012, <http://parsdailynews.info/85976.htm>.

¹³⁸ "The world fact book: rank order," Central Intelligence Agency (CIA), <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html>.

¹³⁹ The Energy Information Administration (EIA), Country Analysis Brief: Iran (Feb 17, 2012): 01.

¹⁴⁰ Eric Watkins, "The EU oil embargo targets Iran's nuclear drive," The oil and gas journal, Jan 26, 2012, <http://www.ogj.com/articles/2012/01/new-eu-oil-embargo-targets-irans-nuclear-drive.html>.

Energy sector has a tightened link to Iran's economy, and oil revenues stands for major revenues of the government, also crude oil and its derivatives export are about %80¹⁴¹ of Iran's total exports. So, Iran's economy is really sensitive and vulnerable to the oil prices. If the oil prices decrease, Iran should increase the supply of oil. Iran's economic development is greatly related to its economic policies' changes toward decreasing the dependence of the country's economy on its oil revenues and establishing stronger production systems. This wouldn't be happen if the government doesn't decrease its role in every part of the economy. Therefore, more privatization on the necessary industries could be the key for economic development.

In addition, some argue that the oil sanction for Iran could be its chance for trying to be more independent to oil revenues and empowering the manufacturing sector. Indeed, Iran believes that the way of dealing with sanctions is to boom the domestic production. Iran's supreme, Ali Khamenei even called the Iran's New Year (From April 2012 to April 2013) as 'National Production, support for Iranian labor and capital.'¹⁴² But, how could the Iranian government manage things to be self-sufficient in production, while it has had a "Rentier Character"¹⁴³ for many years?

Assuredly, the rentier character refers to many countries in Middle East. According to Haji Yusefi, the rentier state is a state that gains its

¹⁴¹ Energy Information Administration (EIA), Country Analysis Brief: Iran (2012): 04, <http://www.eia.gov/cabs/iran/pdf.pdf>.

¹⁴² "Dueling Iranian New Year Greetings from Obama and Khamenei," The New York Times, March 20, 2012, <http://www.nytimes.com/2012/03/21/world/middleeast/dueling-iranian-new-year-greetings-from-obama-and-khamenei.html>.

¹⁴³ Sousan Badiei and Cyrus Bina, "Oil and the rentier state: Iran's capital formation 1960-1977," California State Polytechnic University, Pomona and University of Minnesota, Morris 4, <http://www.luc.edu/orgs/meea/volume4/oilrentier/oilrentier.pdf>.

income from its natural resources. The revenue of a rentier state is not based on country's production or taxes, so all the oil producer and exporter countries could be called as rentier states. A rentier state doesn't have an efficient tax system; hence the government doesn't have efficient monitoring on the country's investments. Iran's post revolution government has adjusted its rentier character by considering privatization in a small measure.¹⁴⁴ Iran's rentier nature made this country to be dependent on oil revenues, and handle the situation of sanctions, which make embargoes on oil export more challengeable.

According to Yossi Kuperwasser, there is a fact that Iran is much more dependent on economic ties with the world than the world is dependent on Iran.¹⁴⁵ In the same context, Paul Rivlin- senior research fellow at the Moshe Dayan Center for Middle East and African Studies at Tel Aviv University- has studied the Iran's energy vulnerabilities and concluded that Iran cannot cope with the loss of oil its revenues as long as the world could deal without Iranian oil. Country is highly reliant on oil export revenues, and it would be massively vulnerable to international energy sanctions.¹⁴⁶ Whereas the EU stands for %18 of Iran's oil exports from Jan to June 2011¹⁴⁷, the dilemma would arise that Iran could bypass the EU energy embargo by selling its oil to other %82 countries. But the fact is not as easy as it sounds, since multilateral sanctions have made hard conditions for Iranian government in order to receive the sold oil payment due to the SWIFT sanction and

¹⁴⁴ Amir Mohammad Haji Yusefi, *The Government, Oil and economic development in Iran* (Iran: Markaze Asnade Enghelabe Eslami, 2010): 49-61 and. 172.

¹⁴⁵ Yossi Kuperwasser, *Halting Iran's nuclear weapons program: Iranian vulnerabilities and western policy options*, (Jerusalem: Jerusalem Center for Public Affairs, 2007): 09.

¹⁴⁶ Paul Rivlin, "Iran's energy vulnerability," *The Middle East Review of International Affairs* 10, No. 4 (2006): 115.

¹⁴⁷ Data has been extracted from Energy Information Administration (EIA). Country Analysis Brief: Iran (2012): 04, <http://www.eia.gov/cabs/iran/pdf.pdf>.

problems for exporting its oil to other countries because of the oil tankers insurance embargo.

After the UN, the U.S. and the EU sanctions, especially SWIFT sanction, the transaction of money for the oil payments were difficult. This was the reason, for which Iran started to export oil with bartering system with countries, such as India and Turkey. India was the first country which started to buy oil from Iran by paying Gold instead of Dollar.¹⁴⁸ There are some indications that Turkey had bartered gold for oil with Iran as well. According to BBC Persia, Turkey's official statistics show that the exports of Turkey to Iran from the first of the March 2012 to the end of the May 2012, have been 4.5 time of the same period last year. The main export of Turkey to Iran has been gold, which was about 60 million Ton. But, Turkish officials have denied the barter of oil for gold with Iran and said that Turkey is buying Iran's oil by Turkish Lira. So, the only probability would be that Iran sold the Turkish Lira's in Turkey, and then bought Gold in this country and brought it into Iran.¹⁴⁹

Moreover; China, Japan, India and South Korea in order are the main Asian consumers of Iran's oil. Financial Times stated that South Korea suspended buying Iran's oil on July 2012 and China and Japan delayed buying because of the EU insurance ban on tankers transporting Iran's crude

¹⁴⁸ "India barter's Iran's oil with gold," Hamshahri Online, Jan 25, 2012, <http://www.hamshahrionline.ir/news-158238.aspx>.

¹⁴⁹ "Bartering oil and gold between Iran and Turkey," BBC Persia, August 10, 2012, http://www.bbc.co.uk/persian/business/2012/07/120710_172_oil4gold_vid.shtml and.

"Gold for oil," The Washington Free Beacon, July 12, 2012, <http://freebeacon.com/gold-for-oil/>.

oil.¹⁵⁰ However, Iran declared on July 28th, 2012, that the country will be insurance the oil tankers itself.¹⁵¹ Consumers could carry Iran's oil by themselves oil tankers or through Iranian tankers which are being insured by Iran's government. The main previous insurance companies, The Europeans are banned to insure Iran's oil tankers and sea regulations don't let oil tankers deliver oil without having insurance. Now Iran has opened the way for its oil consumers to buy Iran's oil without having insurance problems, but this will significantly increase the cost of Iran's oil export.

In order to find a way for trying to end the sanctions, Iranian government was threatened to close the Strait of Hormuz, which is a narrow waterway at the entry of the Persian Gulf. In fact, about %40 of the whole oil, which is exported by the seaways is passing the Strait of Hormuz. The U.S. quickly responded by threatening that if Iran closes the Strait of Hormuz, the U.S. will use military force.¹⁵² Following Iran's treatments, UAE responded by making a pipeline that bypassing the Strait of Hormuz. According to BBC Persia, each day 17 million barrel of oil passes this Strait and by the new UAE pipeline, 1.5 million barrels of oil will be bypassing the Strait of Hormuz.¹⁵³ Iran didn't implement its treatments yet, but the world seems to be ready to practically react to any decision making by Iran. As the

¹⁵⁰ "Iran's oil output falls to a 20-year low," Financial Times, July 09, 2012,

<http://www.ft.com/intl/cms/s/0/d8e28a4e-c9e6-11e1-a5e2-00144feabdc0.html#axzz21uyg0UrN>.

¹⁵¹ "Iran expands oil tanker insurance," Radio Farda News, July 29, 2012,

http://www.radiofarda.com/content/f12_iran_expands_oil_tanker_insurance/24659378.html

¹⁵² "Strait of Hormoz," The New York Times, July 22, 2012,

<http://topics.nytimes.com/top/news/international/countriesandterritories/strait-of-hormuz/index.html>.

¹⁵³ "Iran's treatment for closing the Strait of Hormuz," BBC Persia, July 16, 2012,

http://www.bbc.co.uk/persian/iran/2012/07/120716_l72_fujaira_vid.shtml.

sanctions against Iran developed, on October 23, 2012, Iran's oil minister, Rostam Ghasemi, declared that if sanctions would be intensified, Iran would cut off its oil export.¹⁵⁴ This could have been claimed by Iran's government in order to alert Iran's major oil consumers, such as China, Japan, India, South Korea, and Turkey to prevent them from cooperation with western countries for more sanctioning Iran along with affecting the global oil prices through making anxiety in oil market.

National Iranian Oil Company (NIOC), a state-owned company under the supervision of the Ministry of Petroleum, is responsible for all both Iran's oil exploration and Iran's oil export. With the current level of production (137,000,000,000 Crude oil in barrels, bbl¹⁵⁵), Iran's oil reserves will last over 80 years. Iran needs to develop its oil capacity and level of output, which needs more investments on oil projects. According to Keith Crane, Rollie Lal, and Jeffrey Martini, the operating costs of extracting oil in older fields are higher than new fields. The reason is related to not only geology sakes, but also NIOC's high costs of labor. Moreover, the costs of developing new fields are too high because of the need for higher technologies.¹⁵⁶ This implies the need of Iran for foreign investment on its oil projects. Also Kazem Yavari and Reza Mohseni stated that Iran's oil fields need much investment that Iranian government could not afford it. In addition, due to the international isolation, the government cannot borrow its necessary money from foreign countries. On the other hand, Iran's law banned the ownership of natural resource, but

¹⁵⁴Iran's oil minister: If sanctions increase, we will cut off the oil exports," BBC Persia, October 23, 2012,

http://www.bbc.co.uk/persian/iran/2012/10/121023_i31_oli_iran_ghasemi_sanction.shtml.

¹⁵⁵ "The world fact book: rank order," Central Intelligence Agency (CIA),

<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html>.

¹⁵⁶ Keith Crane, Rollie Lal, Jeffrey Martini, Iran's political demographic and economic vulnerabilities (California: Rand cooperation, 2008): 69.

Iran's national oil company let the investment on oil fields through a buy-back treaty.¹⁵⁷

Additionally, foreigners are permitted to do oil exploration and new fields development by a buy-back contract, which is an agreement that a foreign company develop a field and then pay back by the explored oil. According to EIA, in recent years Iran has discovered new onshore and offshore fields¹⁵⁸, following the sanctions many of projects are sentenced to slow down due to the lack of investment and financial sources, and especial situation in the country. Decreasing the oil and gas output and existing the ban and problems for exporting the oil could result to lower economy growth rate and higher unemployment rate. As written by Fareed Mohamedi, in the last few years, Iran has tried to attract Eastern countries, mostly China, to bring them for investment on its oil projects. Iran and China have signed a contract in 2007 for developing one of the Iran's oil field called Yadavaran. But, the proceeding of the development was too slow till now.¹⁵⁹

Following this further, Oil has the prominent position on Iran's economy growth rate; according to Keith Crane, Rollie Lal and Jeffrey Martini who was studied statistical analysis, the results show that if the oil production changes for 10 percent, the GDP of Iran will change for 2.7

¹⁵⁷ Kazem Yavari and Reza Mohseni, "the impacts of trading and financial sanctions on Iran's economy: a historical analyses," *Majles and Pajouhesh journal* 16, No: 61 (May 12, 2010): 38.

¹⁵⁸ The Energy Information Administration (EIA), *Country Analysis Brief: Iran (2012)*: 03, <http://www.eia.gov/cabs/iran/pdf.pdf>.

¹⁵⁹ "The oil and gas industry," *United States institute of peace: the Iran primer*, <http://iranprimer.usip.org/resource/oil-and-gas-industry>.

percent.¹⁶⁰ As shown on Figure 4-2-1, Iran's crude oil production has decreased considerably from 2009. Iran reached to production level of 3.16 Million Barrel per day (bpd) on June 2012, which has been the lowest level since 1992. The U.S. Energy information Administration (EIA) predicted that Iran's crude oil production will fall to 2.7 Million bpd at the end of 2012.¹⁶¹

Figure 4-2-1: Iran's Crude Oil Production and Capacity

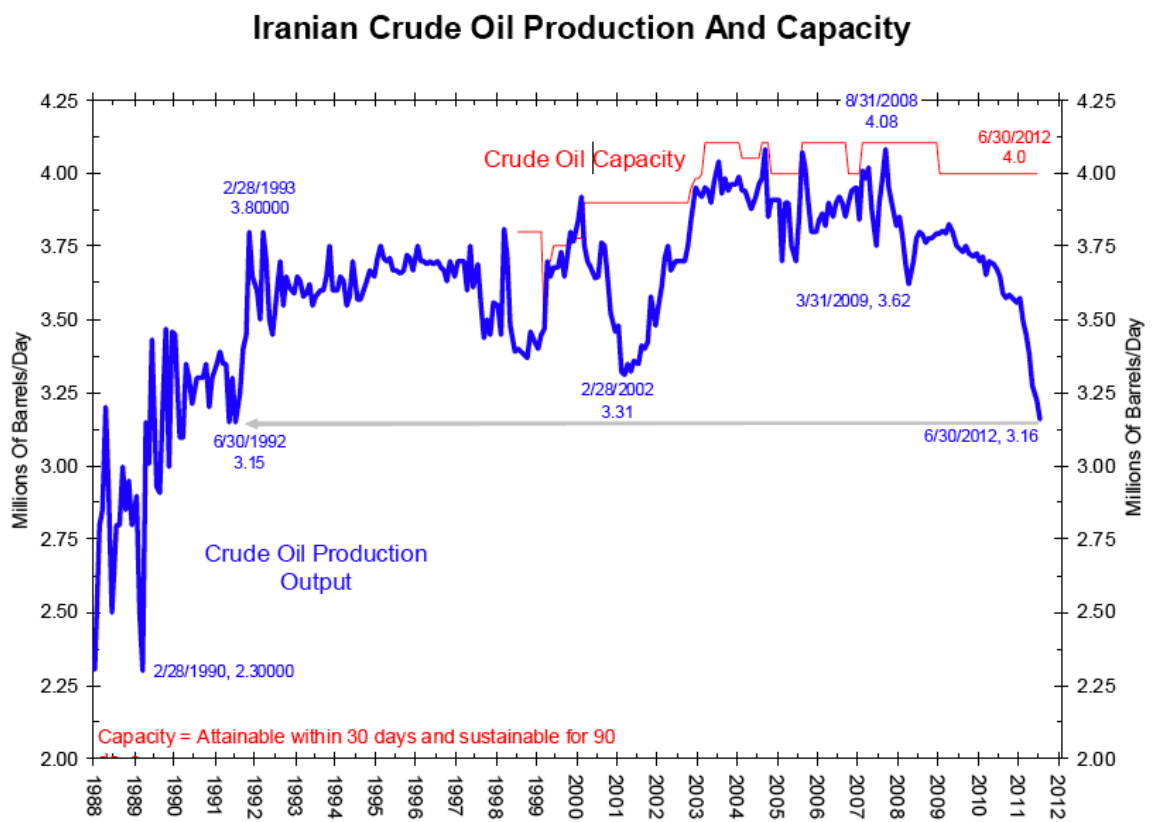


Figure extracted from Bianco Research, Charts of the Week, 11 July 2012.¹⁶²

¹⁶⁰ Keith Crane, Rollie Lal, Jeffrey Martini, Iran's political demographic and economic vulnerabilities (California: Rand cooperation, 2008): 73.

¹⁶¹ "Iran's oil output to fall to 2.7 million bpd by end 2012," Reuters, June 12, 2012, <http://uk.rthe Euters.com/article/2012/06/12/uk-eia-iran-production-idUKBRE85B11320120612>.

¹⁶² "Charts of the week" Bianco research, July 11, 2012, <http://www.arborresearch.com/bianco/?cat=27&samplecat=7>.

Moreover, Iran's oil production has been already declining before the last the EU sanction on Iran's oil export and on insurance of the Iran's oil carrier tankers. The reason of this issue is related to the U.S previous sanctions which were ban on foreign companies to invest and participate in Iran's oil project developments and production. Also, The Institute of Energy Economics of Japan (IEEJ) has reported that the existing Iranian oil fields have a production decrement mostly because of the producing oil for a long time and the need of oil recovery methods.¹⁶³ The efficiency and enhancement of oil fields production capacity needs foreign investment and financial resources, from lack of both which Iran is suffering due to the sanctions and many -years of mismanagement.

Stepping up the oil production capacity in long term needs a really comprehensive program and wise management. At the time being, economic future of Iran is more tightened with political relations with Western countries more than any other period. So, the private sector should be stabilized and supported to do investment on essential parts of the economy. The Oil and Gas Directory of Middle East has recently published a report, which analyses the future outlook of Iran's oil and gas industry. According to the mentioned report, Iran needs to make economic reforms and develop foreign investment together with technological advancement in order to increase its energy resources. Iran has about \$80 billion worth of oil incomplete projects in its oil industry, and also it needs about \$200 billion investments in new oil, gas and petrochemical projects by the end of 2015. Thus, the private sector must make investments to compensate the need of cash.¹⁶⁴

¹⁶³ "Recent trends in oil supply from Iran," The Institute of Energy Economics of Japan (IEEJ), June 2012, <http://eneken.ieej.or.jp/data/4363.pdf>.

¹⁶⁴ The Oil and Gas Directory of Middle East: Islamic Republic of Iran (2011): 1074-1075. <http://www.oilandgasdirectory.com/research/Iran.pdf>.

4.3. The Impacts of U.S Sanctions on Iran's Inflation Rate

Inflation has been one of the significant issues in Iran's economy for many years, but after the European Union oil sanction on first of July 2012; it has been the most important worry of the Iranian government. In chapter Three, the main roots of Iran's inflation rate had been discussed, which were the high money-supply growth, the Iranian targeted subsidy plan, and the International sanctions. In previous chapter, the first and second reasons had been studied, and the last cause which is the role of international sanctions on Iran's inflation rate will be surveyed on the following paragraphs.

The current inflation pressure started with psychological concerns, which were effects of the sanctions, is the market turmoil. The worry of increasing the prices caused by the sanctions has made the inflation more serious than it was expected. One of the reasons for the rising the prices of consumers necessary goods is the fear of more increscent of the prices, so people buy more and save the products, resulting to increase the demand for goods and make the inflation. The lack of people's trust to the government plans is in turn a reason for inflation itself. As an example, the price of consumer goods such as milk, meat and chicken has been progressively increasing, which caused a long queue of people in the places, where the prices of such goods are slightly cheaper. During the last 10 years, the price of chicken meat in Iran had been about 22620 Rial ¹⁶⁵, but the average price of the same product at July 2012 was about 70000 Rial.¹⁶⁶

The main reason of the increase of the chicken price has been identified as the decrease of the main food input for the poultries. According

¹⁶⁵ "The chicken price in last ten years," Eghtesad Online newspaper, July 15, 2012, <http://eghtesadonline.com/fa/content/4534>.

¹⁶⁶ "Price Index," The Information and news website of Iran's Poultry Industry, http://www.itpnews.com/ghymtha/show_detail-991.aspx?Itemid=403.

to BBC Persia, the major food for poultries in Iran is importing from countries such as India, Brazil and Argentina.¹⁶⁷ After the sanctions the value of Rial exchanged for Dollar has decreased considerably, so the input prices for the industries, which imported their production inputs, have risen. Moreover, because of SWIFT sanctions, the transaction of money for the imported products has faced many problems to the extent that even some economists suggest the bartering method for transactions with foreign countries. The same story happened for the price of the red meat and milk. Indeed, the price of milk during the last 4 years had been doubled. The high dependence on import of the food for cows, and the payment problems for imported food had been declared as the major reason of these price increases by the government.¹⁶⁸

The latest statistics released by Iran's Central Bank were including the inflation percentage on consumer goods shown in 4-3-1 Table below. These statistics are measured from 20 March 2012, till 20 April 2012, when in the Persian month calls Farvardin. Therefore, the most prices increscent are related to food and drink, which put high pressure on Iranian people's life. Total inflation increscent comparing to the last month is 2.6 percent, but the Total inflation increscent comparing to the same month last year is 23.9 percent. Some argue that the real inflation growth is more than the Central Bank's report, however even the official report is considerably high rate. As explained on previous chapter, CIA calculated Iran's 2011 inflation rate as

¹⁶⁷ "Bankruptcy of Iranian domestic producers because of the sanctions in the year of domestic production," BBC Persia, June 29, 2012,

www.bbc.co.uk/persian/iran/2012/06/120627_128_iran_sanction_production_units_sanc12.shtml.

¹⁶⁸ "Some of Iranian dairy companies: we are going to be bankrupt," BBC Persia, October 17 2012,

http://www.bbc.co.uk/persian/iran/2012/10/121017_142_vid_iran_dairies.shtml?bw=bb&mp=wm&bbcws=1&news=1.

%22.5 and %12.4 for 2010¹⁶⁹, but with the current situation of Iran there is no doubt that the inflation rate in 2012 will be more.

Table 4-3-1: The Percentage Increase in the Consumer Goods Prices in One Month, and its Compare to the Same Period on Last Year			
	consumer goods	the percentage of increase to last month	the percentage of increase to the same month on last year
From 20 March 2012 to 20 April 2012	Food and Drinks	5,3	33,0
	Tobacco	4,0	39,9
	cloths and shoes	1,9	33,5
	House, Consumer water and Gas and Electricity	0,6	13,8
	House Furniture	1,4	27,0
	Health and Therapy	1,1	19,6
	Transportation (In the city for the consumers)	0,3	15,1
	communication tools	0,1	4,1
	hobby	3,3	28,4
	Education and Training	0,1	15,2
	Restaurants and Hotels	4,3	26,4
	Other consumer goods	2,6	38,5
	TOTAL INDEX	2,6	23,9

Data extracted from central bank of Iran¹⁷⁰

¹⁶⁹ "The world fact book: Iran," Central Intelligence Agency (CIA), <https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>.

¹⁷⁰ "Consumer Price Index," Central Bank of Iran's Report, <http://www.cbi.ir/category/1611.aspx>.

Ali Larijani, Iran's Parliament chief had explained the inflation roots in mismanagement. He said that if there were good management in the country we shouldn't have such a growing inflation rate. He mentioned that the best way to go out of this situation is supporting the domestic production.¹⁷¹ Iranian economist, Dr Hojjat Ghandi also claimed that one of the most important reasons of the inflation is the interference of the government in economy. Iran's government is specifying the price of the good which is under the acute inflation. Making the maximum price for an especial good, results lower supply and more demand, which is intensifying the inflation itself. The market should be naturally come to equilibrium point and interference of the government will make problems.¹⁷²

According to the International Monetary Fund 2011 report, Iran is one of the first 10 countries in the world, which had the most inflation rate. The 88 countries had inflation rate lower than %5 on 2011 and it has been anticipated by IMF that this number would raise to 103 countries on 2012. As shown in Table 4-3-2 and Figure 4-3-3 (extracted from Table 4-3-2), Iran's consumer prices inflation rate on 2011 was %21.3, and it has been anticipated to be almost the same on 2012, and the next years, and a gradual decrease as %15.5 on 2017.¹⁷³

Notably, the price stability helps the investor and economists to have long-term economic plans, which results in efficient investment project, more production and lower unemployment rate. Inflation could result in decreasing

¹⁷¹ "The lack of management in the country is the reason of inflation," BBC Persia, June 19, 2012, http://www.bbc.co.uk/persian/iran/2012/07/120719_l21_majlis_price_larijani.shtml.

¹⁷² "The five reason of inflation in Iran," Donyaye Eghtesad Newspaper, July 22, 2012. http://www.donya-e-egtesad.com/Default_view.asp?@=310100.

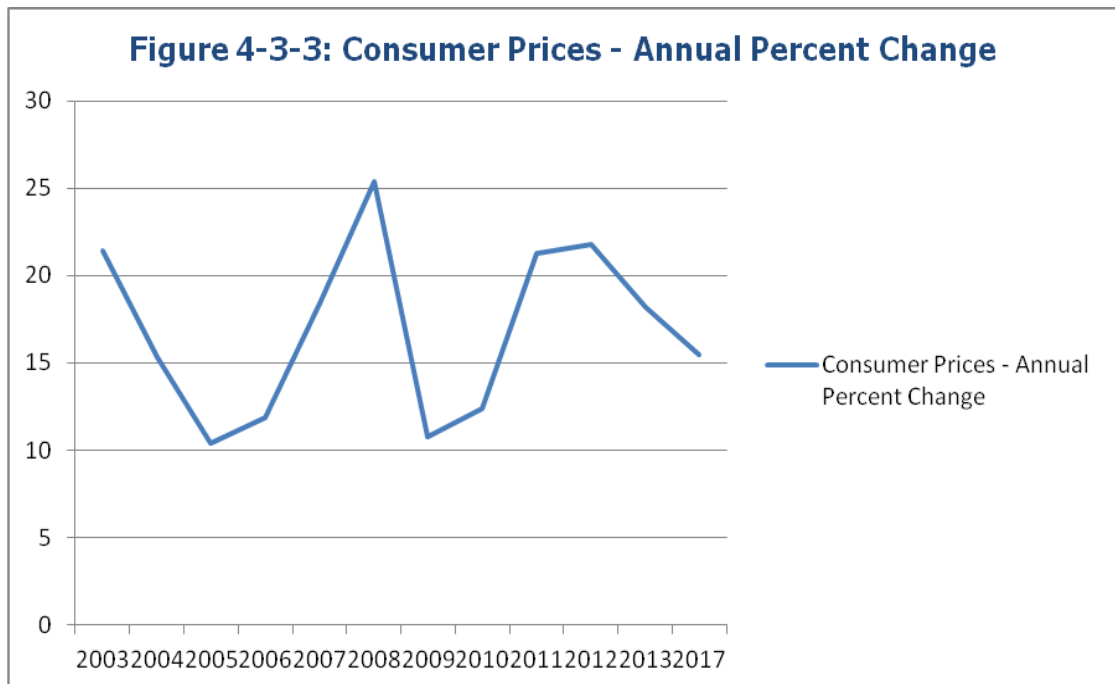
¹⁷³ International Monetary Fund 2011 report: world economy outlook (Sep 2011): 198-203. <https://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf>.

the value of money (people can buy less), increasing imports rather than exports, which will affect the current account and hence balance of the payment (balance of the payment = the current account + the capital and financial transfers account), raising the uncertainty for safe investment, and increasing the cost for producers which could yield to higher unemployment rate.

										Projections		
	Average of 1994-2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2017
Advanced Economies	2.1	2	2.3	2.4	2.2	3.4	0.1	1.5	2.7	1.9	1.7	1.9
Central and Eastern Europe	37.7	6.6	5.9	5.9	6	8.1	4.7	5.3	5.3	6.2	4.5	3.8
Developing Asia	6.1	4.1	3.7	4.2	5.4	7.4	3	5.7	6.5	5	4.6	3.6
Middle East and North Africa:	8.2	6.6	5.6	7.6	10.1	13.6	6.6	6.9	9.6	9.5	8.7	6.9
Iran	21.4	15.3	10.4	11.9	18.4	25.4	10.8	12.4	21.3	21.8	18.2	15.5
Iraq	-	-	-	53.2	30.8	2.7	-2.2	2.4	6	7	6	4
Egypt	5.1	8.1	8.8	4.2	11	11.7	16.2	11.7	11.1	9.5	12.1	7
Bahrain	0.9	2.2	2.6	2	3.3	3.5	2.8	2	1	1	1.5	2
Saudi Arabia	0.4	0.4	0.6	2.3	4.1	9.9	5.1	5.4	5	4.8	4.4	4
United Arab Emirates	3	5	6.2	9.3	11.1	12.3	1.6	0.9	0.9	1.5	1.7	2.1

Data had been extracted from International Monetary Fund¹⁷⁴

¹⁷⁴ International Monetary Fund 2011 report: world economy outlook (Sep 2011): 198-203.
<https://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf>.



Graph had been extracted from the data of Table 4-3-2

4.4. The Impacts of the U.S Sanctions on Iran’s Banks and Financial System

After imposing the sanction on the major Iranian banks, the problems of transferring money has been raised for Iranians. The logic of imposing such sanctions is simple. When Iran can’t have or transfer money, it can’t continue to support terrorism organizations or to enriching uranium. In addition, Iran’s government will have many problems for importing or exporting goods and making international payments. All of these may be the reasons to persuade Iran to accept curbing its nuclear program. Iranian Banks go under sanctions one by one after Iran declared that it insists on following its nuclear program and makes some debates for international community. Beside Iran’s central bank, 14 other banks are added to the sanctioned list.

According to Avi Jorisch, the U.S. gains a powerful tool by sanctioning Iranian banks by pursuing their financial activities. These 14 banks are

including as: Bank Sepah (had been sanctioned because of providing financial services to Iran's missile industry), Bank Saderat (reported as a supporter for the terrorism groups such as Hamas and Hizbollah), Bank Melli (Iran's oldest and largest bank), Bank Melli Iran ZAO (based in Moscow), Melli Bank PLC (based in London), Bank Mellat (supporting Iran's nuclear entities which were sanctioned in the SDN list), Mellat Bank SB CJSC (based in Armenia), Persia International Bank PLC (based in London, under the operation of bank Mellat), Kargoshaee Bank, Arian Bank (based in Kabul), Futurebank BSC (based in Bahrain, under the control of Bank Melli and Bank Saderat), First East Export Bank (based in Malaysia, cooperating with Mellat bank), Export Development Bank of Iran (providing financial supports for Iran's Ministry of Defense and Armed Force Logistics), Banco Internacional de Desarrollo CA (based in Venezuela, owning by export development bank of Iran).¹⁷⁵

In addition, until 2002, Iran had a multi-exchange rate system, which means that state sector was using the official rate while the private sector was using the market or competitive rate. The official rate was preferred because the exchange rate of Rial against other currencies was more favorable than the market rates. The Single-exchange rate system was established in March 2002; the new rate was defined by Tehran Stock Exchange (TSE) as the basis of the single-rate system.¹⁷⁶ According to Ali Rezayi, after 2009, when the sanctions got tougher because of both government economic mismanagement and international sanctions, the

¹⁷⁵ Avi Jorish, *Iran's dirty banking: How the Islamic Republic Skirts International Financial Sanctions* (Vancouver: Red Cell Publishing, 2010): 2-3.

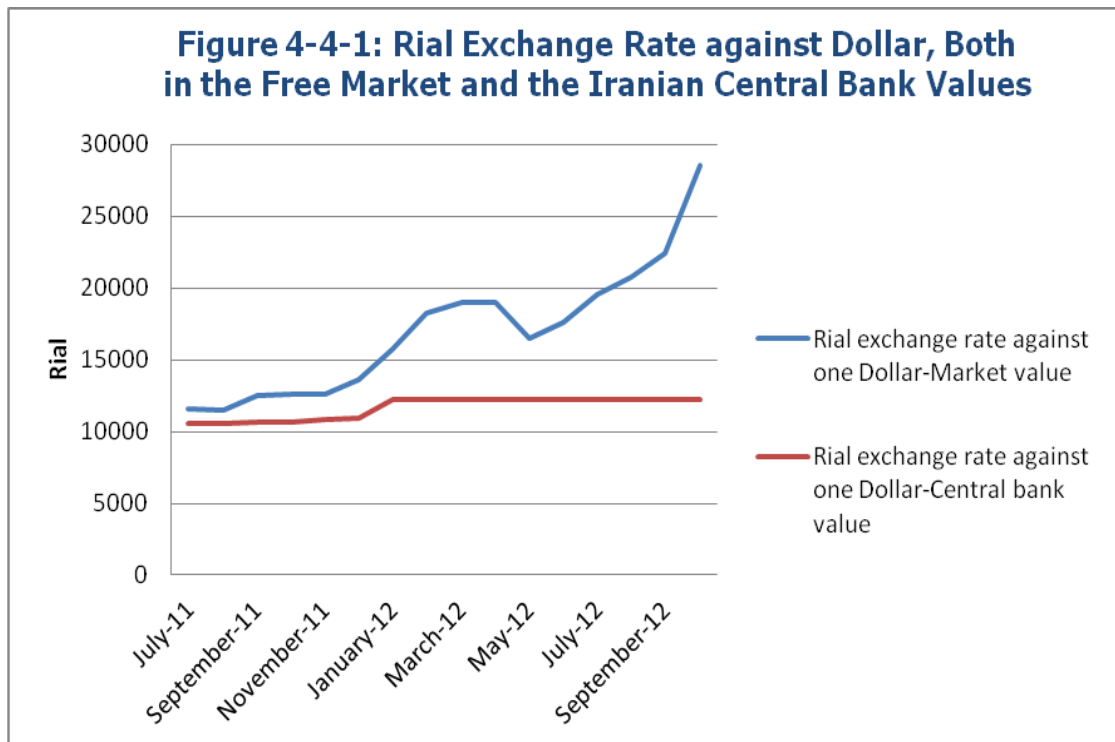
¹⁷⁶ Oya Celasun, *Exchange rate regime considerations in an oil economy: the case of the Islamic Republic of Iran* (IMF working paper, 2003): 3-5.

exchange rate system came back to a dual-exchange rate, making essential economic problems for Iran's economy.¹⁷⁷

Following the sanctions, Iran's currency, Rial, has experienced depreciation against the U.S. Dollar and has lost more than half of its value during the last year. On July 2011, the exchange rate of Rial against Dollar was about 11600 Rial, but in the July 2012 it was about 19580 Rial¹⁷⁸ in the free market, which increases about %60 of the Rial exchanges for Dollar or decreases %60 Rial's value. Figure 4-4-1 shows the increase of Rial exchange rate for one Dollar (Rial devaluating against Dollar) from July 2011 to October 2012, in both Iran's free market and the rates of Iran's central bank. Figure 4-4-1 well indicates that how the gap is increasing between the market and state value of Dollar, which makes a good condition for rentier people to misuse this big gap through buying the state value dollar and selling it in market value, and gaining huge profits.

¹⁷⁷ Ali Rezayi, "Multiple or unified exchange rate systems: which one?", Borhan analytical news, July 14, 2012, <http://borhan.ir/NSite/FullStory/News/?Id=3686>.

¹⁷⁸ "Currency exchange rate archive," Aftab news, <http://www.aftabnews.ir/vtpg4.vqaak9trrp.html>.



Market value data had been extracted from Aftab News exchange rate archive and central bank value data had been extracted from Iran’s central bank exchange rate archive.¹⁷⁹

Accordingly, there are plenty reasons for devaluing Rial against dollar, which the most important ones are as following: The first reason is the high volume of money liquidity. The recession in housing and land market made many people to invest their money in gold and exchange rate market (because of the low interest rates of the banks), so the high volume of currency have flooded into Iran’s market. Second reason, is the high demand for exchange rates especially Dollar. People are worry about the consumer goods prices and inflation (psychological effects of the sanctions on market), and they find the way of buying currencies to save their savings. People are converting their assets to gold or Dollar rather than investments in housing or industry. The reason of this laid behind the fact that Iranian people have the experience of the Iran-Iraq war. So, they think that if war happens, they

¹⁷⁹ “Currency exchange rate archive,” Aftab news, <http://www.aftabnews.ir/vtpg4.vqaak9trrp.html> and. “Exchange rate archive “Iran’s central bank, http://www.cbi.ir/ExRates/rates_fa.aspx.

can prevent losing their assets by changing them to more liquid assets like Dollar and gold. The third reason lies behind the fact of huge profits that rentier people earn due to multi-rate exchanges, causing them to gain great profits in a short time. The initial effect of the multi-rate exchange rates is just the getting richer of the rich people and getting poorer of the poor people.

Under those circumstances, the problems of Rial depreciation persuade the Iranian government to decide to make the triple exchange rate system. Now, different classes of imports are allocated by different exchange rates by the government. Class A, which is for the necessary goods, will receive the government Dollar for 12260 Rial exchanging for one Dollar. Class B is allocated for intermediate goods, which will receive dollar for 15000 Rial exchanging rate. The last group is related to luxury goods, such as even cars or dolls, which will receive Dollar for 19100 Rial exchanging rate. This act has done by the government to prevent the inflation and increasing the prices of the consumer necessary goods.¹⁸⁰

Nevertheless, Iran's chamber of commerce chief, Mr. Aleshagh, is one of the opponents of the three exchange rate plan. He said that this system underlines the economic corruption in Iran, and; the control of this system needs extensive effort, and it is hard to be sure that the person, who receives the cheaper rate, would use it exactly for importing the specified good.¹⁸¹ The three exchange rates system could give the rentier more

¹⁸⁰ "The official start of 3 rates for Dollar exchange rate," Khabar Online News Website, July 21, 2012, <http://www.khabaronline.ir/detail/229485/economy/financial-market> and.

"The official start of 3 rates for Dollar exchange rate," Iranian Students News Agency (ISNA), July 21, 2012, <http://isna.ir/fa/news/91043118617/-1226>.

¹⁸¹ "The reasons of Aleshagh for opposing the three exchange rate system," Iranian Students News Agency (ISNA), July 22, 2012, <http://isna.ir/fa/news/91050100343>.

chance to use the huge difference of the government and market Dollar exchange rate, but the new system has established for supporting the domestic production and avoiding the inflation.

According to the Bank and Insurance News Agency of Iran, in the past, when Iran's economy confronted with exchange rate problems, the government compensated that with rising pre-sale oil contracts, and injecting more currency to the economy, and balancing the currency market. But, in the current situation and with the oil sanctions, balancing the exchange rate and currency market would need wise economic decisions.¹⁸² In order to prevent the out flowing of the foreign currencies from the country, Iranian government ordered the prohibition of advertising for foreign country trip tours. They asserted the reason as cultural reasons and creation more attraction for domestic tours, but Mr. Abbasi, the former chief of tourism fraction of Iran's parliament, said that the foreign country trips of Iranian has been increased on last years and this made the exit of currency of the country.¹⁸³ The new law implies the absence of sufficient foreign currencies in the country, which raise the probability that sanctions have limited the inflow currencies into Iran.

Furthermore, Iranian government had done other actions to prevent the outflow of the currencies from the country as well: on July 25th, 2012, Iran's central bank had halted the passenger's especial currency exchange rate. During the last years, there was an allocation of official especial

¹⁸² "The problems of exchange rate in Iran," Iran's Bank and Insurance News Agency, July 22, 2012, http://www.bina.ir/news/index.php?option=com_content&view=article&id=16004&Itemid=119.

¹⁸³ "Restriction of advertising for foreign country trip tours," BBC Persia, July 24, 2012, http://www.bbc.co.uk/persian/iran/2012/07/120724_144_tours_restriction.shtml.

exchange rates for passengers, who desired to buy foreign currencies for traveling objectives. Each passenger could have Maximum \$1000 with the state rate, and the amount of allocated Dollars to the passengers was dependent on their destination country. For example, for Pilgrimage trips like going to Iraq, the amount of dollar payment was \$200. According to Iran's economy news website, the state currency exchange rate for the passengers is just allocated to Pilgrimage trips. This decision is made in order to allocate the state exchange rates for consumer necessary goods (foreign trips for Iranian's in the current situation has titled as Luxury goods and services) and supporting the domestic production.¹⁸⁴

Also, in his article in Iranian economy newspaper, Yaser Molayi stated that the government act for non-allocation of the special currencies for the passengers is one of the examples of converting the sanctions threats into an opportunity. He also said that the threats make the governments to reform the previous wrong economic policies. For instance, the energy crisis caused by the sanctions has forced Iran's government to save energy and manage it on a better way. In fact, allocating the special currencies for the passengers is one of the wrong economic politics because foreign trips are mostly done by the wealthy people, who necessarily didn't need the special rate currencies, but the government changed this policy only when it was under the pressure of the currency crisis in Iran.¹⁸⁵

4.5. Summary and Conclusions

Along with Iran's internal long-term economic problems, multilateral western sanctions have taken a toll on Iran's economy from many aspects.

¹⁸⁴ "Especial travel currencies will be eliminated," Donyaye Eghtesad Newspaper, July 25, 2012, <http://www.eghtesadonline.com/fa/content/5072>.

¹⁸⁵ "The article of the day: converting the threats to opportunities," Donyaye Eghtesad Newspaper, No: 2707, August 05, 2012.

The previous problems make the favorable context for day-by-day sanctions to affect Iran's economy. Iran's dependency on the oil revenues and vulnerability on the oil export and oil prices were the best reasons for the West to make sanctions on Iran's oil sector, which yields to pressure on Iran's people and the government. The Western sanctions aim to put pressure on Iran's government to prevent it from pursuing the nuclear program.

The sanctions have forced Iran to shift its trade partners from the European countries toward other countries, such as GCC countries, China and Turkey. Iran's imports from China have been increased about twice the 2007 on 2012, and also Iran's exports to China have been fourfold on 2012, comparing to 2006. Iranian businessmen are forced to use re-export method from countries like the UAE and Turkey, making the trade more costly for them. Iran's imports from Turkey have been about tripled during the first three months of 2012, which are related to 2 reasons: first, re-exporting products from Turkey to Iran and the second one, converting the oil revenues, which sold to Turkey in Turkish Lira, to gold by Iran's government, and bringing the gold into Iran.

The oil production has been decreased to the lowest level compared to the last 20 years. The most essential reasons of the oil production's reduction are the loss of the EU countries as Iran's oil customers, and the lack of financial sources and foreign investment in oil fields and the oil project developments. Thus, now the need for private investment, especially in the energy sector is feeling more than any time.

Inflation and high currency exchange rate are the most important current problems of Iran's economy. The high exchange rate of Dollar against Rial has caused the cost of import to rise for domestic producers,

leading to inflation for consumer goods, such as the inflation for the price of meat and chicken. Comparing to the last year, inflation increment is 23.9 percent. The most prices increment are related to food and drink, which put too much pressure on Iranian people's life. Inflation could result in decreasing the value of money (people can buy less), increasing imports rather than exports, which will affect the current account and hence balance of payment (balance of payment = the current account + the capital and financial transfers account), and raising the uncertainty for safe investment, and increasing the cost for producers which could yield to more unemployment rate.

Rial lost about 60% of its value from July 2011 to July 2012. Psychological effects of the sanctions on Iran's market made people to demand more for Dollar together with the more investment on gold and exchange rate market. In fact, the recession in housing and land market made high volume of the money liquidity, which yields to devaluating of Rial against Dollar. The lack of enough currency reserves caused the government to make some new decisions, such as the allocating three different exchange rates for the different categories of importing goods, the prohibition of advertising for foreign country trip tours, and the halting the passenger's special currency exchange rates with the exception of Pilgrimage trips. The Iranian Bank sanctions and the SWIFT sanction made some complexity on the money transfer system, which even forced the government to use barter system for transactions.

All the above mentioned problems are the current economic subjects, which should handle and manage wisely. Iran's government should mobilize its resources to have more domestic production and make the favorable context for private investment. With the comprehensive economic programs, economic reforms and wise management, the Iranian government could

liberate the status quo and even step on the economic development path by converting the sanctions threat into opportunities. Therefore, in any case, it is inevitable for Iranian government to improve its political relations with international community and make new negotiations with them to solve the problems politically.

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VI. SUMMARY AND CONCLUSIONS

The Islamic Revolution of 1979 changed Iran's foreign policy approaches. This turning point strained US-Iran relations, which worsened further after events such as the hostage crisis and September 11th. From Iran's revolution and the hostage crisis in 1979 until around 2006, the U.S. imposed unilateral sanctions regarding Iran-U.S. hostility and threats towards U.S. interests in Middle East. The main reasons of the U.S. sanctions against Iran could be summarized as: Iran's seeking a hegemonic power in the Middle East and the Persian Gulf; Iran's support of terrorism; and human rights abuses by the Iranian regime. However, some scientists and also some Iranian officials believe that a major reason for U.S. sanctions against Iran is actually its aim to control Iran due to US interest in dominating the energy resources of the region and hence control oil supply and oil prices.

Because of the limited nature of the unilateral sanctions, U.S. sanctions could not influence the Iranian government to change its political behavior. Nevertheless, after 2006, the U.S. was successful in gathering the United Nations and the European Union to impose multilateral sanctions against Iran over its nuclear program intentions. In response to the Iranian government's continuation of uranium enrichment, the U.S., UN and the EU ratified severe sanctions against Iran which had inevitable impacts on Iran's economy.

In Iran's economic structure, oil revenues have a critical role. Government economic mismanagement and the rentier nature of the Iranian state have further increased the dependency on oil earnings. A considerable percentage of Iran's GDP comes from oil revenues, meaning the increase in

global oil prices since 2003 helped the Iranian government to compensate and cover the negative impacts of the sanctions on the country's GDP. However, after July 2012, the oil sanctions imposed by the EU presented the Iranian government with more problems which had impacts on different parts of the economy.

One of the most tangible impacts of the sanctions is the effect on Iran's inflation rate, which was already the source of the people's dissatisfaction with the government as well as the economy's vulnerability since 1991. The roots of the high inflation rate in Iran are: the high money-supply growth rate; the Iranian targeted subsidy plan; and the international sanctions. The simultaneousness of the subsidy plan and international sanctions has increased the economy's vulnerability towards inflation. Compared to the last year, consumer goods prices increased about 23.9 percent; the most increase in prices are related to food and drink that made much pressure on Iranian people's life. The High exchange rate of the U.S. dollar against the Rial raised the cost of import for domestic producers which led to high inflation for consumer goods.

Following the sanctions, the Rial has experienced depreciation against the Dollar; during the last year it has lost around half of its value. The increasing gap between the market value and the state value of the Dollar provide a context for the rentier people to gain huge profits. The lack of enough currency reserves forced the Iranian government to make some new laws like allocating three different exchange rate for different categories of importing goods, prohibiting advertising for foreign country trip tours, and halting the passenger's special currency exchange rates with the exception of Pilgrimage trips.

Furthermore, sanctions affected Iran's unemployment rate; In 2011 Iran experienced a %15.3 unemployment rate. The country already had high unemployment in recent years due to the high population of youth and subsequently high rate of labor supply; but with more problems in Iran's economy, many internal and foreign companies terminated their business which led to even higher unemployment rates. Another problem is low foreign direct investment in Iran due to its unfavorable business environment. Although it has great investment potential because of its strategic regional placement as well as inexpensive raw material and labor force, Iran's economic and bureaucratic problems plus sanctions contribute to a decrease in foreign direct investment.

Accordingly, as a result of the ban on foreign countries' investment in Iran's petroleum projects, the country's oil production has decreased to the lowest level since 1992. Iran's oil fields need higher investment and technologies than the Iranian government can provide. While oil has the prominent position on Iran's economy growth rate, the EU has disallowed oil imports from Iran as well as banned Iran's oil carrier tankers, all of which reduced the Iranian government oil revenues that are very critical for the Iran's economy. The Iranian government's economic mismanagement makes the country unable to survive on its own because of high dependency on oil revenues; that's why the oil sanctions crippled the Iran's economy. The Iranian government didn't allocate the high oil incomes from past years on domestic production; the private sector was too limited; and the economic reforms and schedules were not assigned or performed properly. All of these are reasons for high economic vulnerability against sanctions.

In the same way, sanctions affected Iran's economy by altering Iran's trading partners. Trade partners have changed from the European countries to Turkey, China and the Gulf Cooperation Council or GCC; this implies the

Iran's economic and diplomatic efforts to compensate the cost of the unwillingness of many countries to make business with Iran regarding the sanctions. To make it clarify, Iranian businessmen are forced to re-export products from European countries via Turkey or Dubai to Iran. As an example, the trade volume between Iran and Turkey has been about doubled from 2010 till 2012; or Iran imports from China have been increased about %75 (about twice) since 2007 and also Iran exports to China have been increased about %436 (fourfold) since 2006.

Nevertheless, Iranian businessmen now face many problems also for doing international trade regarding the SWIFT sanction on Iran. The Iranian Bank sanctions and the SWIFT sanction complicated the transference of money between Iran and other countries; it even forced the government to use a barter system for some transactions. The payment problems are one of the reasons for increase in the price of imported products. As some of these are necessary goods, increase in the price of imported raw materials for the domestic production or increase in the price of importing necessarily consumer goods will negatively affect the Iranian ordinary people's life quality.

All things considered, Iran's economy was severely affected by the sanctions. The Iranian government mismanagement and inefficiency has enhanced the negative effects of the international sanctions. The government had made some miniscule efforts to decrease the economic problems, but any statements in favor of what Iranian government has done yet against the sanctions are mostly baseless. For a country which encounters serious threats by external international powers, the whole situation begs for more than the government's inadequate efforts until now. If Iran's government doesn't change its economic policies and produce an effective economic plan to survive the current situation, Iran's economy will

move away from development and in the long-term it will be dependent on other countries more and more for providing technology and even food. For the time being government mismanagement has let external international powers determine Iran's future economic and political status. Improving the political relations with the international community with serious and practical negotiations will be an inevitable step in Iran's economic development.

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