The effects of sanctions and their lifting in the Middle East: The example of Iran

Mohammad Reza Farzanegan
Lecture 10: The effects of sanctions and their lifting in the Middle East: The example of Iran

WS 2018/19
Mohammad Reza Farzanegan
https://www.uni-marburg.de/cnms/wirtschaft

14.01.2019
Road Map

2- Demographic Change
3- Governance
4- Corruption
5- Shadow Economy
6- Natural Resources 1
7- Natural Resources 2
8- Environment
9- Defence & Peace Economics
10- Economics of Sanctions
11- Family Economics
12- The Arab Spring
13- Overview …
Johan Galtung, a Norwegian sociologist, mathematician, and the principal founder of the discipline of peace and conflict studies, defines economic sanctions as:

“actions initiated by one or more international actors (the ‘senders’) against one or more others (the ‘receivers’) in order to punish the receivers by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important.”
Introduction

Speaking in Indianapolis in 1919, Woodrow Wilson (the US President from 1913 to 1921):

“Apply this economic, peaceful, silent, deadly remedy (sanction) and there will be no need for force.

It is a terrible remedy. It does not cost a life outside the nation boycotted but it brings a pressure upon the nation which, in my judgment, no modern nation could resist.”
We will review how the economic sanctions affected the Iranian political economy
Overall picture of economic growth under different regimes in Iran
GDP per capita growth (annual %), based on constant local currency

- Pahlavi
- 8 yrs. War
- Raf.
- Kha.
- Ahm.
- Ro.
- Revol
- Sanct.
Ahmadinejad Office (2005-2013) = Start of Sanction in Iran?

Not really!
30 years of sanctions against Iran
The main international sanctions against Tehran

1979
Activists seize hostages at the US embassy in Tehran

1995
Total economic embargo

1996
Irish assets in US banks are frozen

1996
Sanctions against foreign businesses investing in oil or gas

2002
The existence of secret nuclear sites in Iran is revealed

2006
Nuclear/missile programme
Financial assets, named individuals

2008
Assets for joint civilian-military use
Ban on US banks taking intermediary role

2010
Oil sector

2011
Heavy weapons
- Tanks
- Missiles
- Fighter aircraft

2012
Oil embargo
Iranian central bank assets are frozen
Bank-to-bank transactions

2013
Automobile sector, Iranian currency

2014
Suspension of sanctions on financial transfers, gold, petrochemicals

2015
100 billion dollars of Iranian assets frozen around the world

2011
50% drop in oil exports (millions barrels/day)

2011
2.5
Oil sector technology transfer, banking

2011
50% drop in car production (millions of units)

2013
1.6
1.2
0.8

2016
Jan 16, 2016
UN clears way for end to sanctions

July 14, 2015
Iran agrees not to acquire nuclear weapons in return for an end to sanctions

The main consequences of sanctions

- Iran’s fleet of aircraft is ageing: it needs 400-500 new aircraft over the next 10 years
Recent Sanctions on Iran

Why?
Iran’s centrifuges, ’000

- Sanctions
- Oil sanctions

Joint plan of action signed
Deal reached

Natanz enrichment plant discovered
Fordow enrichment facility discovered

2002 04 06 08 10 12 14 15
0 4 8 12 16 20

6,104
### Capability and Stockpile Data

<table>
<thead>
<tr>
<th>Capability</th>
<th>Before deal</th>
<th>After*</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-generation centrifuges installed</td>
<td>19,138</td>
<td>6,104</td>
</tr>
<tr>
<td>Advanced centrifuges installed</td>
<td>1,034</td>
<td>0</td>
</tr>
<tr>
<td>Breakout time</td>
<td>1-2 months</td>
<td>1 year</td>
</tr>
<tr>
<td>R&amp;D of new centrifuge technology</td>
<td>unconstrained</td>
<td>constrained</td>
</tr>
<tr>
<td>Uranium stockpile: Low-enriched†</td>
<td>19,211 lbs</td>
<td>660 lbs</td>
</tr>
<tr>
<td>Uranium stockpile: Medium-enriched‡</td>
<td>430 lbs$</td>
<td>0 lbs</td>
</tr>
</tbody>
</table>

- *Next ten years
- † Up to 3.67%
- ‡ 20%
- $ Nov 2011 peak

**July 2015**

- **First-generation centrifuges installed**
  - Before deal: 19,138
  - After*: 6,104

- **Advanced centrifuges installed**
  - Before deal: 1,034
  - After*: 0

- **Breakout time**
  - Before deal: 1-2 months
  - After*: 1 year

- **R&D of new centrifuge technology**
  - Before deal: unconstrained
  - After*: constrained

- **Uranium stockpile: Low-enriched†**
  - Before deal: 19,211 lbs
  - After*: 660 lbs

- **Uranium stockpile: Medium-enriched‡**
  - Before deal: 430 lbs$
  - After*: 0 lbs

**Jan 2016 (next 10 years)**

- **First-generation centrifuges installed**
  - Before deal: 19,138
  - After*: 6,104

- **Advanced centrifuges installed**
  - Before deal: 1,034
  - After*: 0

- **Breakout time**
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  - After*: 1 year

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- **Uranium stockpile: Medium-enriched‡**
  - Before deal: 430 lbs$
  - After*: 0 lbs
The doomsday counter

Iran’s medium-enriched (20%) uranium, kg

MEU, kg

- 250 -
- 225 -
- 200 -
- 175 -
- 150 -
- 125 -
- 100 -
- 75 -
- 50 -
- 25 -

219 kg
produced by Iran from Feb 2010 to May 2013

Israeli “red-line”
165 kg†

123 kg
stockpile remaining
(after 96 kg converted for nuclear power generation)

BETWEEN 94-210 kg
REQUIRED FOR 1x BOMB

* Depending on enrichment process
† Amount that can be produced from 250 kg uranium hexafluoride

Sources: IAEA; NPEC; The Economist
Recent Sanctions on Iran

Goals?
The Goals of Economic Sanctions: In Theory

- The goals of economic sanctions fall into five categories:

  1. Punishment (deterrence),
  2. Compliance (coercion),
  3. Destabilization (subversion),
  4. Signaling, and
  5. Symbolism (demonstrative effect)
Success in what?
The Goals of Economic Sanctions

Punishment (Deterrence)

- Like sending a criminal to prison, the goal is not necessarily to rehabilitate the wrong-doer, but to punish him for his offense and to deter others from such wayward behavior.

- If the undesirable behavior is punished with sufficient severity, it may not be repeated by the target country.

Example?
Success in what?
The Goals of Economic Sanctions

Punishment (Deterrence)

• For example, in announcing a grain embargo against the former Soviet Union issued in response to the invasion of Afghanistan, President Jimmy Carter declared, “[W]e will deter aggression”.

Success in what?
The Goals of Economic Sanctions

Punishment (Deterrence)

• Similarly, the sender may employ sanctions in order to **deter other countries from undertaking undesired behavior** by demonstrating to **third parties** the likely cost of misbehavior.

Example?
Success in what?
The Goals of Economic Sanctions

Punishment (Deterrence)

• For example, one purpose of **U.S. economic sanctions against Cuba (1960-)** was to discourage other Latin American nations from emulating Castro’s policies.

• Similarly, **Soviet economic sanctions against Yugoslavia (1948-1955) and Lithuania (1990)** served to deter other countries from emulating the target’s policy of non-cooperation with the Soviet Union.
Success in what?
The Goals of Economic Sanctions

Compliance (Coercion)

- The sender may impose economic sanctions in order to **force the target to alter its policy or behavior** to conform to the sender’s preference or specific political goals, such as compelling desired action, encouraging acceptance of international norms, or restoring the status quo.

- **In deterrence**, one seeks to prevent action.
- **In compliance**, the sender is seeking to force the target to **undo** an action.
Success in what?
The Goals of Economic Sanctions

Compliance (Coercion)

• The United Nations economic sanctions against Rhodesia (1965-1979) were designed to force acceptance of international standards governing human rights.

• The United Nations economic sanctions against Iraq (1990-1991) were crafted to force Saddam Hussein to withdraw from Kuwait and subsequently to allow UN arms inspectors to complete their work.
Success in what?
The Goals of Economic Sanctions

Destabilization (Subversion)

• The sender may impose economic sanctions to destabilize the target government or subvert the entire target political regime.

• For example, Stalin sought to replace Tito with a pro-Soviet leader by imposing economic sanctions against Yugoslavia (1948-1955).

• When the U.S. embargoed Cuba (1960-), it hoped to replace Castro’s regime with a non-communist one.
Success in what?
The Goals of Economic Sanctions

Signaling

• The imposition of economic sanctions conveys a **signal of the sender’s resolve** to both the target and the sender’s allies.

• It says that the **words of the sender will be supported with action**.
Success in what?  
The Goals of Economic Sanctions

Signaling

- In the 115 cases, HSE counted 34 cases of economic sanctions with companion policies of quasi-military action or/and regular military actions.

Success in what?  
The Goals of Economic Sanctions

Signaling

• Economic sanctions may precede or accompany actual armed hostility.

• This indicates that the sender may use economic sanctions as a signal to convince the target to accept the sender’s preference before launching military action.
Success in what?
The Goals of Economic Sanctions

Symbolism (Demonstrative Effect)

- Often, the demonstrative element behind a sanctions policy is not explicitly stated as a goal.

- Nevertheless, the demonstrative element is on occasion the most important goal, or the only meaningful function of the sanctions policy.

- Economic sanctions are often intended to defuse pressures and demonstrate the outrage of the domestic and international audiences.
Recent Sanctions on Iran
Mechanisms for change?
Sanctions – Mechanisms for Change

- Main mechanisms are assumed:

1. Economic Hardship $\Rightarrow$ rebellion/revolt or social implosion $\Rightarrow$ regime change

2. Regime caves in to pressure $\Rightarrow$ change of behavior

Source: H. Hakimian (2013)
Recent Sanctions on Iran

A world-wide popular tool for change, especially after 1990s!
• 1914-1990 (76 years): 115 sanctions (average of 1.6 a year) of which two were multilateral UN sanctions (against the then Rhodesia 1966 and South Africa 1977)

• 1990-1999 (10 years): 66 sanctions.
• Of these two-thirds are US sanctions

• During the Clinton administration (1993-2001) alone 35 US sanctions affecting 2.3 billion people worldwide (ca. 40% of the total population)

• UN sanctions to date: ca. 20
• Sudan (Darfur), Ethiopia/ Eritrea, Iraq, Iran, Al-Qaida, etc.

Source: H. Hakimian (2013)
Recent Sanctions on Iran

What is the success rate?
The first 2 years of a sanction episode are crucial for the success of economic sanctions.

According to the Hufbauer et al. (2008) dataset, 55% of the successes (that is changes of behavior or political regime type) occur during the first two years.

<table>
<thead>
<tr>
<th>Duration</th>
<th>Failures (%) (A)</th>
<th>Successes (%) (B)</th>
<th>Ratio (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 year</td>
<td>17</td>
<td>41</td>
<td>2.4</td>
</tr>
<tr>
<td>1–2 years</td>
<td>6</td>
<td>14</td>
<td>2.3</td>
</tr>
<tr>
<td>2–3 years</td>
<td>15</td>
<td>9</td>
<td>0.6</td>
</tr>
<tr>
<td>&gt; 4 years</td>
<td>62</td>
<td>37</td>
<td>0.6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Totals may not add up due to rounding. Calculations based on Hufbauer et al. (2008).
Iran leader Ahmadinejad laughs off tough UN sanctions: 'They are annoying flies, like a used tissue'

BY JAMES GORDON MEEK / DAILY NEWS WASHINGTON BUREAU / Published: Wednesday, June 9, 2010, 11:53 AM

The Telegraph

Iran dismisses new UN sanctions as 'a used hanky'

Mahmoud Ahmadinejad, the Iranian president, has dismissed new UN sanctions over the country's nuclear program as "a used hanky that should be thrown in the dustbin".
Some Visible Costs of Sanctions for Iran
1. Fall of Oil Production

Oil production, daily, 1000b

Source: OPEC (2016)
**Oil revenues loss due to fall of production below level of 2005 (Billion $)**

<table>
<thead>
<tr>
<th>Year</th>
<th>oilproduction_daily</th>
<th>oilp</th>
<th>value_daily_oilproduction</th>
<th>value_annual_oilproduction</th>
<th>value_daily_oilproduction_fixed2005</th>
<th>diff_daily</th>
<th>diff_annual (lost revenues due to fall of oil)</th>
<th>Loss-Billion USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4,092</td>
<td>53.367</td>
<td>218,349,717</td>
<td>79,697,646,583</td>
<td>218,349,717</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2006</td>
<td>4,073</td>
<td>64.275</td>
<td>261,766,365</td>
<td>95,544,723,225</td>
<td>262,981,163</td>
<td>-1,214,798</td>
<td>-443,401,088</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>4,056</td>
<td>97.017</td>
<td>393,467,779</td>
<td>143,615,739,165</td>
<td>396,943,692</td>
<td>-3,475,913</td>
<td>-1,268,708,294</td>
<td>-1</td>
</tr>
<tr>
<td>2009</td>
<td>3,557</td>
<td>61.792</td>
<td>219,798,087</td>
<td>80,226,301,770</td>
<td>252,820,604</td>
<td>-33,022,517</td>
<td>-12,053,218,751</td>
<td>-12</td>
</tr>
<tr>
<td>2012</td>
<td>3,740</td>
<td>105.01</td>
<td>392,720,602</td>
<td>143,343,019,689</td>
<td>429,658,644</td>
<td>-36,938,042</td>
<td>-13,482,385,280</td>
<td>-13</td>
</tr>
<tr>
<td>2013</td>
<td>3,575</td>
<td>104.07</td>
<td>372,082,862</td>
<td>135,810,244,808</td>
<td>425,798,995</td>
<td>-53,716,133</td>
<td>-19,606,388,519</td>
<td>-20</td>
</tr>
<tr>
<td>2014</td>
<td>3,117</td>
<td>96.246</td>
<td>300,006,804</td>
<td>109,502,483,478</td>
<td>393,790,679</td>
<td>-93,783,875</td>
<td>-34,231,114,531</td>
<td>-34</td>
</tr>
<tr>
<td>2015</td>
<td>3,152</td>
<td>50.793</td>
<td>160,082,504</td>
<td>58,430,114,048</td>
<td>207,820,923</td>
<td>-47,738,419</td>
<td>-17,424,522,969</td>
<td>-17</td>
</tr>
</tbody>
</table>

Source: production from OPEC (2016), oil prices from UNCTAD (2016)
Oil revenues loss due to fall of production below level of 2005 (Billion $)

Source: production from OPEC (2016), oil prices from UNCTAD (2016)
2. Crisis in *Foreign Exchange Market & Rent-Seeking* (2012)

- Significant decline in government oil revenues due to sanctions and problems transferring the petrodollars into the domestic economy destabilized the foreign exchange market.

- In September 2012, the Iranian government announced the adoption of a *three-tiered multiple exchange rate regime*.

- The state also introduced ten *general categories of products*, grouped according to their importance in the Iranian economy.
Black Market Premium (BMP) in 2012 reached 130%.

Black Market Premium (BMP) for US $

\[ BMP = \frac{(\text{non official rate} - \text{official rate})}{\text{official rate}} \times 100 \]

\[ = \left( \frac{26,059 - 12,260}{12,260} \right) \times 100 = 130\% \]

Source: [http://tsd.cbi.ir](http://tsd.cbi.ir)
Sanctions → Oil Rent → Foreign Exchange Reserves

Shadow Economy → Rent-Seeking / Mis-invoicing of Trade → Black Market Premium
Crisis in *Foreign Exchange Market & Rent-Seeking*

If BMP > imports tariffs

Over-invoicing of imports

If BMP < imports tariffs

Under-invoicing of imports
Import mis-invoicing of Iran in Billion US$

Average of BMP (2002-2010): 0.5%

Average of BMP (1989-1999): 614%

Source: IMF, DOT (2013) and own calculations
As a consequence of economic and financial sanctions, Iran finds itself at the top of Money Laundering Index!

2016 Basel AML Index

The Basel AML Index is an annual ranking assessing country risk regarding money laundering/terrorism financing. It focuses on anti-money laundering and counter terrorist financing (AML/CTF) frameworks and other related factors such as financial/public transparency and judicial strength.
What leads to high risk in the Basel AML Index?

- High level of perceived corruption
- Shortfalls in the AML/CFT framework
- Lack of transparency
- Poor financial standards and transparency
- Weak political rights and rule of law
The overall score is aggregated from 14 indicators / sub-indicators. Each indicator is descaled into a 0 (low risk) to 10 (high risk) scale.

Sources

The variables are grouped into the following five categories so that each category has its own weighting.

Basel AML Index - composition of sources

Money Laundering/Terrorist Financing Risk
- FATF Recommendations
- TJN - Financial Secrecy Index
- US INCSR – Volume II on Money Laundering

Corruption Risk
- TI CPI – Perception of Public Corruption

Financial Transparency & Standards
- WB Doing Business – Business Disclosure
- WEF GCR - Strength of auditing & reporting
- WEF GCR - Regulation of securities
- WB IDA IRAI – Financial Sector

Public Transparency & Accountability
- Int. IDEA – Political Finance Database
- IBP - Open Budget Index

Political & Legal Risk
- FH - Press Freedom & Freedom in the World
- WEF GCR - Institutional Strength
- WJP – Rule of Law
The overall score is aggregated from 14 indicators / sub-indicators. Each indicator is descaled into a 0 (low risk) to 10 (high risk) scale.
Effects of International Financial and Energy Sanctions on Iran’s Informal Economy

Mohammad Reza Farzanegan

This paper discusses the extent to which sanctions and the informal economy affect the political economy of Iran, and highlights some important transmission channels by which these sanctions affect the Iranian informal economy. The effects of the recent sanctions on Iran’s informal economy have been transmitted mainly through the foreign exchange market. This article concludes that despite economic reforms under the Mohammad Khatami government, financial pressures and the foreign exchange market could contribute to an increase in the size of Iran’s informal economy in the future. Though the financial and energy sanctions influence Iran’s fiscal policies and negatively impact economic growth, a moderately sized informal economy could improve political stability to the country by reducing income inequality.

SAIS Review of International Affairs, Volume 33, Number 1, Winter-Spring 2013, pp. 13-36 (Article)

Published by Johns Hopkins University Press

DOI: https://doi.org/10.1353/sais.2013.0008
3. Increasing inflation, falling industrial production and higher unemployment

- Oil embargos (2012)
- Negative oil revenues shocks
- Significant government budget deficits
- Covering deficits by borrowing from Central Bank
- Increasing liquidity in the market
- Fall of supply of goods due to sanctions
- Demand > Supply!
- Higher inflation (from 20% in 2011 to 40% in 2013)
Inflation, consumer prices (annual %)

Source: WDI (2016)
Inflation (annual %) in 2013 (Silver Medal), Global Ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>2013 Inflation (annual %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela, RB</td>
<td>40.64</td>
</tr>
<tr>
<td>Iran, Islamic Rep.</td>
<td>39.27</td>
</tr>
<tr>
<td>Sudan</td>
<td>29.96</td>
</tr>
</tbody>
</table>
• Negative oil shocks *depreciate* the local currency.

• Imports of raw materials and equipment become more expensive.
Unemployment, youth total (% of total labor force ages 15-24)

WDI(2016)
Labor force participation rate, female (% of female population ages 15-64)

2005: 20.40
High inflation & unemployment: lower saving rates
Also lower oil income
Importance of FDI

Foreign Investment Promotion and Protection Act in 2002 ratified!
Banking sanctions

UNCTAD (2016)
Psychological Costs of Sanctions for Iranians

The **Gallup 2016 Global Emotions Report** presents the results from **Gallup's measurements of people's positive and negative daily experiences**, based on nearly **147,000 interviews** in **2015** with adults in **140 countries**.
Global State of Emotions

Negative Experience Index Questions:

• Did you experience the following feelings during a lot of the day yesterday?

1. How about physical pain?
2. How about worry?
3. How about sadness?
4. How about stress?
5. How about anger?
Iraq and Iran have the highest Negative Experience Index scores in the world for the third year in a row.

- Iraq has been No. 1 on this index four times — in 2011, 2013, 2014 and 2015 — and has been among the top five in all other years since 2008.

- Iran was No. 1 in 2012 and has made at least the top 15 countries in the years Gallup has conducted surveys there.

Almost all countries at the top of the list in 2014 are at the top of the list again in 2015.

<table>
<thead>
<tr>
<th>Country</th>
<th>Negative Experience Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>58</td>
</tr>
<tr>
<td>Iran</td>
<td>50</td>
</tr>
<tr>
<td>South Sudan</td>
<td>46</td>
</tr>
<tr>
<td>Syria</td>
<td>46</td>
</tr>
<tr>
<td>Cyprus</td>
<td>42</td>
</tr>
<tr>
<td>Liberia</td>
<td>41</td>
</tr>
<tr>
<td>Togo</td>
<td>40</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>40</td>
</tr>
<tr>
<td>Bolivia</td>
<td>40</td>
</tr>
<tr>
<td>Portugal</td>
<td>40</td>
</tr>
<tr>
<td>Palestinian Territories</td>
<td>40</td>
</tr>
</tbody>
</table>
Lifting Sanction:
Potentials & Challenges
Kharas (2010) has calculated the changes in the size of the middle class (from $10 to $100 per day) in Iran over the years which can be seen in the following graph.
Lifting Sanction: Potentials

Iran as an investment opportunity

*Upper and middle class* as a % of population 2011

Turkey: 60%
Brazil: 50%
Thailand: 40%
Mexico: 30%
Iran: 20%
South Africa: 20%
Egypt: 10%
China: 10%
Indonesia: 5%
India: 5%
Nigeria: 5%

Sources: Pew Research; UNCTAD; World Bank

- *middle income* ($10-20),
- *upper-middle income* ($20-50),
- daily
Lifting Sanction: Potentials

Demographic Rent

Gross enrolment ratio, tertiary, both sexes (%)
Lifting Sanction: Potentials

Demographic Rent

Population ages 15-64 (% of total)

<table>
<thead>
<tr>
<th>Year</th>
<th>IRAN</th>
<th>MENA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>69</td>
<td>64</td>
</tr>
<tr>
<td>2006</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td>2007</td>
<td>71</td>
<td>66</td>
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<td>2008</td>
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<td>2009</td>
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<td>68</td>
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<td>2010</td>
<td>72</td>
<td>69</td>
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<td>2013</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>2014</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>2015</td>
<td>71</td>
<td>72</td>
</tr>
</tbody>
</table>
Lifting Sanction: Potentials

Demographic Rent

Urban population (% of total)

- 2005: 68
- 2006: 68
- 2007: 69
- 2008: 69
- 2009: 70
- 2010: 71
- 2011: 71
- 2012: 72
- 2013: 72
- 2014: 73
- 2015: 73

iran | MENA

Color codes:
- Blue: Iran
- Red: MENA
Lifting Sanction: **Challenges**

**Positive oil revenues shocks**

- Appreciation of exchange rate,
- Higher non-tradable to tradable prices, higher costs of non-oil exports,
- Higher spending of state,
- Re-allocation of resources from manufacturing & agriculture to services….
- **Typical symptoms of Dutch disease**

Possible distortions in government spending (Military vs. Education & Health categories)
Lifting Sanction: **Challenges**

Quality of governance

- **Resource and demographic rents** needs **good governance** for positive contribution in development.

- To attract FDI, Iran needs to **reduce corruption and improve rule of law and regulatory quality**.

- **These are challenging issues in Iran** (and many other developing countries).
Lifting Sanction: **Challenges**

World Bank Index of Control of Corruption (-2.5, 2.5)

<table>
<thead>
<tr>
<th>Year</th>
<th>Iran</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-0.45</td>
<td>-0.50</td>
</tr>
<tr>
<td>2007</td>
<td>-0.74</td>
<td>-0.50</td>
</tr>
<tr>
<td>2008</td>
<td>-0.86</td>
<td>-0.99</td>
</tr>
<tr>
<td>2009</td>
<td>-0.92</td>
<td>-0.82</td>
</tr>
<tr>
<td>2010</td>
<td>-0.92</td>
<td>-0.82</td>
</tr>
<tr>
<td>2011</td>
<td>-0.68</td>
<td>-0.68</td>
</tr>
<tr>
<td>2012</td>
<td>-0.57</td>
<td>-0.57</td>
</tr>
<tr>
<td>2013</td>
<td>-0.61</td>
<td>-0.61</td>
</tr>
<tr>
<td>2014</td>
<td>-0.61</td>
<td>-0.61</td>
</tr>
<tr>
<td>2015</td>
<td>-0.61</td>
<td>-0.61</td>
</tr>
</tbody>
</table>
Lifting Sanction: Challenges

Rule of Law

2006 -0.90
2007 -0.93
2008 -0.87
2009 -0.94
2010 -0.98
2011 -0.94
2012 -0.89
2013 -0.98
2014 -1.03
2015 -0.95

Iran, Islamic Rep.  Turkey
Lifting Sanction: **Challenges**

**Political Stability and Absence of Violence/Terrorism**

- **Iran, Islamic Rep.**
  - 2006: -1.08
  - 2007: -0.99
  - 2008: -0.98
  - 2009: -1.55
  - 2010: -1.42
  - 2011: -1.33
  - 2012: -1.26
  - 2013: -0.91
  - 2014: -0.91
  - 2015: -0.91

- **Turkey**
  - 2006: -0.99
  - 2007: -0.98
  - 2008: -1.08
  - 2009: -1.62
  - 2010: -1.42
  - 2011: -1.33
  - 2012: -1.26
  - 2013: -0.91
  - 2014: -0.91
  - 2015: -0.91

**Highlights**

- We analyze the interconnections between Iranian oil supply and global oil prices.

- We use VAR modeling and annual data from 1965 to 2012 for the case of Iran.

- There are no inflationary effects of Iranian oil sanction on world oil prices.

- Non-Iranian oil supply offsets the missing Iranian oil in the market.
Reading list related to sanctions


- This study examines the dynamic interactions between the economic growth and the military spending of the Iranian Government. Current studies, such as Farzanegan (2011), show that negative oil revenue shocks due to increasing sanctions on the Iranian energy industry and crude oil sales have a significant effect on the Iranian military and security expenditures. We investigate whether such shocks on the Iranian military budget is also relevant for the Iranian economic growth.

- This paper discusses the extent to which sanctions and the informal economy affect the political economy of Iran, and highlights some important transmission channels by which these sanctions affect the Iranian informal economy. The effects of the recent sanctions on Iran's informal economy have been transmitted mainly through the foreign exchange market. This article concludes that despite economic reforms under the Mohammad Khatami government, financial pressures and the foreign exchange market could contribute to an increase in the size of Iran's informal economy in the future. Though the financial and energy sanctions influence Iran's fiscal policies and negatively impact economic growth, a moderately sized informal economy could improve political stability to the country by reducing income inequality.
Reading list related to sanctions


**Highlights**

► We analyze the dynamic effects of oil shocks on different categories of the Iranian government expenditures from 1959–2007.

► Iran's military and security expenditures significantly respond to a shock in oil revenues (or oil prices).

► Social spending components do not show significant reactions to such shocks.

► Those sanctions aiming to restrict the Iranian government's oil export capacities may affect the military spending of Iran.