

# Polish Journal of Political Science



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# **Polish Journal of Political Science**

## **Volume 1 Issue 4**

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## Table of Contents

### Articles

**Lech Keller**

*The Problem with the Concept of Utility and its Measurement p. 6*

**Anna Tiido**

*The Russian minority issue in Estonia: host state policies and the attitudes of the population p. 45*

**Salar Farsi**

*The Impact of International Sanctions upon Iran's Economy after the Revolution p. 64*

**Salar Farsi**

University of Warsaw

**The Impact of International Sanctions upon  
Iran's Economy after the Revolution**

**Abstract**

*There has been a disambiguate question that how would be the futuristic developments and consequences of lifting the current sanctions from Iran since the successful negotiations of the P5+1 group with Iran over the country's nuclear program. This paper strives to answer the raised question and demonstrate the starting point of the conflict as well as how the international community's concerns escalated throughout the past decades which eventually led to imposing international sanctions on the country's economy. In addition, the paper will offer a brief historical background about Iran's nuclear activities and its developments in order to help readers a deeper understanding of the topic. At the end, the author will draw his conclusion about the impact of lifting sanctions from Iran's economy both domestically and internationally.*

**Keywords:** *Iran, sanction, economy, oil, politics*

## Introduction

Perhaps one of the main purposes of any revolution in a given society is ideally to change the status quo for the sake of a better future, but sometimes ideals do not meet the reality, and even in some cases go completely on the opposite direction. Iran is one of those unique examples in which people's desire for a change in the system has failed to bring a better outcome due to various reasons after the Iranian revolution of 1979.

The people's revolution ideally meant to change the old and rusty system of Shah to a better democratic system in which people's demands would be appreciated and respected by the nominated government of all citizens of Iran. But the reality of the people's revolution turned out differently from what they expected to happen and the country adversely fell into the wrong hands. For those who captured the power, the revolution was a blessed victory and great achievement, but for those who cherished democratic values and positive changes were a great disappointment and undisputed disaster.

The main objectives of this paper would be on discovering the causes of sanctions, as well as displaying the impact of sanctions on Iran's economy. This work strives to project the cause and effect of the international sanctions upon the country which paralyzed its economy. The starting point of our journey is the Iranian revolution which altered Iran's politics both domestically and internationally. Furthermore, we will analyze the following events after establishment of the Islamic government in Iran until the joint plan action (JPA) which is the due date for an agreement over the Iran's nuclear program.

During this time-interval, which our main focus would be around it, the Islamic regime has founded and formed by the clergymen. Iran's hostile policies steadily isolated the country from the International community and Iran's economy became weaker and less competitive in this period. Iran's nuclear ambition brought negative consequences to Iran's financial and economic situation. The United States, China, Russia, France, the United Kingdom and Germany initially agreed to impose sanctions upon the country. As a result, the Iran's economy and Iranian people have tremendously suffered

from the international sanctions, severe embargos and political isolation of the country.

But before we get into the details about the motioned subjects, there are some points which I like to cite in order to make it clearer for the readers. This paper has no intention to diagnose the internal or external motives of the Iranian revolution before the 1979. Also, the historical events are going to be analyzed for the sake of explaining the impact of them on the country not for defending or offending any political thought or theory.

Moreover, this paper does not attempt to offer any theoretical or practical solution to the current economic and political problems of the country whatsoever. The righteousness and morality of those sanctions which supposed to target the regime not Iranian people are questionable but we will not get into that and unfortunately would be excluded from the objectives.

As last but not least, evaluation of Iran's economy is a complex subject due to the nature of the Islamic government and lack of transparency in the numbers and statistics that are published by authorities. Therefore, this paper will be consist of political and economic events and their impacts after the Iranian revolution which illustrates the motives of international sanctions upon the country, as well as explanatory role of natural resources in the economy of Iran.

### **Natural Resources versus Atomic Ambition**

Iran is an oil-rich country and stand on the 4<sup>th</sup> rank after Venezuela, Saudi Arabia and Canada in the crude oil reserve<sup>28</sup> in the world. The estimated amount of Iran's oil reserve by Organization of the Petroleum Exporting Countries (OPEC) is around 157.3~157.8 billion bbl which is approximately 13% of the OPEC shares<sup>29</sup>. In addition, the country holds 3<sup>rd</sup> rank after the United

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<sup>28</sup> CIA, *The world factbook*, (Accessed, 25.05.2015),  
<https://www.cia.gov/library/publications/the-world-factbook/geos/ir.html>

<sup>29</sup> OPEC Annual Bulletin 2014, (Accessed 25.05.2015),  
[http://www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/ASB2014.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2014.pdf).

States and Russia in natural gas reserve which is 166.6 billion bbl cubic meters<sup>30</sup>.

As a result, the role of natural resources in the statecraft is very important. Iran's dependency on oil and gas makes the economy of country very vulnerable to oil prices during the turmoil of global market. Iran's economy suffers from the *Dutch disease*<sup>31</sup>. If we assume that oil production is one of the eyes of Iran's economy, so with no doubt, we can say gas is the other one. Therefore, it is practically easy to paralyze Iran's economy without taking very complex and sophisticated measurements. But the dependency of country started not very long time ago.

Approximately, two centuries ago, Iran's oil history come to existence. The first discovery of oil in one of the southwestern regions, *Masjed Soleiman* in 1908<sup>32</sup> turned the country into an oil-state. Seven years earlier to that date, a British oilman, William Knox D'Arcy who was one of the founder of oil and petroleum in Iran, signed an agreement with the Shah of Iran, *Muzaffar al-Din khan* to explore, develop, and produce exclusively any oil or gas in that region.

In return, the Shah would receive approximately 20 thousands pound in cash, as well as receiving 16% of the net annual profits and other benefits according to the agreement. It did not take a long time from the discovery of oil in Iran that the Anglo-Persian Oil Company (APOC) was established by British<sup>33</sup> oilmen. The company later changed its name to the Anglo-Iranian Oil Company (AIOC) with the request of Reza Khan/Shah, the former military

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<sup>30</sup> CIA, *The world factbook*,

<sup>31</sup> The Economist weekly journal described the diseases in the economic development of natural resources (such as oil or gas) and a decline in the manufacturing sectors due to a large inflow of foreign currency, cheap costs of importing and less competitiveness of domestic manufacturing sectors.

<sup>32</sup> See Stephen Hemsley Longrigg, *Oil in the Middle East: Its Discovery and Development*, (London: Oxford University Press, 1968)

<sup>33</sup> Edward Henniker, *Nationalisation: The Anglo-Iranian Oil Company, 1951 Britain vs. Iran*, Seven Pillars Institute, Vol. 2, 2003, p.1.

general who established Pahlavi dynasty in the country. The company ultimately after the nationalization of oil in Iran became British Petroleum or known as BP.

Perhaps oil discovery and its sub-products altered the world and International Political Economy (IPE). In 1901, oil did not play a crucial role in Iran's affairs expect an extra income for the monarch, but after the nationalization of oil by the prime minister, *Muhammad Mossadegh* in 1951-53, oil became an important source for the statecraft. Before that Iran's share of profits was very limited unlike the counterparts and other partners. Although, there were always some disputes over the division of incomes and profits between the Iran's authorities and British, but so tense as it became in the mid-19<sup>th</sup> century which led to the nationalization of oil in the country.

In 1951, *M. Mossadegh*, the elected prime minister of that time who was the member of *Tudeh*, left-wing party, turned Iran's oil disputes with British MNC into a political challenge for the Iranian parliament and people which eventually led to nationalization of Iranian oil by the majority vote of *Majlis*<sup>34</sup>. Despite to the fact that Mossadegh shortly after this glorious victory for Iranians was removed from power by the 1953 coup d'état backed by the United States and the United Kingdom under the "*TPAJAX project* and *Operation Boot*".

In the meanwhile, *Muhammad Reza Shah*, the son of *Reza Khan*, restarted his father's developments plan at full speed in the country due to the high oil revenues from nationalization of oil, base on three main pillars; the military power, the bureaucracy, and the modern court system. Iran's oil revenue gradually became a very important source of income for the country's budget<sup>35</sup>. According to the available data, Iran's oil revenue from 34.4 million

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<sup>34</sup> Iranian Secular Parliament

<sup>35</sup> Ervan Abrahamian, *A History of Modern Iran*, p. 123.

dollars increased to 20.000 million dollars by the end of 1970s which turned Iran into a petroleum country<sup>36</sup>.

Apart from oil and gas production, the Shah of Iran, Muhammad Reza Pahlavi flourished Iran's nuclear ambition once the country received technological assistance through the U.S. Atom for Peace program <sup>37</sup>(AFP). The mutual agreement between the U.S. and Iran was signed for further cooperation in civil nuclear and research activities under the supervision of the AFP. The personal interest of Shah in nuclear energy led to transformation of the Institute of Nuclear Science, which was under the Central treaty Organization (CENTO) among Iran, Iraq, Pakistan, Turkey and the United Kingdom, from Baghdad to Teheran.

In addition, Shah directly ordered for establishment of a research center for nuclear studies at the University of Teheran. During the 1960s, Iran arranged a purchase of a 5MW reactor for the research center at the University of Teheran from the United States. In the meanwhile, Iran was provided with hot cells which are heavily shielded rooms with remotely operated arms used to chemically separate material irradiated in the research reactor<sup>38</sup>. The fuel for the research reactors was limitedly supplied by the U.S. to Iran. In the 1<sup>st</sup> of July 1968, Iran signed the Nuclear Non-Proliferation Treaty (NPT) and ratified it in 1970<sup>39</sup>. Iran's ambition for further developments in atomic and nuclear facilities increased during the 1970s. During this decade, Iran signs various agreements with Denmark, Germany, France and India for nuclear developments and cooperation, but the Iranian revolution of 1979 changed the path of Iran's history.

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<sup>36</sup> Fereidun Fesharaki, *Development of the Iranian Oil Industry*, (New York: Praeger, 1976), p. 132.

<sup>37</sup> See Daniel Poneman, *Nuclear Power in the Developing World* (London: George Allen & Unwin, 1982).

<sup>38</sup> Ibid.

<sup>39</sup> See Anne Hessing Cahn, *Determinants of the Nuclear Option: The Case of Iran* (Cambridge: Ballinger Publishing Co., 1975).

## The Impact of Revolution on the Economy of Iran

The very first revolutionary action that influenced Iran's economy negatively was the attack to the United States Embassy on November 1979 in Teheran by some radical Islamists' group. The attack to the premise of the United States was not only unlawful and against the Vienna Convention on Diplomatic Relations (VCDR-1961) which grants diplomats, employee and the staff of embassy immunity and protection in the second country, but also obliges the countries who ratified the VCDR convention to protect the premises of embassy and its diplomatic agents against any domestic threats or harms in the hosting countries<sup>40</sup>. But After the revolution, the Islamic groups with the leadership of Ayatollah Khomeini took the main control of domestic activities in the vacuum of central power in the country which led to unexpected attack to the U.S. Embassy in Teheran. The news of the crash into the U.S. Embassy immediately burst in the media around the world. The first image of the newly installed regime in Iran horrified the international community about the essence of regime and its impact on the regional and international politics, as well as energy security. David Patrick Houghton masterly defines the causes of hostage crisis in the *US Foreign Policy and the Hostage Crisis*, but here we are not striving to draw any conclusion about the rationality or irrationality of the regime in order to prove or disapprove its actions, rather we want to show the negative impact of hostile policies by the regime on Iran's economy. Therefore, the post-revolutionary actions that affected the political and economic dimensions of the country are the inputs- and impacts of them are the outputs of this paper.

Nowadays, Iran's political and economic roles have become not only the greatest concerns of the Middle Eastern countries such as Israel, Saudi Arabia, Turkey, Pakistan, and Iraq in the region but also the western countries. But in

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<sup>40</sup> Vienna Convention on Diplomatic Relations, Article 22, Clause 2<sup>nd</sup>, the receiving State is under a special duty to take all appropriate steps to protect the premises of the mission against any intrusion or damage and to prevent any disturbance of the peace of the mission or impairment of its dignity.

order to understand deeply about Iran's today situation, as well as answering why Iran is under heavy sanction now? We need to go back in time when some group of Islamists attack the U.S. Embassy in Teheran and took the American diplomats for 444 days as hostages. Moreover, if one asks why this particular event in the post-revolution Iran is more important than others? I would answer probably because the hostage crisis was first important issue that occurs after the Iranian revolution.

Iran's undiplomatic and unlawful actions after the revolution which led to hostage crisis brought series of limitations upon the country's interest and economy. The very first counter act that hit Iran soon after the attack to the U.S. Embassy by the U.S. Department of The Treasury was "blocking Iranian government property"<sup>41</sup> in November 14<sup>th</sup> of 1979. President of the United States, Jimmy Charter stated that the situation in Iran is unusual and extraordinary that threatens the national security, foreign policy and economy of the united Stated. Therefore, the President ordered to block all property, interests in property of the Government of Iran, and the Central Bank of Iran which are or become subject to the jurisdiction of the United States<sup>42</sup>.

In addition, The United Nation Security Council (UNSC) by adopting two resolutions (457, 461) expressed its deep concerns about the hostage crisis and stated that "dangerous level of tension between Iran and the United States"<sup>43</sup> may cause grave for International peace and security. Furthermore the Security Council called upon the Islamic government to release the personnel of the Embassy of the United States of America held at Teheran. But theocratic regime of Iran continued holding the personnel of the U.S. Embassy in order to

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<sup>41</sup> The U.S. Department of the Treasury, Executive Order NO. 12170, (Accessed 5.15.2015) <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/Executive%20Order%2012170.pdf>.

<sup>42</sup> Ibid.

<sup>43</sup> The Security Council Resolutions 1979, Resolution 461, Accessed 5.15.2015, <http://www.un.org/Docs/scres/1979/scres79.htm>.

realize their claim which was the extradition of the Shah, Muhammad Reza Pahlavi to Iran in exchange to diplomats.

The further restrictions upon the Islamic government regulated after the UNSC resolution of 461 which prohibited strictly the sale, supply or other transactions, by any individual subject to the jurisdiction of the U.S. except for food, medicine as well as supplies intended strictly for medical purposes, and donations of clothing intended to be used to relieve human suffering, from the U. S. or from any foreign country in the world, whether or not originating in the United States of America, either to or destined for Iran, an Iranian governmental entity in Iran, any other person or body in Iran or any other person or body for the purposes of any enterprise carried on in Iran<sup>44</sup>. The relations of two countries since the Iranian revolution which occurred during the presidency of Jimmy Carter in the U.S. and the leadership of Ayatollah Khomeini entered into turmoil and tensions until now.

### **Causes and Motives of Initial Sanctions upon Iran**

In order to have a clear image of the sanctions upon the Islamic Republic of Iran by the European Union (EU) and the United States in the recent years which shrunk Iran's economy enormously, we need to reverse the history to the point that western countries decided to suspend their trade with Iran in response to its "illicit"<sup>45</sup> nuclear ambitions. The western countries have imposed sanctions to prevent Iran's further progress in prohibited nuclear activities, as well as to persuade Ayatollahs to address the international community's concerns about its nuclear program. But Iranian officials repeatedly announced that their nuclear activities are only for peaceful

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<sup>44</sup> The U.S. Department of the Treasury, Ex-Ord. No 12205, Accessed 5.15.2015, <http://www.treasury.gov/resource-center/sanctions/Programs/Documents/Executive%20Order%2012205.pdf>.

<sup>45</sup> The U.S. Department of State, Diplomacy in Action, "Iran Sanctions", (Accessed 1.06.2015), <http://www.state.gov/e/eb/tfs/spi/iran/index.htm>.

purposes<sup>46</sup> and nothing more than that. The long standing mistrust between Iran and western countries have made the situation even more complicated. The international sanctions upon Iran was mainly imposed by the United Nations Security Council, the United States, the European Union, Japan, the Republic of Korea, Canada, Australia, Norway, and Switzerland<sup>47</sup>.

According to the European Union External Actions (EUEA), Iran's sanctions are imposed due to deep and serious concerns about unresolved disputes with Iran. The continuous refusal of Iran to co-operate and fulfill its international obligations under the monitoring of the International Atomic Energy Agency (IAEA) led to resolutions by the UN Security Council in 2006, 2007, 2008 and 2010 which are binding on all the UN member states<sup>48</sup>. The EU members comprehensively implemented the United Nations' sanctions and adopted also a series of complementary restrictions upon Iran.

Moreover, the EUEA stated that the EU sanctions mainly targeted those persons and entities which are supporting the Iran's nuclear program and revenues of the Iranian government which were used to fund the atomic activities. Furthermore, the EU officials professed that the economic and financial sanctions are not aimed at the Iranian people but the government of Iran<sup>49</sup>.

Although, the starting point of sanctions was the UNSC resolution 1696 on 31 July 2006 which expressed the grave concerns of International Atomic Energy Agency (IAEA) about Iran's nuclear program. The IAEA's report on 27 February 2006 (GOV/2006/15) stated that the agency cannot conclude there are no undeclared nuclear materials or activities in Iran that have no military

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<sup>46</sup> British Broadcasting Corporations (BBC), "Iran nuclear crisis: Can talks succeed?" (Accessed 1.06.2015),

<http://www.bbc.com/news/world-middle-east-11709428>

<sup>47</sup> Ibid.

<sup>48</sup> the European Union External Actions (EUEA), "The European Union and Iran", Factsheet, Doc No. 140124/02, (Brussels; Published online 24.01.2014), p.1, [www.eeas.europa.eu](http://www.eeas.europa.eu)

<sup>49</sup> Ibid.

dimension<sup>50</sup>. But Iranian officials insisted that their unclear activities are only for peaceful purposes and have no military dimensions.

Ayatollah<sup>51</sup> Khamenei, who is the most influential and powerful cleric in both domestic and external affairs of Iran, officially said that possessing nuclear bomb is contrary to our faith<sup>52</sup> and he purported a fatwa<sup>53</sup> that possessing nuclear weapons are “*haram*”<sup>54</sup><sup>55</sup>. But the very same person in another speech called for annihilation of Israeli State<sup>56</sup>. Therefore, the severe concerns of International community about the unclear program of Iran are to some extent justified and understandable. Who can guarantee that Iran will not use the nuclear bomb if they will possess it? It is not hard to imagine what kind of disaster could happen in case of war with Iran. Over the past decades, the theocratic regime of Iran did not make any good impression in the international world due to its hostile nature. After the installation of Islamic government in Iran, the regime was repeatedly charged with the spread of political violence in the Middle East by funding and supporting the terrorist- and radical-groups in favor of Shiite Ayatollahs.

The violation of human rights by the Islamic regime would be on top of all other charges that they have been accused. In the latest reports of the United Nation Secretary General (UNSG) on the situation of human rights in the

<sup>50</sup> The United Nation Security Council (UNSC), Resolution 1696, adopted by the Security Council at its 5500th meeting, on 31 July 2006, S/RES/1696. (Accessed 1.06.2015), [http://www.un.org/ga/search/view\\_doc.asp?symbol=S/RES/1696\(2006\)](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1696(2006))

<sup>51</sup> Ervan Abraham translated ayatollah as high-ranking cleric which literally means “sign of god” in his book.

<sup>52</sup> We can argue that “faith” is an undeterminable element of a believer person which cannot be examined or verified. Therefore, it would be hard to trust only the words of a leader who called for destruction of another country.

<sup>53</sup> E. Abraham translated fatwa as religious pronouncement.

<sup>54</sup> According to Almaany Arabic Dictionary the word haram means “Sinful deed” in Islamic doctrine.

<sup>55</sup> James S. Robbins, “*Iran Nuclear Weapons Fatwa is a Myth*”, the U.S. news, (Accessed 1.06.2015), <http://www.usnews.com/opinion/blogs/world-report/2015/02/18/irans-nuclear-weapons-fatwa-is-a-myth>

<sup>56</sup> Daniel Politi, “Iran’s Khamenei: No Cure for Barbaric Israel but Annihilation”, the Slates, (Accessed 01.06.2015), [http://www.slate.com/blogs/the\\_slatest/2014/11/09/iran\\_s\\_khamenei\\_israel\\_must\\_be\\_annihilated.html](http://www.slate.com/blogs/the_slatest/2014/11/09/iran_s_khamenei_israel_must_be_annihilated.html)

Islamic Republic of Iran which was published on 20 February 2015, the Islamic Republic was charged with various cases such as conducting death penalty unlawfully, imprisonment of human rights activists, violence and arrestment of women, restrictions on freedoms of expression and peaceful assemblies, abuse and discrimination of religious minorities and ethnics<sup>57</sup>... etc.

It is not hard to imagine, if the Islamic regime which is empowered by the people tries to violate and breach the basic rights of its own citizens who granted the regime legitimacy then we probably can conclude that they are neither reliable nor accountable for their actions in the International world too. If the regime has no responsibility for its own people and does not respect the basic rights as human beings, then how could we expect from the regime to respect other nations or people? I am afraid if the Islamic regime gains more power and accommodations in the future, they would act according to their natural instincts and use violence against humanity cause at the end of the day dictators remain dictator.

Therefore, one of the ways to limit the illicit activities of undemocratic regimes such as Iran is to minimize their incomes and accessibility which automatically decrease their power as well in the international world. In the twenty-first century, the most effective and cost-worthy ways to implement those counter activities are applicable by imposing sanctions, embargos and other economic barriers upon a given country. The Islamic regime is not an exception in this regard, one of those countries that hit by thunder and lightning of the international sanctions due to its ambiguous nuclear activities was Iran.

### **Sanctions and Restrictive Measurements in Force**

As it was mentioned here, the international community consists of the European Union, the United States, and other countries agreed to impose

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<sup>57</sup> Iran Human Rights Documentation Center, UN reports, (Accessed 1.06.2015), <http://www.iranhrdc.org/english/human-rights-documents/united-nations-reports/un-reports/index.1.html>

sanctions upon Iran due to its unclear nuclear activities. The restrictive measurements of those sanctions are different from one another, therefore it would be useful for our further evaluation to go through few items briefly for the sake of deeper understanding about the negative impacts of international sanctions over Iran's economy and trade which were imposed to halt the enrichment of uranium<sup>58</sup> in high percentages (20%>0) by the Islamic Republic.

The so called P5+1 which are the five permanent members of the U.N. Security Council (United States, the U.K., France, China, Russia) and plus Germany have tried to persuade Iran to resolve the existing disputes with the IAEA in a more diplomatic way, but Iran refused to co-operate with the agency and western countries which ultimately brought the financial and economic sanctions and embargo on Iran's arms and related materiel, dual-use goods and technology, certain goods and technological equipment which could contribute to enrichment-related and reprocessing or heavy water-related activities or the development of nuclear weapon delivery systems, as well as other items that the IAEA has expressed its concerns<sup>59</sup> about.

The EU strict restrictions and sanctions not only included Iran's nuclear activities but also prohibited of procurement from Iran any arms or related materiel, selling key equipment and technology for the oil and natural gas industries, banned provision of certain services to the oil and natural gas industries, banned certain investment in the oil and natural gas industries, restricted transfers of funds to and from Iran, restricted establishment of branches and subsidiaries of and cooperation with Iranian banks, restricted

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<sup>58</sup> According to the World Nuclear Associations (WNA) "natural uranium contains 0.7% of the U-235 isotope. The remaining 99.3% is mostly the U-238 isotope which does not contribute directly to the fission process (though it does so indirectly by the formation of fissile isotopes of plutonium). Isotope separation is a physical process to concentrate ('enrich') one isotope relative to others. Most reactors are Light Water Reactors (of two types – PWR and BWR) and require uranium to be enriched from 0.7% to 3% to 5% U-235 in their fuel", (Accessed 2.06.2015), <http://www.world-nuclear.org/info/nuclear-fuel-cycle/conversion-enrichment-and-fabrication/uranium-enrichment/>

<sup>59</sup> European Commission – Restrictive measures in force (Article 215 TFEU), "Council Decision 2010/413/CFSP" (OJ L 195, 27.7.2010), (Accessed 2.06.2015), p. 39.  
[http://ec.europa.eu/geninfo/legal\\_notices\\_en.htm](http://ec.europa.eu/geninfo/legal_notices_en.htm)

provision of insurance and re-insurance, restricted issuance of and trade in certain bonds vigilance over business with Iran<sup>60</sup> and etc. In short, Iran's petroleum industry, banking and trade system, and other non-oil sectors were sanctioned by the EU, the United States and other countries in favor of sanctions against Iran. The country after a year started to suffer from the impacts of sanctions.

### **The Impact of Sanctions**

Based on the World Bank (WB) statistics Iran is a second largest economy after Saudi Arabia in the Middle East. Iran is one of the major oil producers and gas exporters of the region. Therefore, the Islamic Republic of Iran is relatively vulnerable to well-targeted sanctions on the oil and gas industries<sup>61</sup>. Iran's highest export revenues come from the natural resource such as oil, gas, and other petrochemical products. Therefore, the imposed sanctions on Iran's petroleum, banking system and other non-oil products paralyzed the country's economy to the extent that Iran accepted the Joint Plan of Action (JPA). But before we uncover Iran's reason of accepting the JPA talks, let's evaluate the impact of economic and financial sanctions on Iran's economy so far.

The first impact that we could observe after the International sanctions upon the country was a decline in the gross domestic product (GDP). The economic and financial sanctions shrunk Iran's economy up to 15% ~ 20%. Many private businesses have failed to continue or bankrupted shortly after the full implementation of sanctions upon Iran's market. The number of non-performing loans held by Iranian banks increased to 15% ~ 30% and many employees in the private sectors lost their jobs and gone unpaid. The unemployment rate increased to 20% ~ 25%, although the Islamic government

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<sup>60</sup> Ibid.

<sup>61</sup> Yitzhak Gal & Yair Minzili, "The Economic Impact of International Sanctions on Iran", Herzliya Conference, Feb. 2011, (Accessed 2.06.2015). p. 2, [http://www.herzliyaconference.org/\\_Uploads/dbsAttachedFiles/YitzhakGalYairMinzili.pdf](http://www.herzliyaconference.org/_Uploads/dbsAttachedFiles/YitzhakGalYairMinzili.pdf)

reports the rate at ~13%<sup>62</sup> which is very low to the actual unemployment in the country.

The second impact of sanctions appeared in the oil sector. Iran's export and production of crude oil declined to the extent that the revenue from oil decreased from 100\$ billion dollars in 2011 to ~35\$ billion dollars in 2013. This amount shows approximately ~60% downfall in Iran's income. Before the sanctions, Iran exported ~2.5 million barrels crude oil to the European Union (particularly Italy, Spain, and Greece), China, Japan, India, South Korea, Turkey, Malaysia, Sri Lanka, Taiwan, Singapore and other countries per day but after the sanctions this amount decreased to only ~1.1 million barrels per day which is a significant amount of decline by the end of 2013<sup>63</sup>.

After the international sanctions upon Iran's economy, the foreign consumers and buyers of Iran's crude oil ought to reduce their dependency on Iran's exports and change their supplier to another oil-producing country. Reduction of oil export caused a great loss in the annual revenue of the regime which was one of the main sources of the governmental budget due to Iran's single market economy. Iran lacks competitive manufacturing both in private and public sectors to prevent the expansion of the Dutch disease in the country's economy. The Islamic regime has been unsuccessful to reduce its dependency on natural resources, so almost after the four decades of full control over's Iranian oil and gas, the county is still runs with oil money. Therefore, we could probably guess that after the international sanctions upon Iran's oil industry, a great crisis would occur in the domestic market.

Another impact of the financial and economic sanctions appeared in currency exchange rate. Both depreciation and inflation unbalanced Iran's market and economy. The Iranian *Rial* lost two-third of its worth within 2 years. The official exchange rate of Rial to Dollar was ~12,175 R to 1 \$ in 2011, but due to the International sanctions the Rial lost most of its value. The current official

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<sup>62</sup> Kenneth Katzman, *Iran Sanctions*, congressional Research Service, (Accessed 2.06.2015), <https://fas.org/sgp/crs/mideast/RS20871.pdf>

<sup>63</sup> Ibid.

worth of Iran's Rail per Dollar is ~ 28,950 R per 1\$<sup>64</sup>. According to the Iran's Central Bank, the time line of inflation rates in 2010, 2011, 2012, 2013, and 2014 orderly were 12.4%, 21.5%, 30.5%, 34.7%, and 15.6% in annual scale<sup>65</sup>. The numbers show the enormous amount of inflation in Iran's economy after the economic and financial sanctions.

So, as we can see from the above statistics and numbers on Iran's situation after and before the international sanctions, we can derive that the sanctions were effective enough to decrease and reduce Iran's income and ability to continue its nuclear activity. Of course, during this period, Iran also has tried to find a way to ease the pressure of the sanctions on its economy by finding new trade partners whom are willing to co-operate with Iran. As we mentioned before, Iran has tried to change its partnership in order to cover up the lack of import in its market after the sanctions. Iran's foreign trade naturally switched to those countries that did not implement the sanctions very strictly such as China, Russia, the United Arab Emirates (UAE), and etc<sup>66</sup>. Iran gradually increased its trade partnership with the UAE to reduce the precision of sanctions by using the UAE ports to import the essential needs. The UAE has become Iran's bridge to the world economy.

According to statistics from the UAE ministry of foreign trade, Iran's volume of imports raised from ~1.5\$ billion dollars in 2001 to \$8.5 billion dollars by the end of 2011<sup>67</sup> which shows Iran's interest in the UAE ports to escape from strict economic and financial restrictions. After the sanctions, Iran started to import its basic needs without conducting direct trade with the supplier and consumer but to use re-export and re-import from the UAE and other neighboring countries which did not apply the sanctions as severely as the others did. Basically, when we think of Iran's available options after the sanctions we

<sup>64</sup> The Central Bank of Iran, (Accessed online 3.06.2015), [www.cbi.ir/ExRates/rates\\_fa.aspx](http://www.cbi.ir/ExRates/rates_fa.aspx).

<sup>65</sup> Ibid.

<sup>66</sup> Nader Habibi, "The Impact of Sanctions on Iran-GCC Economic Relations", Crow Center for Middle Easter Studies, Brandies University, No 45, published November 2010, Accessed 2.05.2015, <http://www.brandeis.edu/crown/publications/meb/MEB45.pdf>

<sup>67</sup> Karim Sadjadpour, "The Battle of Dubai", the Carnegie papers, published July 2011, (Accessed 02.06.2015), [http://carnegieendowment.org/files/dubai\\_iran.pdf](http://carnegieendowment.org/files/dubai_iran.pdf)

could realize the regime had few options to choose. One was to deny the further co-operations with the IAEA and international community about its ambiguous nuclear activities or to accept the Joint Plan of Actions and start cooperating with IAEA and Western countries.

## **Conclusion**

There are some presumptions that we should take it into consideration when we are thinking about the post-sanction of Iran and the country's foreign policy. Firstly, the Islamic regime of Iran will start to tackle its current financial and economic problems that mainly were caused by the international sanctions with increasing the oil production in the global market. The oil money means that the regime will gain higher income or revenue from its natural resources. As a result, Iran's revolutionary-based foreign policy will be reactivated once again in the region. In addition, the Iran's regime will try pursuit its former foreign policies which were based on revolutionary ideas in the Middle East. Also, the conservative groups close to the main power will try to push the reformists groups out of the political decision making process. In addition, the cycle of power struggle in Iran have proven this fact that whenever the oil revenue increases the radical groups have higher opportunity to hijack the political power and marginalize the reformists groups. Although Iran's political red lines have been changed since the very beginning of the negotiations with P5+1 for mutual agreement on Iran's nuclear program, but still we should not underestimate other internal factors that influence the foreign policy of Iran. For instance, the role of Ayatollah Khamenei in the political hierarchy of Iran, the political tendency of current President *Hassan Rouhani* which was supported by reformist groups, and last but not least other interests groups such as Sepah-e Pasdaran (IRGC), ruling elite and individuals. In fact, the outcome of all these decision makers will affect the foreign policy of Iran in short- and long-term. Last but not least, it is important to bear in mind that Iran may fulfill the requirements to survive or escape

from the status quo but it does not mean the essence of Islamic Republic would change or alter in anyway. The regime's willingness to become a nuclear power will remain under the ashes.

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