Economic Collapse in Iran

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“Our hopes are first to God, and then to the American people. We hope Trump will not be reelected.” This statement by Sadegh Zibakalam, professor of political science at Tehran University, is crucial for describing the current situation in the Islamic Republic of Iran.

If we take a look at the state of Iran and the consequences of its economic crisis, it is clear that Zibakalam’s statement is not just hyperbole. The key factor aggravating the crisis is undoubtedly the sanctions imposed by the United States in 2018. After President Donald Trump announced the United States withdrawal from the Joint Comprehensive Plan of Action (the so-called “Iran Deal”), signed by Iran and six other countries (the five UN Security Council members and Germany) in 2015, the sanctions against Iran were restored. On August 7, in the first of two rounds, the sanctions were reimposed on Iran’s automotive sector, debt securities, gold and precious metals, steel, aluminum, coal, graphite trade, US dollar operations, passenger airplanes purchases, and software acquisition for integrating industrial processes. Coming into force on November 5, the second round was more severe. Prohibitions affected leading sectors such as oil, banking, and shipbuilding, which form the backbone of Iran’s economy.

Iran’s oil and oil products exports, shipping companies, shipyards and their subsidiaries, marine port operators, the Iranian National Bank, and insurance companies – 700 legal entities in total – have been affected by the sanctions. (Eight countries which import Iranian oil – China, Japan, India, South Korea, Taiwan, Italy, Turkey and Greece – received an extra 180 days to conclude their trading operations with Iran). The sanctions have led major Western corporations to abandon the Iranian market because, by conducting business there or implementing joint projects with

Iran, those companies would also be exposed to US sanctions. Faced with the risk of losing the large US market and isolating themselves from the dollar system, European companies have also been forced, if somewhat reluctantly, to comply with the sanctions. Iranian banks' access to the international inter bank exchange and payment system SWIFT has been suspended. Attempts by the European Union to create an alternative payment system with Iran have yet to have the desired effects.

The oil sector is the blood vessel of Iran's economy. The belief found among non-professionals that Iran, having been subjected to US sanctions repeatedly since the Islamic Revolution, is now accustomed to isolation and immune to further sanctions, is, of course, false. Iran remains a country with a resource economy; the proportion of Iran's exports and budget revenues that comes from raw materials, and mainly oil and gas, is quite large. According to the International Monetary Fund, oil accounts for 80% of the country's tax revenues.

Therefore, there is a direct correlation between the level of oil production and sales, and the state of Iran's economy. While oil production in Iran was at 3.33 million barrels in October 2018, this number decreased to 2.928 million barrels in November when the sanctions were reimposed. In December, the production output declined to 2.769 million barrels. (OPEC's decision on December 7 to reduce extraction also had a partial impact on the reduction of Iran's oil production). After the 180-day grace period given to the eight countries listed above, Iran's oil exports will fall to a minimum, if not cease entirely. The consulting firm IHS Markit predicts that Iran's oil exports will be less than 800,000 barrels by the end of 2019. It is not difficult to guess that a decline of this magnitude will aggravate Iran's problems. This is also confirmed by the most authoritative source, Iran's Minister of Petroleum Bijan Namdar Zanganeh. The Minister said that the problems caused by the current sanctions have created more

difficulties than the 8-year Iran-Iraq war; and even Iraq, a friendly neighboring country, is reluctant to deal with Iran.

The state budget of Iran for the year 1398 (2019) has recently been approved. State spending is projected at 400 billion tomans or 34 billion USD at the current exchange rate (1 dollar is equivalent to 12,000 tomans). Although this is a 5%nominal increase in expenditures compared to last year, in fact, there is a 35% decline considering the 40% inflation rate. In 2018, the Iranian national currency lost about 50% of its value against the US dollar on the black market. According to estimates by the International Monetary Fund, Iran's gross domestic product (GDP) dropped by 3% in 2018 and will drop 3.6% in 2019. The economy is shrinking. The government provides subsidies to keep the prices of essential consumer goods stable so that the crisis does not have a major impact on people's daily lives. President Rouhani also promised to increase the salaries and pensions of state employees. It is not possible, however, to stop the recession or to prevent Iran's economic problems from deepening. In recent weeks, for example, there has been a shortage of meat in the country, which has resulted in a significant increase in meat prices. The price of a kilogram of meat has risen to 100,000 tomans, and the state has started to sell frozen meat from its stock at the price of 29,000 tomans. A bitter confession of Aziz Akbarian, head of Parliament of Iran's Commission on Industries and Mines, shows how serious the situation is: "last time I bought meat for 64 thousand tomas, but now the price has doubled and I cannot afford it." Iranian citizens are able to buy a limited amount of cheap meat by presenting an ID. For this reason, about one-quarter of Tehran's restaurants have stopped functioning. If that is the situation in the capital, it is not difficult to imagine the situation in the provinces.

Moreover, the increase in the export of fruits and vegetables for the purchase of foreign currency has led to a shortage of these products throughout the country. Due to the impact of

the sanctions, a decline in domestic automobile production has led to a rise in the price of cars in the domestic market from 5 to 15 million tomans. As a result, sales in this sector have ground to a halt. The difficulties created by the sanctions imposed on Iran's banking sector and dollar transactions present another problem. According to the Iranian-Chinese Chamber of Commerce, Chinese banks stopped giving loans to Iran and started to freeze Iranian accounts. In this a situation, Russia has decided to help Iran. Tehran will receive a loan of 5 billion euros from Moscow, which is reflected in the budget law adopted by the Iranian parliament. A Russian loan to Iran was actually planned in 2015, but after the signing of the nuclear agreement and the abolition of the embargoes, the issue lost its relevance. Now Iran needs this loan again.

Although the US sanctions do not target the health sector, it is also affected by the current negative atmosphere and the worsening crisis. For example, the state allocates funding for the treatment of diseases such as cancer, hemophilia, thalassemia, autism, and kidney disease, as well as organ transplantations. While 234 billion tomans were allocated to this area in the 2017 budget, this amount fell to 216 billion and 150 billion tomans in 2018 and 2019, respectively. Given inflation, the scale of the decline is actually more significant. Since foreign currency is required for importing medicines, the state prefers the use of local medicines and the Ministry of Health has ordered physicians to prescribe them. Patients, however, report that the quality of local medicines is insufficient for treating severe diseases.

Clearly, the situation seems to be quite severe and there is no reason to expect improvements in the near future. As Professor Zibakalam says, Iranians hope that a Democratic candidate will win the presidency in 2020 and lift the sanctions, returning to the agreement signed during the Obama administration. In the Iranian political system (*vilayat-i faqih*), the popularly elected president and their government

are responsible for the country's socio-economic problems. While the supreme leader, i.e. the leader of the revolution who heads the theocratic regime, holds all the power, he takes no responsibility for Iran's social and economic situation. Nevertheless, during the mass protests in the last days of 2017 and the beginning of 2018, people denounced not only the government, but the supreme leader as well. It became clear that some citizens, who are dissatisfied with the political system, see the system itself, rather than the government, as the source of the country's problems. From this perspective, Saeed Hajjarian's statement is remarkable. Hajjarian, a well-known figure in the reformist wing, says that by this time next year, the people will no longer believe in this system. In his view, the people are going to lose confidence in reformers, conservatives, the government, the parliament, the judicial system, in a word, the state. The supreme leader, of course, is also aware of this danger. In his appeal to youths on the occasion of the 40th anniversary of the Revolution, Ali Khamenei's assurance that "the Revolution is ready to correct its mistakes" confirms this point.

Iran-Azerbaijan relations: what to expect?

The Islamic Republic of Iran is an important country for the Azerbaijani state and its people due to its proximity and close ethnic, religious, historical, and cultural ties. Although there are conflicting figures about the number of (ethnic) Azerbaijanis in Iran, there is no doubt that they are one of the two largest ethnic groups along with Persians. Therefore, the events taking place in Iran have indirect consequences for Azerbaijan, too.

Every year, a large number of Azerbaijani citizens travel to Iran for various purposes, including medical treatment, business, shopping, and tourism. In 2018, more than 4.9 million citizens of Azerbaijan traveled abroad, and one third of them (33.6%) went to Iran. This is quite a large number. Of the approximately 2.85 million people who visited Azerbaijan

the same period, 8.5% were Iranians. A significant increase in the volume of trade turnover between the two countries in 2018 is also notable. While in 2017, the mutual trade turnover was just over 257 million dollars, this figure rose to 446 million dollars in the subsequent year. In 2017, Azerbaijan's exports to Iran amounted to around 16.8 million dollars while imports from this country were more than 240.2 million dollars; in 2018, these figures were around 31.0 million and 414.8 million dollars, accordingly.

The obvious increase in trade turnover and the number of Azerbaijani citizens traveling to Iran in the last year demand particular attention. There are several possible reasons for this trend. In 2018, the Astara and Bilasuvar border checkpoints switched to a 24-hour regime and border crossings became more intensive. As for foreign trade, economist Rovshan Aghayev thinks that the legalization of Azerbaijani customs can play a significant role in this issue. He noted that although the 2018 totals of mutual trade have not been disclosed, the figures for the first 9 months are available: "imports of natural gas as well as potatoes played a significant role in the sharp rise of Azerbaijan's imports from Iran. The opening of the Neftchala automobile plant also influenced this increase since equipment and spare parts are brought from Iran."

Azerbaijan and Iran are cooperating on the North-South transport corridor, the Joint Car Plant in Neftchala Industrial Zone, the Joint Pharmaceutical Plant in Pirallahi Industrial Park and other projects. In the field of energy, projects for the construction of "Khudaferin/Maiden Tower" and "Ordubad/Marazad" power lines, as well as a 330 kV Mughan (Imishli-Parsabad) electric power transmission line have been implemented and a framework agreement on electricity sales to Iran has been signed. There are more than 700 Iranian companies registered in Azerbaijan. One of the most recent important events in the countries' bilateral relations was the signing in November 2017 of a loan agreement to finance the

construction of the Rasht-Astara railway line, which is part of the North-South transport corridor. Under this agreement, Azerbaijan has allocated a 500-million-dollar loan to Iran.

The main part of the US sanctions, which were implemented in November 2018, is expected to negatively affect Azerbaijani-Iranian economic relations. This issue was discussed at a meeting between John Bolton, the US National Security Adviser, and the Azerbaijani president in October of last year. The Baku branch of the Iranian National Bank (*Bank Melli Iran –Baku*) has already been sanctioned. Obviously, Azerbaijan will not get into a confrontation with the United States and will limit its cooperation with Iran in areas that are affected by the sanctions, including the 500-million-dollar loan. It is unclear how much of this loan had already been transferred to Iran before the sanctions. What we know is that the remaining part of this loan will not be transferred. Economist Aghayev is convinced that the sanctions will push Azerbaijan to be more cautious in its trade as well as its economic cooperation with Iran.

I’m not sure about the meaning of this phrase. Does it mean rooting out corruption at customs?