

DOI: 10.31696/S086919080033670-4

ECONOMY AS AN ESSENTIAL PART OF CURRENT POLITICS  
IN THE ISLAMIC REPUBLIC OF IRAN (NOVEMBER–DECEMBER 2019)

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**Abstract:** *The article is aimed to look into the combination of economic and political means in the Iranian policy in response to the US President Trump sanctions in 2018–2019. The main thesis is that the Islamic Republic of Iran is in active search of new, more efficient and fruitful approaches to curb the deterioration of the national economy and solve foreign policy problems. This indicates the government's serious modernizing efforts and its willingness to shift towards a more moderate Muslim state status. What was the level of influence of the worsening political and economic conditions on Iran's preferences in domestic economy and foreign policy? What steps did the government take to respond to these challenges? To find answers, we analyzed Iranian theoretical approaches to the issues of relationships between Islam, politics and economy, economic situation, domestic economic and external political response to the arising challenges. Possible outcomes for the Islamic Republic were outlined. A complex set of methods, including system-strategic, sociological, and economic ones, based on empirical approach, was used. Inclusion of the latest data and concepts, investigation of the views on religion, economy and politics trending in Iran define originality of the research. The main results demonstrate Iran's considerable flexibility and resistibility, its constructive and pragmatic approaches both within and outside the country, indicate the shifts towards a more moderate type of Islam. Measures taken during the examined period also ensured some positive shifts in the national economy even though after Trump's administration the sanctions were not officially lifted.*

**Keywords:** Muslim state, Iran, economic policy, challenges, pragmatism, moderate Islam

**For citation:** Yuldasheva G.I. Economy as an Essential Part of Current Politics in the Islamic Republic of Iran (November–December 2019). *Vostok (Oriens)*. 2025. No. 1. Pp. 157–169. DOI: 10.31696/S086919080033670-4

Since the Revolution of 1979, the development of Iran has been greatly influenced by the anti-Iranian sanctions imposed by the United States. In May 2018, the US President Donald Trump abandoned the long-awaited JCPOA agreement, under which Iran and the countries of the “six” (US, France, Britain, Germany, China and Russia) had reached an agreement on the nuclear issue in exchange for cancellation of the anti-Iranian sanctions. Trump administration reinstated sanctions against Iran and countries that trade with it. Long-term international sanctions worsened the economic situation in Iran and caused social instability inside the country.

Mid-November 2019 riots in Tehran over the hike in gasoline prices renewed the talks on probable overthrow of the Islamic regime in Iran due to its alleged inability to rule the national economy. This was just one episode, but the most dramatic one, in a series of the latest protests in Iran over the deteriorating economic situation in the country. Considering these factors, especially in the context of global interdependency of states, and economic transformations ongoing in

the country, investigations on modern Iran demand examination of both economic and political means, adopted by Tehran in response to the US sanctions.

The main thesis of the article is that Iran is in active search of new, more efficient and fruitful approaches to solution of the national economy and foreign policy problems that in fact prove its serious modernizing efforts and a move towards a moderate Muslim state status. The undertaken steps demonstrate significant flexibility and resistibility of the Islamic regime, its orientation at constructive and pragmatic domestic economy administration and foreign political partnership. These trends in the Iranian thinking were examined using data and concepts from 2018–2019 that enabled to reveal the changes ongoing in the Iranian comprehension of the role of religion in the ways national economy and politics function.

Consequently, the article consists of an introduction and parts covering the theoretical and conceptual background, economic situation in Iran, its internal and foreign economic policy, and conclusion.

### THEORETIC AND CONCEPTUAL BACKGROUND

The main official document defining the role of Islam in the state policy and economy is the *Constitution* of the Islamic Republic of Iran. The document sets forth an aim of initiating “the process of intellectual and ideological evolution towards the final goal, i.e., movement towards Allah” and stresses that “it is the duty of the Islamic government to furnish all citizens with equal and appropriate opportunities, to provide them with work, and to satisfy their essential needs, so that the course of their progress may be assured” [*Constitution*, 1979].

The ideas of social justice have been repeatedly put forward by the humanity within various ideological frameworks. Iran, as elsewhere, is forced to think rationally on the reasons of deepening poverty, regional inequality, choice of foreign trading partners to get out of the long-standing crisis. Hence, a theological state needs scientific analysis of the reality to adopt decisions compatible with Islam. This requirement gave birth to various theories reviewing and reconciling religious prescriptions with arising political and economic needs of a human being.

Modern Iranian scientists, for instance, investigate such issues as determinants of poverty. They came to conclusion that access to services and infrastructures had no significant impact on the likelihood of moving out of poverty; if the household head is older and self-employed, the likelihood of being poor is gradually diminished; if the family members have some kind of social security or have their own house in property, household welfare would improve, etc. [Soltani et al., 2019].

The results of the study on the reasons of inequality between the Iranian provinces revealed that the increase of foreign direct investment and the ratio of industrial production can reduce it [Pourfaraj et al., 2019]. A group of other Iranian scientists [Azadi et al., 2019] examine the role of political lobbying of each region’s interests in the decision-making and national budget allocation centers.

For his part, Ehsan Rasoulnezhad concentrates on issues of foreign trade preferences of Iran and Russia under sanctions. The imposition of various sanctions, he says, has pushed the foreign trade policy of these countries towards Asianization (Trade Convergence with Asia) and away from Europeanization (Trade Divergence from Europe). However, the magnitude of sanctions’ effects on Russian shift in its trading partners is less than on the shift in Iranian trading partners due to differences in their foreign trade structure. As a result, Iran’s distancing from the Western European region causes it to build trade convergence with the Asia-Pacific region faster than Russia, he concludes [Rasoulnezhad, 2019, p. 606].

Furthermore, the authority of the Shiite Faqīhs in traditional interpretations of religion is now challenged even by some of the Faqīhs themselves, stress M. Goudarzi and A. Najafinejad

[Goudarzi, Najafinejad, 2019]. The clergymen want to reduce the conflict between the Islamic religion and the standards of the developed world. It is worth to mention Ayatollah Saanei, a highly influential and famous figure among religious reformist clergymen. He was one of Ayatollah Khomeini's closest associates and had been influenced by Khomeini's jurisprudential methodology in two aspects: 1) his struggle with religious formalism, as well as the fight against the petrification and superstition in the seminary; 2) the importance of paying attention to the role of time and place in *Ijtihad*<sup>1</sup>. In Saanei's view, the collective rationality or the custom ('*Urf*) of the people at any given time is the basic criteria for the definition of justice or injustice.

Seyed Kazem Sadr [Sadr, 2019] assures that there is a logical relationship and reciprocity between the two categories of knowledge, namely pure reason and practical reason. The ethical principles or norms are universal, he states, they are permanent and do not vary by time and place. This notion, however, does not deny that every individual possesses a different taste and preference that emanate from his physical needs at various times and environmental conditions.

Far from any reconciliation between religion and political-economic context, American scientists of Iranian origin, Abbas Milani and Roya Pakzad, see the roots of the present crisis faced by the Iranian regime in "corruption, mismanagement, harebrained economic ideas, and expensive foreign interventions" that are "augmented by the new sanctions imposed by the Trump administration" [Milani, Pakzad, 2019].

Specialists in Iran itself add [Monireh, Farahani, 2019] that external conflicts, ethnic tensions, socioeconomic conditions, investment profile, military and religious tensions are highly significant determinants of foreign investment inflows in Iran.

Theoretical review demonstrates that, despite all religious rhetoric, Iran is being forced to accept pragmatic approach by stimulating empiric studies and considering the political and economic interests of its citizens to improve religious teachings in accordance with the harsh reality in and around the country. In response to the new, intensified US sanction policy, accompanied by militarization of the Persian Gulf, Iran chose the "maximum resistance against sanctions" strategy, including a combination of political and economic instruments to keep the country stable, and the existing government strong enough to provide further progress of the country. To ensure this, former President Hassan Rouhani's administration was determined to tackle issues by both mobilizing domestic capacities and diplomatic relations with the world, and to stick to the principles of the Islamic Republic along the way. Thus, one of the main determinants of this progress that has been preserved up to this day is progressively developing self-sufficient economy of the country and promoting consolidation of regional partnership.

## ECONOMIC SITUATION

Meanwhile, Iranian analysts acknowledged the worsening situation in the national economy. The average goods and services Consumer Price Index in the 12-month period, ending on November 21, 2019, increased by 41.1% compared with the previous year's corresponding period. The SCI had put the annual inflation rate for the preceding month (of the Iranian calendar), which ended on October 22, 2019, at 42% [*Transportation Registers*, 2019]. The average annual inflation gap measured by the same SCI, among income deciles stood at 2% in the eighth month (October 23 – November 21), indicating a 0.2 percentage point decline compared with the previous month's 2.2% [*Iran's Rich-Poor*, 2019]. At the same time 85% of Iran's tax revenues came from only 3% of taxpayers [*Academic Expounds*, 2019].

<sup>1</sup> *Ijtihad* can be defined as a "process of legal reasoning and hermeneutics through which the jurist-mujtahid derives or rationalizes law on the basis of the Qur'an and the Sunna" [Hallaq, 2005, p. 208].

According to the World Bank, Iran's economy was expected to decline further by 8.7 % in 2019/20 due to external shocks to oil and gas sector output [World Bank, 2019].

Based on the official sources, the Western experts added [Fathollah-Nejad, 2019] that 12 million Iranians lived below the absolute poverty line and 25 to 30 million – below the poverty line. One-third of Iranians, as well as 50 to 70% of workers, was in danger of falling into poverty. Approximately 10 to 13 million Iranians were “entirely excluded from health, work or unemployment insurance”. Officially, every eighth Iranian was unemployed, among the youth, one in four was unemployed (some estimates go as high as 40%). These figures ranked Iran's youth unemployment rate as among the highest worldwide.

On-site observations coincide with the sociological poll's assessments, that, in our view, fully reflect Iranian realities (Table 1,2), and logically proceed from the aforementioned estimates of the Iranian specialists.

Table 1. Iranian Public Opinion Under “Maximum Pressure”

Q1. In your opinion, how good or bad is our country's general economic situation? Is it:

	May 2015	Jan. 2016	Jun. 2016	May 2017	Jun. 2017	Jan. 2018	Apr. 2018	Dec. 2018	May 2019	Aug. 2019	Oct. 2019
Very good	11.1	8.4	3.8	3.4	2.5	2.5	1.7	1.9	2.0	2.7	2.8
Some-what good	43.2	40.9	35.7	29.8	33.1	27.6	22.3	26.8	23.7	26.0	28.2
Some-what bad	22.5	24.2	29.4	28.4	29.5	28.2	26.5	27.9	29.8	30.2	27.3
Very bad	21.2	24.4	29.2	36.6	33.9	40.7	45.2	42.9	43.4	40.0	40.3
DK/NA	2.0	2.1	2.0	1.9	1.1	.9	4.3	.4	1.2	1.1	1.4

Source: [Iranian Public Opinion under “Maximum Pressure”, 2019].

Table 2. Iranian Public Opinion Under “Maximum Pressure”

Q2. Right now, do you think economic conditions in Iran, as a whole, are getting better or getting worse?

	May 2015	Jan. 2016	Jun. 2016	May 2017	Jun. 2017	Jan. 2018	Apr. 2018	Dec. 2018	May 2019	Aug. 2019	Oct. 2019
Getting better	49.3	47.4	42.2	40.2	39.1	31.3	27	33.2	26.6	28.7	30.5
Getting worse	37.1	41.0	43.4	52.4	50.2	58.4	64	59.5	56.9	55.0	53.6
Staying the same [vol.]	9.7	6.1	9.2	4.1	7.7	6.2	5	4.1	8.7	8.0	9.7
DK/NA [vol.]	4.0	5.4	5.2	3.3	3.0	4.1	4	3.2	7.9	8.2	6.3

Source: [Iranian Public Opinion under “Maximum Pressure”, 2019].

## INTERNAL ECONOMIC POLICY

Much attention therein was attached to the most important spheres of economy, which supposedly could curb the existing crisis. These were transport, banking and budget allocation, financial assistance, divestiture of state-owned companies, energy and water supply.

*Transport* – The government decided to export surplus gasoline to the neighboring countries. The decision to increase fuel prices referred only to domestic sale. Official estimates on the value of trade covering the beginning of the fiscal year (March 21 to October 14) indicated that trading in different energy carriers generated \$519 million for the treasury [*Gasoline Offer*, 2019]. It was supposed that generating revenue from gasoline export could help to fix the ballooning budget deficit emanating from steep decline in oil exports (plunging from 2.5 million barrels per day to less than 500,000 barrels per day) due to the new US sanctions. The government said it would use the new earnings exclusively for public welfare [26,000 Tons, 2019]. The public, however, was predominantly skeptical about this measure.

Following a 200% hike in gasoline prices in Iran, demand for CNG hybrids skyrocketed. Over 5 million Iranians had hybrid CNG engines. The government therefore strongly prohibited domestic car manufacturers from increasing car retail prices, much-needed parts and equipment to convert cars to CNG hybrids were indigenized and centers were planned to open all over the country to meet rising demand. The number of active conversion centers in the country could rise from around 250 to 380. Depending on the type of car and size of the CNG tank, owners would be charged between \$300–400 [*Gasoline Price*, 2019]. To further reinforce the localization of the car industry, a major local carmaker Iran Khodro was strengthening its ties with Defense Ministry-affiliated firms by planning 23 auto parts production projects. The agreements with local part makers were expected to curb the capital flight of €127 million per year [*Iran Defence Ministry*, 2019]. However, the localization of auto parts production, as past experience of Uzbekistan showed, could not cover all demands of the car owners, and the demand for foreign products naturally persisted.

With the aim of reducing road traffic and battling air pollution, Iran's Sixth Five-Year Development Plan (2017–22) tasked the government with increasing the share of rail transport in cargo and passenger transportation from 12 and 8% to a minimum of 30 and 20% respectively by the end of the plan. To achieve this goal, investments worth \$28 billion were needed [*Iran: Need*, 2019]. The task was obviously difficult to complete against the backdrop of the international tension around Iran.

*Banking and other financial issues* – The CBI, as part of a plan called “Productive Working Capital” assigned a number of banks to lend 1,000 trillion rials (\$8.3 billion) to productive, efficient businesses [*Banks will Lend*, 2019]. Besides, the CBI developed a new platform, Diba, to supervise open banking operations. Diba was also to be used for processing transactions of the planned regulated forex market. However, the long-awaited forex market was not opened, apparently due to failures to meet CBI obligations and preconditions set for its commencement [*New CBI Platform*, 2019].

Meanwhile, the government announced plans to issue Islamic financial securities worth 380 trillion rials (\$3.3 billion) to partly plug the budget deficit. The “general revenues” in the budget were forecasted at 4,480 trillion rials (\$39 billion), which was 5% higher compared to the previous year's budget. Despite that, specialists predicted a worsening recession; they admitted that the fragile currency market would be more vulnerable to political tensions [*Economic, Political Climate*, 2019]. The government also approved a plan dubbed a ‘productive credit certificate’ better known by its Persian acronym Gam. The main purpose behind the scheme was to avoid inflation emanating from new liquidity. Accordingly, banks and credit institutions lent

3,382 trillion rials (\$27 billion) during the first six months of the fiscal year (March 20 – September 22), out of which 2,111.7 trillion rials (\$17 billion) was given to help recapitalize manufactures [Productive Credit, 2019].

At the same time, the underprivileged provinces were planned to receive bigger shares from the government's fresh cash subsidy, known as the Livelihood Assistance Program. The government discontinued previous monthly payments of cash subsidies to 400,000 individuals who were found to be economically advantaged [Underprivileged Provinces, 2019]. As a result, about 17.7 million households consisting of 60 million people received cash support worth 24,200 billion rials (\$184.73 million) [Rouhani Submits, 2019].

In general, the government came up with three main sources of funding for the next year's budget: the first being hefty subsidies – hidden and apparent (cash, non-cash) – the government paid every year. The value of these subsidies was put at 13,000 trillion rials (\$103.17 billion). Taxation was to be the second source of funding. The government did not intend to increase taxes – the tax bases of manufacturing enterprises were planned to be reduced next year. Besides, it was introducing new forms of tax including the green tax. The third source was the sale of some government assets, whose total value was put at 70,000 trillion rials (\$555 billion) [Iran's Next Budget Bill, 2019].

The Iranian government also considered a budget of 12.8 trillion rials (\$93.77 million) for the Ministry of Cultural Heritage, Handicrafts and Tourism in the fiscal year starting on March 20, 2020. However, national economists were pessimistic about it since the budget was not sufficient regarding the inflation of over 40% in Iran [Cultural Heritage, 2019].

*Divestiture of state-owned companies* – The government also planned the divestiture of state-owned companies in the stock market. This would supposedly let people with small savings to buy shares, provide opportunities for private firms, promote downsizing and curb the bloated bureaucracy.

*Energy and water supply* – Concurrently, the government announced that it would purchase the excess electricity output of authorized miners who had built their own renewable energy farms. Prospective miners were given another option regarding electricity use: having their own mini-grids or using renewable energy. There were more than 115 large solar farms in Iran, and around 3,500 smaller installations in various cities and villages. By next year, it was planned to set up over 2,500 rooftop photovoltaic power units mainly in deprived rural areas [Gov't Proposes, 2019] and complete water supply facilities for 1,950 villages [Provision of Clean Water, 2019].

*Employment* – At the same time, a local Ejob startup planned to assist the economically constrained by putting employers in touch with workers with an innovative twist. Scheduled for launch in December 2019, the startup, supposedly, could help to find a flexible part-time or one-off job to those who were struggling to make ends meet and needed some extra cash.

Thus, to survive under sanctions and perform the tasks of its "resistance economy", Iran was forced to adopt some neoliberal measures, new technologies and achievements of economic science, increase the share of its social and economic assistance to vulnerable layers of the population.

*Outcomes* – It was quite clear that in the context of the US sanctions and military-political pressure, these governmental measures could not solve all social and economic problems. A modernizing Muslim country still in transition, with a new, specific development agenda, naturally came across numerous shortcomings that stimulated criticism even in the ranks of governmental institutions that itself was an indicator of democratic transformations in Iran.

Thus, according to the Majlis Research Center think tank, the government enforced only a fraction of the proposed measures to curb inflation and control liquidity, it resorted largely to



temporary and micro measures, but in doing so failed to address macro variables and was engaged in a “market regulatory approach”. [*Criticizes Piecemeal Measures*, 2019].

President of Tehran Chamber of Commerce, Industries, Mines and Agriculture Masoud Khansari blamed the growth of corruption on government intervention into the economy. Large number of conflicting directives disrupted the economic system of the country; people inferred different meanings from these directives [*Tehran Congress Spotlights*, 2019]. According to officials, the condition of car companies deteriorated and the main carmakers Iran Khodro and SAIPA incurred losses to the tune of 50 trillion rials (\$416.6 million) each. The government was blamed for inherent mismanagement, nepotism and chronic corruption that led to the decline in the once lucrative industry [*Local Carmakers*, 2019].

On the other hand, officials stressed progress made by the Iranian producers of ICT items, who earned \$24 billion by exporting to more than 15 regional countries over the year. However, Iranian specialists suggested raising import tariffs to at least 30%, highlighting low import tariffs in the ICT sphere as one of the major factors killing the motivation of companies to use local products [*Iran Marching*, 2019].

## FOREIGN ECONOMIC POLICY

At the external level, despite the official slogan “Neither East, nor West”, the Iranian government has in fact adopted the course towards “Both East and West”. This was certainly stipulated by the necessity to integrate the national economy deeper into the world one to solve inner problems and attract foreign investments, get access to international trade markets and curb the inflation and unemployment. To achieve these goals, various measures were taken, facilitating the customs process both for exports and imports of the commodities to reduce the effect of sanctions. Measures were also taken to provide necessary foreign currency through Iran’s Forex Management Integrated System, as well as providing new facilities for importers of basic goods.

Still, the economic relations with foreign partners remained uneven, mainly because of the sanctions, not excluding some minor bilateral discrepancies. The choice of Iranian partners was apparently determined by their geographic, historical and cultural proximity, their stand towards the US and particular significance in cooperating within a future common energy and transit transportation system. To overcome present difficulties, Iran preferred concentrating on the Asian direction, primarily including China, Iraq, Turkey, UAE, Russia and India, as well as Afghanistan. Correspondingly, Tehran increased its economic activity firstly in Asia-Pacific, South Asia, the Middle East and the Gulf, secondly, within the CIS and SCO frameworks. Simultaneously, it strove to preserve economic relations with the EU, at least at the minimum level.

The following trends in the relations with the main partners demonstrated Iran’s foreign political preferences and economic activity.

*China* – China, as a political and economic counterweight to the US, had long been Iran’s biggest trading partner, both on the import and export fronts, and preserved this stand during the first eight months of the previous Iranian year (March 21 – November 21). Exports to China stood at \$6.8 billion, which accounted for 25.15% of total exports. During that period China exported to Iran \$7.26 billion worth commodities and had a share of 25.59% of Iran’s total imports [*Iran’s Non-Oil Foreign Trade*, 2019].

*Turkey* – Iran was Turkey’s 25th biggest export destination and 18th biggest exporter of goods to the country during the period. Their trade totaled \$5.01 billion during the first 10 months of 2019 to register a decrease of 39.24% compared with the corresponding period of 2018 [*Iran’s Trade with Turkey*, 2019].

*India* – India was the main sponsor of the Chabahar project, vitally important for Iran. However, its fluctuations, based on the effect of the US sanctions, negatively influenced the bilateral trade. Still, Delhi was one of the top exporters to Iran with \$2.51 billion trade and a share of 8.85% during the first eight months of the Iranian year (March 21 – November 21) [*Iran's Non-Oil Foreign Trade*, 2019].

*The Gulf* – To normalize its relations with the country's immediate neighbors, President Hassan Rouhani put forward the Hormuz Peace Endeavor proposal at the UN General Assembly in September 2019. However, Fatemeh Sayyahi, a Middle Eastern expert, rightfully noticed it would be “unrealistic” to assume that the initiative could go forward while tensions ran high between Iran and the kingdom [*Iran-Saudi Dialogue*, 2019]. This fact naturally restricted Iran's relations with the Gulf, the main partners being only Iraq, UAE and Oman.

*Iraq* was Iran's second biggest export destination after China in 2018. According to the Iran–Iraq Chamber of Commerce estimates, since the beginning of the fiscal year (March 21), the total volume of Iran's non-oil exports to Iraq stood at \$5.71 billion, Iran held 25% of the Iraqi import market. Iran exported 19.76 million tons of goods worth \$8.96 billion to Iraq, up by 49.15% and 36.71% in tonnage and value respectively year-on-year; and imported 73,563 tons of commodities worth \$58.69 million from Iraq, down 43.14% [*Iran's Exports to Iraq*, 2019]. The reason for the trade decrease was obviously the internal instability in Iraq, aggravated by the US regional policy.

The *UAE* topped the list among the neighboring countries, trading with Iran during the previous Iranian year (ended on March 20, 2019). Exports to the UAE amounted to 13.75 million tons worth \$5.95 billion to register a 24.53% and 12.06% decline in tonnage and value respectively YOY. In return, the UAE exported 3.82 million tons of commodities worth \$6.56 billion to Iran, down by 44.68% and 34.71% in tonnage and value respectively YOY [*Iran Industries Ministry*, 2019]. The relations were partially influenced by Iran's tense relations with the US regional ally – Saudi Arabia.

The same can be said about Iran's trade with *Oman*, which during the first half of the Iranian year (March 21 – September 22) stood at \$220 million. Both sides agreed to increase their bilateral trade well beyond \$1 billion per annum, considering the slowdown in the world economy. Notably, Iran's exports to Oman rose from \$146 million in March 2013–14 to \$728 million in the previous year (March 2018–19), the same year Iran's imports from the sultanate stood at \$433 million [*Iran, Oman*, 2019].

The state of Iranian trade with some *CIS* states, excluding Russia, during the last five years can be seen from the following ADB data (*Fig. 1, 2*)<sup>2</sup>:

The available data, based on the national statistics of the aforementioned countries, revealed low and uneven level of trade with Iran, with some signs of growth only in relations with Armenia and Azerbaijan. The Iranian data from the *Financial Tribune* allowed us to see some progress in trade with Russia, Kazakhstan and Kyrgyzstan, as well as with Afghanistan during the previous Iranian year.

*Eurasian Economic Union (EEU)* – Main prospective vector for mutually beneficial relations was the EEU. Iran and the EEU signed a three-year provisional agreement in Astana, Kazakhstan, on May 17, 2018, for the bloc to welcome Iran into the EEU. A Preferential Trade Agreement between Iran and the EEU came into effect on October 27, 2019. Meanwhile, mutual trade was limited due to the same sanctions, shortage of comfortable modern routes, logistics and infrastructure, as well as institutional and economic weakness of the involved states.

Yet, influential Iranian experts state said that the country exported \$28.2 million worth of products to the Eurasian markets from October 21 to November 22, 2019. They put the amount of products imported from Eurasia into Iran in the same period at \$166 million [*Iran Exports*, 2019].

*Russia* – During the previous Iranian year (ended on March 20, 2019) Russia was the third major exporter of goods to Iran among neighbors, after the UAE and Turkey, as Iran had imported

<sup>2</sup> For figs. 1–3, see color insert.



2.17 million tons of commodities worth \$1.34 billion from Russia, indicating a 59.39% and 84.52% hike in tonnage and value respectively YOY. Russia was the eighth exporter of goods to Iran in the world [*Iran Industries Ministry*, 2019]. However, it was clear that the Western sanction strategy restricted Russian possibilities to invest much into Iran.

*Kazakhstan* was Iran's third major trading partner among the EEU states from March 21 to August 22, 2019. By December, the mutual trade between Iran and Kazakhstan amounted to \$83.6 million. Iran–*Kyrgyzstan* non-oil trade totaled \$25.8 million during the five months from March 21 to August 22, 2019. Iran's exports accounted for \$20.2 million while the country's imports from *Kyrgyzstan* reached \$5.6 million [*Iran's Non-Oil Trade with EEU*, 2019].

*Uzbekistan*, *Tajikistan*, *Turkmenistan* and *Afghanistan* experienced the same challenges in economic relations with Iran as the EEU states.

*Afghanistan* was Iran's third biggest export destination, after Iraq and the UAE, among neighbors, and fourth in the world, as Iran had exported 5.67 million tons worth \$2.92 billion to Afghanistan during the 12-month period, down by 4.18% in tonnage and up by 5.11% in value YOY [*Iran Industries Ministry*, 2019].

From Iran's standpoint, *Uzbekistan* always remained in the ambit of Iran's international relations and a potential target market. However, despite some mutual governmental efforts to activate bilateral trade, it was low due to the reasons typical for the EEU countries and specific transitional difficulties. Iran's exports to *Uzbekistan* stood at 92,381 tons worth \$11.39 million to register a 1,480% and 165.25% growth in tonnage and value respectively YOY. *Uzbekistan* was Iran's 17th export destination in the world and the 21st exporter of goods to Iran during the period under review [*Iran's Non-Oil Trade with Uzbekistan*, 2019].

In addition, Iranian–*Turkmen* relations remained tense due to the unresolved gas issue. However, the two sides were exploring ways to expand cooperation. With this aim, on October 1–2, 2019, the 15th Iran–*Turkmenistan* Commission of Economic Cooperation was held in Ashgabat, *Turkmenistan* to discuss a wide range of issues related to transportation, telecommunications, economy and trade, fuel and energy, industries and mines, etc.

The same tendency was observed in relations with *Tajikistan*. The 5<sup>th</sup> Exclusive Exhibition of Iran in *Tajikistan* took place in Dushanbe on December 21–24, 2019. The sides discussed issues of boosting bilateral economic cooperation.

*EU* – In its relations with Europe, Tehran was in constant search for the appropriate ways of extending trade bypassing the US sanctions, but the efforts were ineffective. INSTEX was not operational due to complex technical issues and European fear of being targeted by the US sanctions. The trade between Iran and the EU member states during January–September 2019 stood at €3.86 billion to register a 74.92% plunge compared with the previous year's corresponding period [*Iran–EU Trade*, 2019] (Fig. 3). Iran exported €513.62 million worth of commodities to the EU during the nine-month period, indicating a 94% fall compared with the similar period of previous year.

In addition to the above-mentioned partners, Iran signed a Memorandum of Understanding with *South Korea's* Deputy Minister of Small and Medium Enterprises and Startups Choi Sugyu on August 31, 2019, to boost cooperation between SMEs in the two countries. Besides, Iran revived the Iran–*South Africa* Commerce Committee to activate its trade in Africa.

## CONCLUSION

Iran had been showing some signs of encouraging transformations towards a more moderate type of Muslim state that became irreversible by late 2019. In this sense, the US sanctions have only activated the modernizing trends in the Iranian economic and political life.

These shifts were inspired by the ideas of social equality and justice stipulated by religion. The Constitution of Iran and new theological concepts formulate them in modern, more distinct terms and allow to improve the economic legislation and governmental decision-making process, adjusting them to new economic and political environment.

Despite persistent economic problems, Tehran's policy of maximum resistance against the sanctions achieved some positive shifts in the national economy even though after Trump's administration the sanctions were not officially lifted. This is mostly certified by Iran's capabilities to develop its own nuclear program that allows it to withstand the Western anti-Iranian strategies.

In foreign economic relations Iran in fact adopted the course towards "Both East and West". This means cooperation with priority Asian partners: firstly, in Asia-Pacific, South Asia, the Middle East and the Gulf, secondly, within the CIS and SCO frameworks. Simultaneously, it did not stop efforts to normalize economic relations with the European Union.

Correspondingly, Tehran practiced some neoliberal ideas in its policy: certain democratization of social life, efforts to build a capable collective economic security system, combination of mutually beneficial bilateral and multilateral cooperation in the region.

It was natural, however, that a developing country under sanctions was struggling with numerous shortcomings and barriers: absence of clear-cut and distinct strategy; noticeable inconsistency in the undertaken measures; corruption; distrust to the government and banking system; in some cases, absence of necessary skills and competence; a certain extent of mismanagement; regional economic inequality; insufficiency of financial assistance to vulnerable layers of the population, etc.

However, the governmental policy of the examined period demonstrated significant flexibility and resistibility of the Islamic regime, its orientation at constructive and pragmatic economic relations both within and outside the country. It was clear that the theological state had sufficient resources and capabilities to control the economic situation and avoid slipping down to the worst scenarios.

#### ABBREVIATIONS/СОКРАЩЕНИЯ

ADB – Asian Development Bank  
CBI – Central Bank of Iran  
CIS – Commonwealth of Independent States  
CNG – compressed natural gas  
EEU – Eurasian Economic Union  
EU – European Union  
ICT – Information and Communication Technology  
INSTEX – Instrument in Support of Trade Exchanges  
JCPOA – Joint Comprehensive Plan of Actions  
SCI – Statistical Centre of Iran  
SCO – Shanghai Cooperation Organization  
SMEs – Medium-sized enterprises

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# Иллюстрации к статье Г.И. Юлдашевой

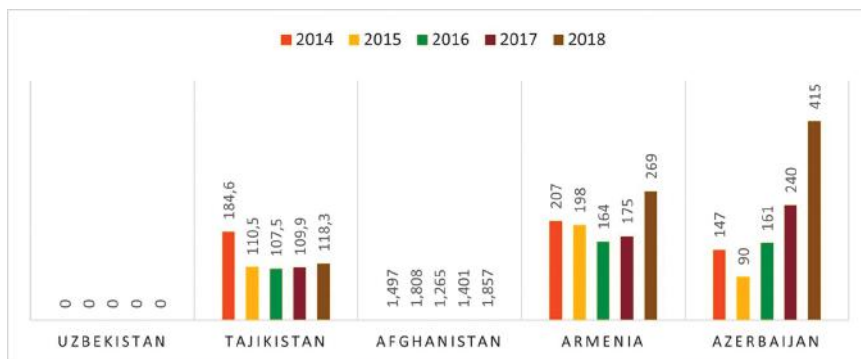


Fig. 1. Import from Iran (2014–2018, million \$). Source: [Key Indicators for Asia and the Pacific, 2019].

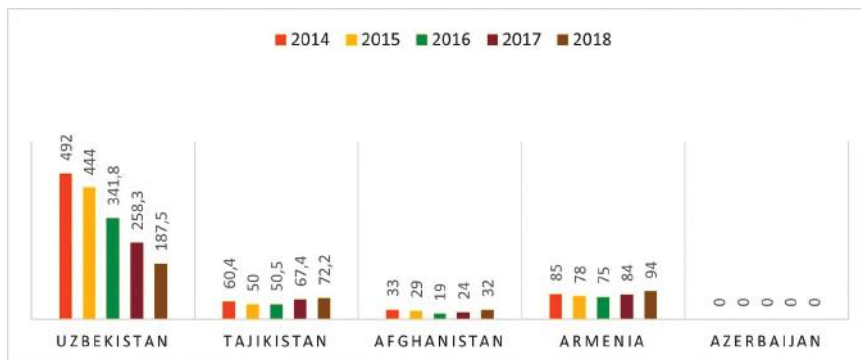


Fig. 2. Export to Iran (2014–2018, million \$). Source: [Key Indicators for Asia and the Pacific, 2019].

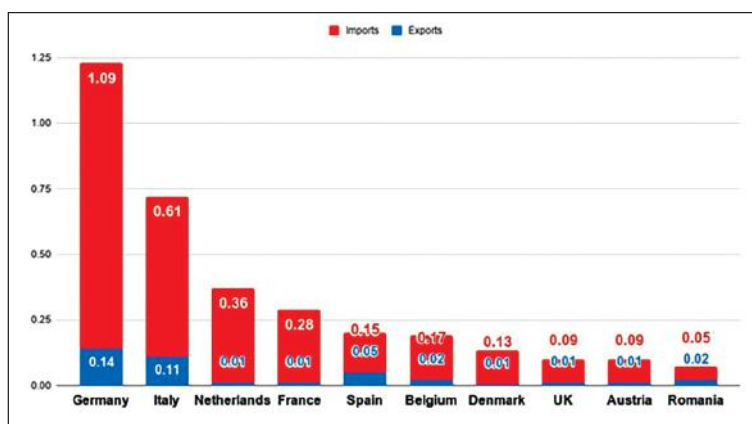


Fig.3. Iran's top trading partners in the EU, January-September 2019 (billion euros). Source: [Iran–EU Trade, 2019].