



# IRAN COUNTRY STUDY



THE  
UNIVERSITY OF  
LAHORE





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# Country Study of Iran

The Islamic Republic of Iran is a country in Western Asia. It is bordered to the north by the Caspian Sea, to the northeast by Turkmenistan, to the east by Afghanistan and Pakistan, to the south by the Gulf of Oman and the Persian Gulf, to the west by Iraq and to the northwest by Armenia, Azerbaijan and Turkey.<sup>1</sup>

## Geographic Contours

### 1. Terrain

Iran is a part of the Persian plateau and is one of the world's most mountainous countries with various mountain ranges that separate plateaus or basins from one another. It is the world's 19th largest country in size and is spread over a 1.65 million square kilometer area.<sup>2</sup> The largest mountain ranges are the Alborz, Zagros and Caucasus. Mount Damavand at 5610 meters and located in the center of the Alborz Range is a potentially active volcano.<sup>3</sup> The eastern part of Iran mostly consists of desert basins, such as the Dasht-e Lut and Dasht-e Kavir Deserts.<sup>4</sup> There are lowland areas along the Caspian, Persian Gulf and Gulf of Oman coasts. The northern part of Iran is covered by the Caspian Hyrcanian mixed forests. There are no major river systems in the country and the only navigable rivers are the Karun, Karkheh and Zayandeh rivers.<sup>5</sup> The center of Iran consists of several closed basins that collectively are referred to as the Central Plateau. The northwestern highlands adjoin the Armenian Highlands.

### 2. Climate

Iran's climate is mostly arid and semi-arid, with a humid rain-forest zone along the Caspian coast. In the northwestern regions, it has harsh winters with heavy snowfall while the summers are dry and hot. Due to its higher elevation, Iran is considered colder than neighboring countries such as Armenia and Turkey. The southern regions have mildly cold winters but have high rising temperatures in the summers, up to 38° Celsius at the highest.<sup>6</sup> Coastal area have a high rates of humidity. The relatively scant annual rainfall spell stays between October and April. In most of the country, yearly precipitation averages 850 millimeters.<sup>7</sup>

## Historical Perception

Contemporary Iran is a country whose people retain memories of legendary Persian heroes and still identity with their ancient ancestral roots. Its national language, Persian, is equally ancient as a written language. Iranians consider their ancient history as a period of national greatness. Ancient Iran saw the organization of three powerful empires: the Achaemenid, the

Parthian and the Sassanian Empires. At their heights, those empires extended east into modern Afghanistan and Central Asia and west as far as Anatolia and the Mediterranean Sea. The Achaemenid Empire was the first Iranian state established by Cyrus the Great in 550 BC. Then came in Alexander the Great in 330 BC followed by the Parthians who stayed in power from 247 BC to AD 224.<sup>8</sup> The Sassanians then occupied the seat of power till the Arabs moved in by AD 462. Henceforth, Islam became the dominant religion and Muslim dynasties ruled Iran one after the other. Their line of succession was carried by the Arabs followed by the Iranians and then the Turks. Finding disunity in Iran, Chingiz Khan, the Mongol leader, conquered Iran and his dynasties continued to rule for about 200 years. In 1501, the Iranian Safavids succeeded in establishing a centralized empire under Ismael and Shia Islam was declared as the official religion of Iran.<sup>8</sup> In the 18th century, Iran became the victim of civil wars due to internal polarization that provided the space for new dynasties to occupy and rule. In 1795, the Qajar family established its political dominance and ruled Iran till 1925.<sup>9</sup> Due to weak command and control by the Qajar monarchs, Iran lost many of its territories to Russia, especially in the regions of the Caucasus and Central Asia.

Moreover, Great Britain also started influencing the affairs within Iran by threatening Russia to exercise restraint. Iran's local politics got tainted because of the external involvement of Imperial Russia and Great Britain, and Iran was forced to make trade concessions. Strong resentment amongst general public against foreign influence and rampant poverty led to the constitutional revolution of 1905-1907 which resulted in the formation of Iran's first parliament.<sup>10</sup> Due to increasing British influence, in 1909 the Anglo-Persian Oil Company was established to regulate Iran's newly discovered energy deposits.<sup>11</sup> The 1921 Persian coup d'état led by the Persian Cossack Brigade headed by Reza Pahlavi began a series of political developments that led to the weakening of the Qajar rule. In 1924, Reza Pahlavi became Iran's Prime Minister. The appointment was backed by the compliant national assembly of Iran. By 1925, the Qajar Dynasty had lost its grip over the country and Reza Pahlavi was appointed as the legal monarch of Iran by the decision of Iran's constituent assembly. The assembly deposed Ahmad Shah Qajar, the last Shah of the Qajar dynasty, and amended Iran's 1906 constitution to allow the selection of Reza Pahlavi as the Shah of Iran. He restored law and order, boosted economic growth, modernized the society, and established strong diplomatic links abroad. World War II became a turning point in his rule when Great Britain and the Soviet Union invaded Iran since the Shah had refused to cooperate with the Allied powers against the Axis bloc. He was forced to step down in favor of his son, Mohammad Reza Shah Pahlavi.

Prime Minister Mohammad Mosaddegh nationalized the oil industry in 1951, thereby denting Allied interest, something which subsequently resulted in his ouster from power through a U.S.-orchestrated coup in 1953.<sup>12</sup> Iran, however, recovered soon from the economic disruption during the oil nationalization period. However, serious political discontentment arose against the authoritarian rule of Reza Shah Pahlavi.



Ayatollah Khomeini, a staunch critic of the Pahlavi Dynasty, initiated political dissent and was exiled to Turkey and subsequently to Iraq. Iran slowly gained economic stability and established pronounced regional influence around the mid-70s. Anti-government protests in 1977 and early 1978 turned into a nationwide movement. Imam Khomeini capitalized on it and effectively paralyzed the economy by organizing massive strikes in 1978. The military could not protect the regime since it had apprehensions of internal revolt. The Shah, realizing the gravity of the situation, decided to leave the country under the cover of medical treatment. After his departure, his government collapsed and could not control the situation. Imam Khomeini returned from exile in February 1979 and appointed a provisional government. With the provisional government in place and military staying neutral, the 2,500 year old Persian Monarchy ended in Iran. The Iranians voted through a national referendum, and Iran became an Islamic republic on 1<sup>st</sup> April 1979.

The radicalized youth advocated for stern changes in both domestic and foreign policies and called upon the government to terminate all ties with the United States. In November 1979, a group of Iranian college students belonging to the Muslim Student Followers of the Imam's Line, who supported the Iranian Revolution, occupied the United States Embassy in Tehran and held diplomats and staff hostage. These 52 hostages remained in their custody for 444 days.<sup>13</sup> This incident dented Washington-Tehran relations, and continues to have an indelible impact on U.S. approach towards Iran. Even a decade after that episode, major differences between the moderates and militant factions of the revolutionary government were effectively held in check in a bid to maintain national unity.

During the 1980-88 period, Iran fought a bloody, indecisive war with Iraq that eventually expanded into the Persian Gulf and led to clashes between the U.S. Navy and the Iranian military. The Iran-Iraq War ended on an indecisive note and caused about 0.2 million Iranian deaths.<sup>14</sup> It provided an excuse for continued national cohesion in spite of intense political differences between the moderate groups and the militant wing of the revolutionary government. Imam Khomeini was the symbol of national unity that was keeping the rival factions in check, but his death in 1989 brought to the fore their grave differences.

The reformist group advocated for a liberal interpretation of Islamic law and the constitution. However they could not manage to come up with a unified stand on political, social, and economic policies within their own group. The conservatives and their like-minded groups stressed the strict interpretation of Islamic law and the constitution.

This mindset of two different interpretations created a fault line in the Iranian top leadership. During the presidency of Akbar Hashemi Rafsanjani, initially the reformist group dominated the parliament and supported his economic policies and relationship with regional countries. The conservatives, however, won the majority of seats in both the 1992 and 1996 elections and steered governance in the light of their predominant interpretation of Islamic law and its related

spheres. Following the election of Mohammad Khatami as President in 1997 and a reformist Majlis (legislature) in 2000, a campaign to carry out political reform in response to popular dissatisfaction was initiated. The reformist enacted many notable pieces of reform legislation. The conservative politicians, supported by the Supreme Leader, reversed and blocked reform measures while increasing repression.

Conservatives, however, regained parliamentary control in the 2004 elections and reestablished control over Iran's elected government institutions, which culminated with the August 2005 inauguration of hardliner Mahmud Ahmadi-Nejad as President. With Mehmoed Ahmadi-Nejad in power, Iran went into a more confrontational mode, especially on matters of foreign policy, with two issues drawing much attention: Iranian nuclear program and its ties with Israel. Despite having two major economy-related protests in July and October 2012, Iran's internal security situation remained stable. In June 2013, the Iranians elected centrist cleric Hasan Fereidun Rohani as President.

The construction of nuclear processing plants to provide fuel for nuclear energy facilities at the Bushehr Nuclear Power Plant with Russian support, became a burning issue in global affairs. The UN Security Council had passed a number of resolutions calling for Iran to suspend its uranium enrichment and reprocessing activities and comply with its obligations and responsibilities to the International Atomic Energy Agency (IAEA). After extensive diplomacy, threats of reprisals, and skilful negotiations, in July 2015, Iran and the five permanent members of the United Nations Security Council, plus Germany (P5+1) signed the Joint Comprehensive Plan of Action (JCPOA) under which Iran agreed to restrictions on its nuclear program in exchange for sanctions relief.

Iran held elections in 2016 for the Assembly of Experts (AOE) and Majlis, resulting in a conservative-controlled AOE and Majlis elected to power. President Hasan Rohani was reelected in 2017. Nationwide protests happened in December 2017 and January 2018 due to growing economic concerns but were controlled by Iran's law enforcement. On the foreign policy front, Iran's ties with the United States sharply deteriorated once Donald Trump assumed office. Washington dubbed Tehran as the main factor of instability in the Middle East, and called upon all allies to confront it. The JCPOA became a casualty of Trump's anti-Iran refrain.

In order to punish Iran for its alleged role in subverting U.S. interests in the Middle East, the United States officially withdrew from the agreement after President Donald Trump signed a Presidential Memorandum ordering the reinstatement of harsher unilateral sanctions. President Rohani has said that Iran would resume enrichment of uranium beyond 3.67% limit if other parties would not fulfill their duties to let Iran benefit from the economic advantages of the JCPOA.<sup>15</sup> On January 3, 2020, the Revolutionary Guard's General, Qasem Soleimani, was assassinated by the United States in Iraq, which considerably heightened the existing tensions between the two countries.

## Society

### 1. Demography

Iran has a population of 84.9 million out of which 75.9% is urbanized and remaining 24.1% lives a rural nomadic lifestyle. It has a population growth of 1.1% and is expected to reach 100 Million by 2050.<sup>16</sup>

### 2. Ethnic Groups

The main ethnic groups in Iran are Persians (65 %), Azerbaijani Turks (16 %), Kurds (7 %), Lurs (6 %), Arabs (2 %), Baluchis (2 %), Turkmen (1 %), Turkish tribal groups such as the Qashqai (1 %), and non-Persian, non-Turkic groups such as Armenians, Assyrians, and Georgians (less than 1 %) also dwell in Iran.<sup>17</sup>

### 3. Languages

A multitude of languages are spoken by the Iranian people. The languages are classified into four categories: Indo-European, Turkic, Semitic and Caucasian. Persian is the lingua franca for all government communications, bureaucracy and schooling. The constitution recognizes the Arabic language's close association with Iranian culture and Arabic is taught from elementary to high school level. Persian is spoken by 53% of the population, Azerbaijani and other Turkic dialects 18%, Kurdish 10%, Gilaki and Mazandarani 7%, Luri 6%, Arabic 2%, Balochi 2%, Tati 1%, Talysh 1%, Georgian 1%, Armenian 1%, Circassian 1% and Assyrian 1%.<sup>18</sup>

### 4. Social Structure

#### a. Iranian Identity

A collective Iranian identity evolved from a common historical experience among the peoples who live in *Irānzamin*.<sup>19</sup> Iranian identity is asserted in the inscriptions of Cyrus the Great, the conquests of Darius and the might of the Persian empires. In Iran, tribal bonds and kinship, ethno-linguistic affiliations, religious affinity, territorial, and communal allegiances have competed with the overarching collective Iranian identity. But a resounding pride in the long cultural heritage, with Persian language and literature at its core, and a consciousness of continuity in a long and distinctive history of the country through turbulent times – specifically a belief in the strength of the Iranian people – have served as a cohesive force in building a national and social identity.



## b. Women and Gender Roles

Implementation of 'reconstruction policies' in post-revolution Iran has allowed women to step in the political sphere. There are currently 17 women in parliament, of a total of 290 parliamentarians and 49.9% of registered voters are women.<sup>20</sup> The Centre for Women's Participation (CWP), affiliated with the Office of the President, and was established for integrating gender perspectives in national policy-making.<sup>21</sup> The city councils have a growing representation of women with Tehran at 29%, Mashad at 13%, Isfahan and Shiraz at 15% and Tabriz at 8%.<sup>22</sup> In Iran, 97% of women are literate, and more than 60 percent of university students are now female.<sup>23</sup>

## 5. Religion

The official religion of Iran is Islam and Zoroastrian, Jewish, and Christian Iranians are considered the only recognized religious minorities. Muslims constitute 99.4% of the population (Shia 90-95%, Sunni 5-10%), others (includes Zoroastrian, Jewish, and Christian) 0.3% and undeclared 0.4%.<sup>24</sup>

## 6. Education

The education system of Iran is highly centralized with K-12 education run by the Ministry of Education, higher education under the supervision of the Ministry of Science and Technology and Medical universities are supervised by the Ministry of Health, Treatment and Medical Education.<sup>25</sup> Despite a strong primary education net enrollment rate of more than 95%, there are still over 770,000 children out of school comprising girls, refugees, children with special needs and those living in borders and disadvantaged areas.<sup>26</sup> Under the constitution, primary education (between ages 6 and 10) is compulsory. Primary, secondary, and higher education is free, although private schools and universities charge tuition. The cost of private education is varied and largely unregulated. Higher education system despite rapid technological up gradation over the last decade still suffers from shortcomings thus forcing students to pursue education abroad. Due to the stringent limitations placed on Iran's economy, the number of unemployed graduates is high. Of the total unemployed population, 38.8% are higher education graduates.<sup>27</sup> Iran spent 3.96% of its GDP on education at all levels in 2018. This figure represents 19.7% of overall government spending, which is higher than the majority of developing countries.<sup>28</sup>

## 7. Health Care

Iran's health care system improved appreciably in the last decade through the combined efforts of the government, international agencies, and philanthropic endeavors. Article 29 of the constitution stipulates that every Iranian has the right to attain the highest attainable level of health and the Ministry of Health and Medical Education (MOHME) is mandated to fulfill this goal by designing national level health policies.<sup>29</sup> MOHME is in charge of provision of healthcare services through its healthcare network, medical insurance, medical education, supervision and regulation of the healthcare system in the country, policymaking, production, and distribution of pharmaceuticals, and research and development. The ministry delegates

the implementation of their policies at the provincial level to medical universities. The president of a medical university is the highest health authority in the province and reports to the Minister of Health and Medical Education. The president of the medical university is in charge of public health and healthcare provision in their province. A nation-wide network provides Primary Health Care (PHC) to the majority Iranian citizens along with secondary and tertiary services. These public healthcare services are supplemented by the private institutions. Though coverage with social medical insurance is over 90% of the population, improvements in the health care system are needed to achieve the goals set forth in the health development plan.<sup>30</sup> Financing, resource generation, stewardship, and service provision are some of the main challenges for the existing healthcare system.

By 2017, the number of hospitals in Iran was 968 out of which 767 hospitals were state-run and 201 hospitals were run by the private sector.<sup>31</sup> The gradual improvement in Iran's healthcare system contributed to improving mean life expectancy at birth to 75.41 years for male and 77.67 for females by 2017.<sup>32</sup> Total per capita expenditure on health at the international exchange rate increased between 2005 and 2019 from US\$ 155.2 to US\$ 475 indicating the government's priority for quality health coverage.<sup>33</sup> The infant mortality rate has also dropped to 13 per 1,000 live births in 2016, down from nearly 80 in the 1980's.<sup>34</sup>

## 8. Sports

Although freestyle wrestling, weightlifting, horseback riding, polo and archery are the traditional Iranian sports, association football (soccer) has become the most popular game in Iran. The Ministry of Sport and Youth promotes football, basketball, skiing, climbing sports, martial arts, volleyball and tennis as well.

# Government

## 1. Constitution

The constitution of Iran is the fundamental document prepared on Islamic principles with the approval of a national referendum after the Islamic revolution (1978-79) and is the blueprint for governance in the country. According to this, the Islamic Republic of Iran is a republic running on its executive, judicial and legislative pillars. It has 177 articles and provides for a presidential system of government.

## 2. Government Structure

The system of government is based on the laws of Islam, the faithful execution of which is assured under the concept of the Vilayat-e Faqih or the guardianship of a religious jurist.<sup>35</sup> Faqih (Leader) is the senior most figure in the system who is an expert in Islamic law and is elected by a majority vote of the 'Assembly of Experts' who in turn are elected through national elections. If no individual is able to fill the position, a 'Council of Leadership' of 325 theologians is established, subject to popular approval. The Faqih exercises many de facto executive functions to run the governance system. The Assembly of Experts acts as a watchdog on the

leader and can dismiss him if he is not qualified to continue based upon his performance evaluated by the assembly on a yearly basis. The Faqih sets the general state policies, selects the chiefs of armed forces, the heads of judiciary and controls the intelligence and security agencies. He is the Supreme Commander of the Armed Forces and can bring in amendments in the constitution.

#### **a. Executive Branch**

The executive branch is headed by the President. By virtue of his appointment, the President becomes the second highest government official after the Faqih. The President is elected through the national elections held after every four years and his tenure is limited to two consecutive terms. The president selects a cabinet or a council of ministers with the approval of the legislature, appoints members of the 'Expediency Council' and serves as the Chairman of the National Security Council. Ministers selected by him, however, need the approval of the parliament to function. The Faqih leader has the constitutional right to dismiss the President on the recommendation of 2/3 majority in the parliament. Their tug-of-war, however, remains a constant phenomenon in the power corridors of Iran.

#### **b. Legislative Branch**

The legislative branch comprises two houses: the Parliament (Majlis) and the Guardian Council. The 290 members of the unicameral legislature the Majlis, or the Islamic Consultative Assembly are elected for four-year terms. Recognized minorities have token representation in both houses.<sup>36</sup> The Majlis enacts all legislation and can recommend to impeach the President with a two-third majority vote. The speaker presides over the Majlis and 22 permanent committees assisted by two deputies for better administrative functioning of the legislative system.

A 12-member council of Guardians supervises elections and determines the constitutionality of laws passed by the Majlis as well as their conformity to Islamic principles. If a bill is not compatible with the law, it is sent back for revision. Any dispute arising between the Majlis and the Guardian Council is resolved at the level of 'Expediency Council', established for reconciliation purpose and has the authority to override decisions and veto the legislation process. This Expediency Council has arranged many acceptable compromises for legislation in various administrations.

#### **c. Judicial Branch**

The Judiciary consists of a Supreme Court, a Supreme Judicial Council, and lower courts. Supreme Court is the apex court and its members are appointed by the Faqih. They are appointed for five years and a Minister of Justice is also chosen by the president from an approved list of judges. The Chief Justice and the Prosecutor General must be Shiite Jurists.

Individual rights such as freedom of press, assembly and expression are guaranteed within the framework of the Islamic law. Under the Constitution, all judges rely on the Shariah. Supreme Court oversees the function of lower courts and the enforcement of laws within their jurisdiction. Public Courts undertake conventional civil and criminal cases while revolutionary courts tries

political offenses and cases pertaining to national security. The clerical court works directly under the Faqih and deals with crimes committed by the members of the clergy and with matters of religious interpretation.

In Iran, special courts have also been established to deal with cases of security forces and government officials. Expertise in Islamic law, however, is the basic qualification for judges to be appointed in any judiciary set up from lower court to the highest courts. The constitution provides for an independent judiciary, however, like other third world countries, the judiciary in Iran is also influenced by political and religious institutions.

#### d. Electoral System

Iran is divided into 30 provinces and 336 districts. The provinces (ostānhā) are subdivided into counties (shahrestānhā), districts (bakhshā) and townships (dehestānhā). The Minister of the Interior appoints the Governor General (for provinces) and governors (for counties). The Supreme Council of Provinces is formed from representatives of the provincial councils. The ministry of the Interior points each city's mayor but city councilman are locally elected.

Under the Constitution elections are to be held every four years supervised by the Council of Guardians, suffrage is universal and the minimum voting age is 18. These elections are spread over a period of time and are not held simultaneously, thus the nation remains on electoral pitch regularly. A constituency represents about 0.2 million voters and the Majlis comprises of 295 seats with distribution of voters favoring urban areas.<sup>37</sup> For Majlis candidature one can simply apply by filling a registration at nominal fee. Vetting for the presidency, parliament and assembly of experts is done by the Ministry of Interior and the Central Oversight Committee of the Guardian Council whereas local boards supervise elections at lower level.

Post-secondary education is relevant for candidacy of national level offices. Candidates otherwise should have a reputation of being a devotee Muslim and observer of Islamic laws, however, for assembly of experts he has to be out of senior Islamic clergymen. A high percentage of candidates run out of the field in the initial scrutiny and using the vetting capacity at various levels, the scanning process weeds out many outwardly, seemingly qualifying candidates.

### 3. Political Parties

Politics in Iran takes place in a framework that officially combines theocracy and the presidential democracy. The existing political order is defined in the 1979 constitution superimposed by its related amendments of 1989. The Islamic Republic Party remained Iran's ruling party for years until its dissolution in 1987. After the Iran-Iraq War, new reformist/progressive parties started to form and in 1994 Executives of Construction Party was formed. Important political parties at present are Moderation and Development Party led by Hassan Rouhani, Combatant Clergy Association by Ibrahim Raisi, Islamic Coalition Party by Mustafa Mir Salim and Executives of Construction Party by Mustafa Hashemit-Aba. Legislative elections were held on 21st February 2020 but due to COVID-19, the second round of elections to elect 11 seats were postponed till 11th, September 2020. The turnout of voters was 42.7% and the conservatives won in a



landslide victory winning 135 seats out of 183, independents 128, and the reformist only had 20 seats.<sup>38</sup> Reason for conservative victory could be because of continuing poor economic situation, the withdrawal of United States from the JCPOA, and the resultant re-imposition of U.S. sanctions. The conservative power base comprises a militia-force, families of war martyrs, members of revolutionary guards, government employees and persons of conservative linked foundations. The opposition includes two major parties that is Freedom Movement of Iran and the Nation of Iran Party. Armed political groups mostly belong to Mujahideen-e-Khalq Organization (MEK), People's Fadayeen Domestic Party of Iranian Kurdistan, and the Society for Defense of Freedom.

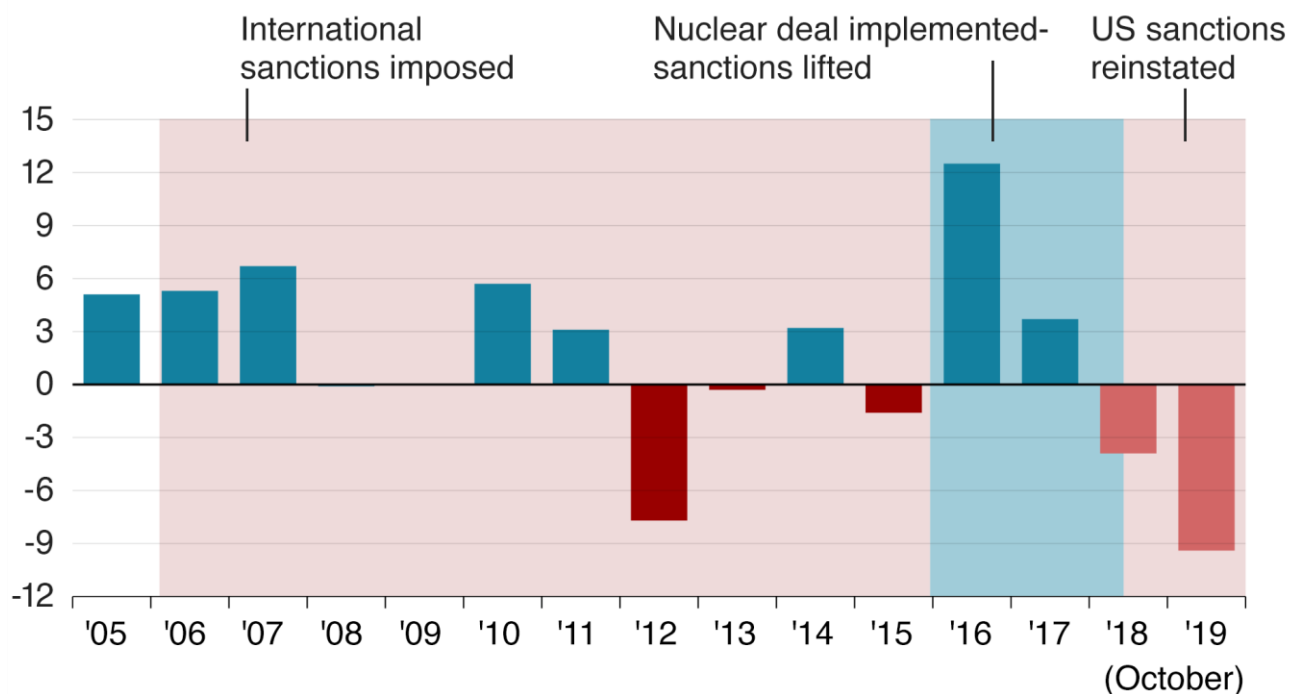
## Economy

The economy has been at the mercy of vacillating economic policies. The planned economic development initiated in 1949, was terminated in 1978 and revived in 1982, only to be impeded by Iran's involvement in war with Iraq. The management of the economy is subject to Islamic criteria as determined by the Council of Guardians and approved by the legislature. According to the Constitution, the ultimate objectives are economic independence, full employment, and comfortable standard of living. The constitution of 1979 establishes specific guidelines for the administration of the nation's economic and financial affairs.

Fig. 1.1 GDP of Iran from 2005 to 2019

### Economic growth in Iran

GDP growth rate %



Source: Central Bank of Iran, IMF

BBC

Iran's economy is divided into three sectors: public, which includes major industries, banks, insurance companies, utilities, communications, foreign trade and mass transportation; cooperative, which include production and distribution of goods and services; and private, which consists of all activities that supplement the first two sectors. The nationalization of private banks and insurance companies and the increased state control of foreign trade have given the government a monopoly over most of the income-generating activities.

Iran's Gross Domestic Product (GDP) is estimated at US\$440 billion for the year 2019-2020.<sup>39</sup> The government has aimed to bring about comprehensive market-based reforms in its sixth 5-year plan and overarching 20 year economic vision document. The plan is focused on building a resilient economy, progress in science and technology and the promotion of cultural excellence. Due to the U.S. sanctions, Iran's oil production dwindled to a record low of 2 thousand barrels per day (MBPD) in December 2019, the oil sector declined by 37% and subsequently Iran's GDP contracted by 6.8% in 2019/2020.<sup>40</sup> COVID-19 border closures and containment measures have further impacted the economy. The economy continues to suffer from low levels of investment and reduction in productivity since before the JCPOA, and from high levels of unemployment, especially among women and college-educated Iranian youth.

### 1. Agriculture

Due to poor soil cultivation and lack of adequate water distribution in many areas, less than 10% of the agricultural land in rural areas is under cultivation.<sup>41</sup> Low mechanization and rural to urban migration of agricultural laborers also contribute to low crop yield and poverty in the rural areas, respectively. Iran's expansive geography and wide range of temperature fluctuations in different parts of the country, however, make it possible to cultivate their diverse crops. The western and northern portions of the country are the most fertile for cereals, wheat, barley, rice, corn, maize, fruits, dates, pomegranates, melons, and vegetables like sugar beets, sugar cane, nuts, olive, spices, tea, tobacco and medicinal herbs. Iran is the world's largest producer of the coveted Saffron spice with 81% of the world's total output.<sup>42</sup> The agriculture sector contributes to 9.6% of Iran's GDP and employs about 16% of its labor force. Domestic production meets about 90% of Iran's domestic food requirements.<sup>43</sup> Forests along the Caspian region are commercially exploitable and include both hard and soft woods.

### 2. Industry and Service Sector

Iran's most important natural resources are oil and gas. Iran ranks second in the world for natural gas reserves and fourth in proven crude oil reserves. Production and exploration are concentrated in southwest Iran but oil has also been discovered in northern Qom and eastern Dasht-e Lut desert as well as under the offshore waters of the Persian Gulf. Oil is produced for export and domestic consumption. It is moved by pipelines to the terminal *Jazireh-Khark* (Kharg Island) in the Persian Gulf and from there is shipped by tankers to Western Europe, Asia, Japan and other countries. Natural gas found in the south, in the Elburz Mountains, and in *Khorāsān*

(Khorassan province). Major coal mines are in *Khorāsān*, *Kermān*, *Semnān*, *Māzandarān* and *Gilān*.<sup>44</sup>

Iran produces a wide range of products such as automobiles parts, appliances, telecommunication equipment, industrial machinery, paper wrappers and leather products. Textile mills are centered on carpet weaving, a traditional Iranian cultural cornerstone. Currently, the industrial sector including the petrochemical industry contributes to 35.3% of the GDP.<sup>45</sup> The World Bank projects that if U.S. sanctions remain in effect, their damage to Iran's oil export sector will cause the country's economy to contract by more than 5% by 2021.<sup>46</sup> Issues such as inefficient taxation, inefficient banking systems, lack of monitoring institutions, lack of intellectual property protection and insufficient R&D are impeding the growth of the industrial sector. The service sector employs 48.6% of the labor force and accounts for 55% of the GDP but risks abound due to adverse regional political and economic developments.<sup>47</sup>

### 3. Human Resource Management

The deteriorating economic situation led to a decrease in labor force participation and employment. Employment had increased by 1.8% to reach 24.3 million in 2019/20, before falling by 1.5 million due to COVID-19. The female labor force participation is at 14%.<sup>48</sup> There are stark urban/rural differences in living standards and employment opportunities. The poverty rate was 10.90% at the time of the last household survey (2016/17) and is expected to have worsened since due to declining per capita incomes.<sup>49</sup> COVID-19 has hampered employment opportunities with 27.23% youth unemployment rate.<sup>50</sup>

### 4. Communication Infrastructure

By 2018, Iran had a total of 223,485 km paved and unpaved roadways.<sup>51</sup> The three national auto-routes in Iran are the A-1 across northern Iran, the A-2 across southern Iran, and the Tehran-Qom-Esfahan-Shiraz highway which traverses central Iran from north to south. Iran has major seaports in *Bandar-e Anzali* on the Caspian Sea, *Chabahar* on the Gulf of Oman, *Bandar-e Abbas* on the Strait of Hormuz and *Bandar-e Asaluyeh* and *Bandar-e Imam Khomeyni* on the Persian Gulf. Iran has 319 airports with international airports at Tehran, Tabriz, Mashhad, Bandar-e Abbas, Bushehr, Esfahan, and Shiraz.<sup>52</sup>

## Armed Forces

Iran's armed forces comprise the Army (Artesh), the Revolutionary Guards Corps (Sepah) and the Law Enforcement Force (abbreviated in Persian as NAJA). The sum total of these forces stands to 650,000 on their active list, excluding the strength of law enforcement force which is at 60,000. Iran's army reserve list includes 1050,000 persons ready to be mobilized when needed.<sup>53</sup>

## 1. Law and Order

Law Enforcement Force of the Islamic Republic of Iran was created by merging former military associated police forces: the Shahr bani, the Gendarmerie, and the Islamic Revolutionary Committees in 1991. It is under the authority of the Ministry of Interior. It is subdivided into the Police force and Border police. Maintenance of security, crime prevention, and property protection are the main responsibilities of police force whereas border police manages borders and international airports within the country. The Ministry of Intelligence and Security (MOIS) is the primary intelligence agency of Iran and assists the police in security matters. The Police-110 rapid-response unit, established under the Law Enforcement Force in 2000, is responsible for maintaining social order and responding to emergencies in urban areas.

## 2. National Security

The National Security Council oversees the country's policies on defense and security. The Supreme Leader is the Commander-in-Chief of the Armed Forces and thus exercises his powers by virtue of this legal status. The Islamic Revolutionary Guard Corps (Sipah) comprises its ground forces, Basij, Quds Force, Aerospace Force, and its Navy. The Islamic Republic of Iran Army (Artish) includes ground forces, air defense, air force and navy. The law enforcement force maintains its separate status but works under the overall orbit of General Staff of Armed Forces. General Staff is the controlling authority of all branches of the armed forces. Its logistics side is covered by the Ministry of Defense and Armed Forces Logistic. Iran's Armed Forces have a major stock of United States armaments provided to them in the Shah's era and to keep them in operational mode, continuous supply of spares and maintenance backup support was needed. This large stock of United States built equipment was their military lifeline for many decades due to U.S arms embargo. During the Iran-Contra affair, however, Iran was provided limited number of American armaments and spare parts, which helped them to keep the whole Armada going. Iran undertook a five year rearmament program (1989 to 1994) to replace worn out weaponry from its armed forces inventory. About \$10 billion US dollars were spent within the first three years of this program.<sup>54</sup> Major investment were undertaken in its Air Force and Naval forces by purchasing long-range attacking aircraft and marine equipment from the Soviet Union. Since 1979, there have been no foreign military bases in Iran as stipulated in the Iranian constitution, even for peaceful purposes.

The Basij is a paramilitary volunteer force controlled by the Islamic Revolutionary Guard Corps (IRGC). It has about 12.6 million members including women but reportedly about 0.6 million of its strength is combat capable.<sup>55</sup> Iran reportedly has a cyber-army capable of conducting cyber warfare operations and has immensely increased its cyber warfare capability in the last few years. Two new garrisons have been exclusively established for cyber warfare specific forces at Zanzan and Isfahan. In 2019, Iran's defense budget was estimated about 17.4 billion dollars, which is a fairly sustainable expenditure to maintain its Armed Forces.<sup>56</sup> Inventory of F-14 Tomcat aircraft, Kilo-Class submarine, Shohab long-range missiles, Fateh 110 short-range missile system and Mohajer-4 unarmed aerial vehicle are the mainstay weapon systems.



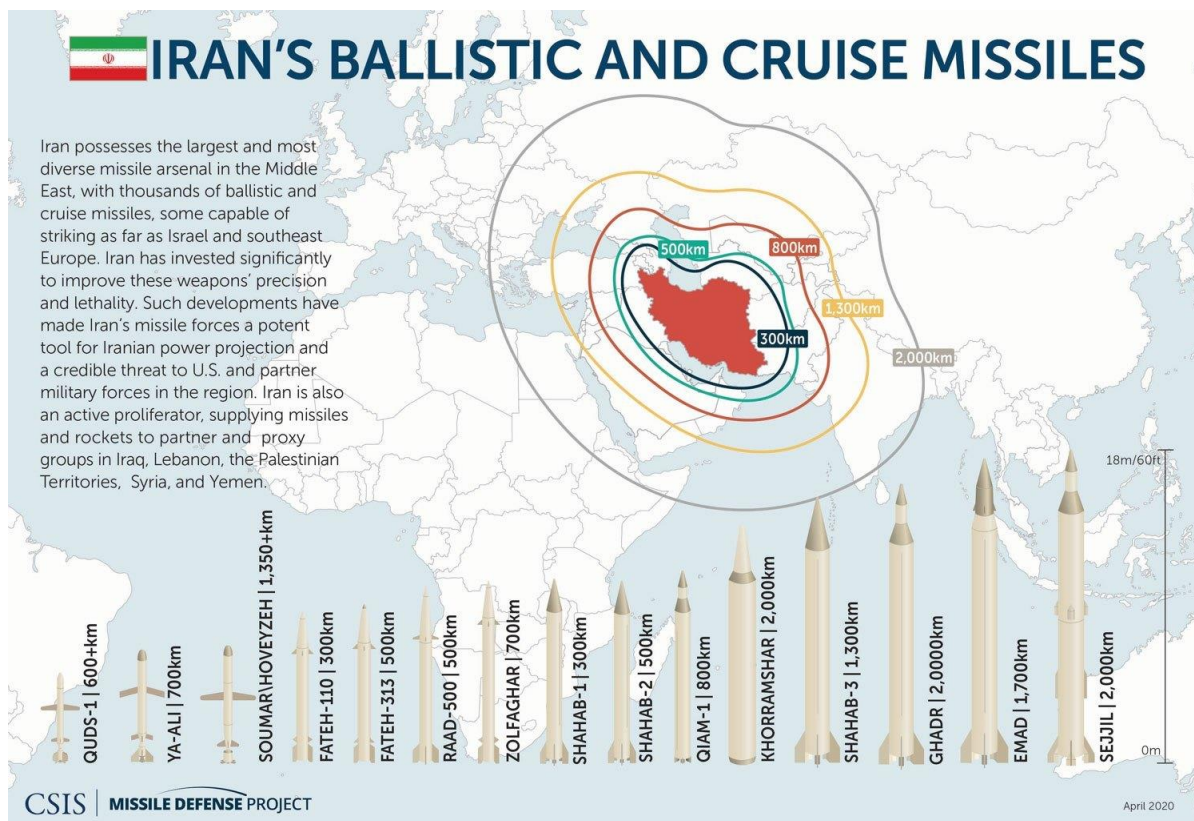
The IRGC is in charge of Iran's military industry and huge percentage of available national exchequer has been invested in this industry to help make self-sufficiency in military hardware specially its missile inventory. It is now producing its own tanks, armored personnel carriers, radar systems, military vessels, and fighter aircraft. It is now also producing its own submarines, which is indicative of its developing military sustainability. Iran's Unmanned Aerial Vehicle (UAVs) can track the marine traffic flow in Persian Gulf without being detected. Iran claimed to have downed, captured and later reverse engineered the United States and Israeli drones for making its own UAVs for compatible response. Its ballistic missile program has reportedly fitted the Shahab-3 missile with cluster warheads that have the capacity to carry 1400 bombs for area coverage.<sup>57</sup> It is developing Ghadr-110, an Intercontinental Ballistic Missile (ICBMs) with satellite launching facility. It is also investing in advanced biological and genetic engineering research programs to combat bio-warfare measures.

## Iran Ballistic Missile Program

The impetus for Iran to acquire and produce missile arsenal came from the country's war with Iraq in the 1980s. Iran's leadership found that the country's military forces were ill-equipped to deal with Iraqi forces and needed to achieve self-reliance in missile production. Initially, Iran imported short range, soviet-designed Scud B missiles. By the end of its war with Iraq in 1988, Iran was able to open a manufacturing plant to produce its own Scud-B variant, the Shahab-1 ballistic missile. In the decades following the war, Iran continued to advance and diversify its missile program. By the 1990s, Iran developed the Shahab-2, its own variant of the Scud-C missile (equivalent to North Korea's Hwasong-6). By the turn of the century, Iran had succeeded in building a medium-range ballistic missile, the Shahab-3, based on the North Korean Nodong-1. It can travel up to 2000 kilometers and could reach most of the targets in the Middle East.<sup>58</sup> While earlier variants of the Shahab missile had rudimentary navigation systems, missing their targets by as much as a kilometer on average, they retained strategic value for Iran. Though Iran initially focused on securing a strategic foothold in the Middle East amongst its regional neighbors, the wars in Iraq and Afghanistan had brought the U.S. at its doorstep. Iran has consequently focused research and development efforts on making its missiles more accurate rather than extending their ranges beyond the Middle East. Introduction of the solid-fueled Fateh, Qiam and the Zolfaghar series have reduced the missile launch time in its arsenal.

The United States and its allies are concerned that Iran's space program is a cover for research into dual-use technology that could be transferred to an intercontinental ballistic missile. The U.S. also fears that Iran would provide rocket missiles to its regional allies, further complicating the volatile situation in the Middle East. Afghanistan, Syria and the entire Middle East, all remain violent theaters. Added to the complex mix is the likely resurgence of the Islamic State. The United Arab Emirates' and Saudi Arabia's aggressive foreign policy postures against Iran have also increased tensions. Iran would not sign a security agreement that would allow the UAE and Saudi Arabia an opportunity to expand their strategic influence. Thus Iran is unlikely to budge significantly as far as its missile program is concerned, unlike its willingness to make concessions over its nuclear program.

Fig 1.2. Ranges of Iran's missiles



Source: CSIS Missile Defense Project

## Foreign Policy

The Islamic Republic of Iran has close and friendly relations with regional and global states and its foreign relations are based upon its traditional values and faith endorsed in its constitution. After the election of President Khatami in May 1997, Iran's foreign policy continued to follow the general approach of building upon cordial diplomatic and economic relations. Iran tried to improve its relations with the United States, which had been characterized by mutual suspicion and an absence of diplomatic ties since 1980. However, Iran's efforts to normalize relations with the United States had been impeded by U.S. anger over Iran's support to militia groups such as Hezbollah and others and claims of Iran building a secret nuclear weapons program.

## 1. Pak-Iran Relationship

Pakistan and Iran have common religious ties, cultural and linguistic similarities and a shared history among their people. Persian culture has profoundly shaped Pakistani food, dress, music, poetry, and architecture. Iran was the first country to recognize Pakistan and the Shah of Iran was the first head of a state to visit Pakistan. Iran and Pakistan's first major opportunity for security collaboration was at the formation of the Central Treaty Organization (CENTO) in 1955. Economic collaboration came through the creation of the Regional Cooperation for Development in 1964 between Pakistan, Iran, and Turkey. Iran openly supported Pakistan during the latter's wars in 1965 and 1971 while Pakistan opened its sea ports for Iran during the Iran-Iraq War. Pakistan was one of the first countries to recognize the Islamic Revolution in 1979. The United States' anti-Iran agenda and Saudi Arabia's antagonistic relations with Iran put Pakistan in a quandary. It continues with its balancing act in its relations with both Saudi Arabia and Iran. Tehran and Islamabad both opposed the Soviet invasion during the Afghan-Soviet War (1979-1988). In the 1990s, Iran supported the Northern Alliance of Tajiks and Hazaras and Pakistan supported the Taliban. The divergences in the 1990s over Afghanistan marked a low-point in Pak-Iran relations. It was during that time that India and Iran came closer by virtue of their convergence in supporting the Northern Alliance. Issues of sectarian violence and the Baloch insurgencies in both Pakistan and Iran had also impacted their bilateral relations. The trust deficit between Islamabad and Tehran has been augmented by instances of bombing and mass abductions by the militant group, Jundullah. While Tehran has claimed that it does not allow any anti-Pakistan elements to operate out of Iran, Islamabad has repeatedly raised the issue of Indian intelligence using Iran to support Baloch insurgency.

Pakistan shares about a 900 kilometer-long porous border with Iran with a terrain that is almost dry and arid, with no major mountain range that separate both states. The Baloch community is an ethnic group settled across Iran's Sistan and Balochistan province and Pakistan's Balochistan. Though the Sistan and Balochistan province is the 2nd largest in Iran, it is also the poorest of Iran's 31 provinces, with a Human Development Index (HDI) score of 0.688, which makes it susceptible to insecurity.<sup>59</sup> Neither Pakistan nor Iran have a permanent military presence in this area to curb the cross-border smuggling of drugs and contraband items. The people of Sistan and Balochistan province are majority Shia Muslims, and the people of Balochistan area are majority Sunni Muslims. Militant activities and violent conflicts are the main source of friction, creating trust deficit. Elements within Iran have often accused Pakistan of supporting the clandestine activities of anti-Iranian extremists hiding in Pakistan's Balochistan. In February 2019, a suicide bomb killed 27 Elite Revolutionary Guards. The anti-Iranian militant group Jaish al-Adl (Army of Justice) advocating for Baloch rights claimed responsibility for the attack.<sup>60</sup> Similarly on April 19th, 2020 an umbrella group representing various insurgent Baloch militias attacked and killed 14 passengers travelling in buses in Southwestern Pakistan.<sup>61</sup> They attacked Pakistan Navy and Coast Guard outfits in various planned small-scale raids and on the Pakistan border territory.

Many cities in Iran like Mashad, Zohad, Qom, and Shiraz are home to the holy shrines of various Shia Imams of Islam. Nearly 40 million Pakistanis on average visit Iran for pilgrimage annually.<sup>62</sup> The most utilized course for travel are the land routes. Thus the Quetta - Taftan route becomes the main travel route - onwards to Iraq and Syria. There are several border crossing points but the main administrative crossing point is the Taftan-Mirjaveh gate. The 700 kilometer Quetta- Taftan highway that extends into Kerman (Iran) has been improved but still lacks basic public facilities, especially closer to the crossing points. Security issues and logistical difficulties make the pilgrimage a dangerous affair for travelers. These affairs are further aggravated by threats from cross-ethnic militant groups in the area. The caravan vehicles have to be grouped together and provided escort by military convoys to ensure safety. The only government resting facility is the “Pak-House” rest stop that can accommodate about 300 to 400 persons, but it is still modest in arrangements.<sup>63</sup> The Ziarat tours are still unregulated in Pakistan and are being operated by private organizations and agents. The incumbent government has, however, introduced a new policy to regulate pilgrimage trips to Iran along the lines of its present Hajj policy while also improving facilities for pilgrims.

The decades- long war in Afghanistan has overshadowed the cooperative history of Iran and Pakistan that could have resulted in trade deals, pipeline projects, and other confidence-building measures. The bilateral political consultations between Iran and Pakistan provided the opportunity to review the progress made under various institutional mechanisms concerning consular, economic, trade and border related issues between the two sides. Some achievements of the bilateral consultation between Iran and Pakistan are:

1. Signing of declaration for cooperation in the healthcare sector. Both governments are committed towards improving their healthcare sector through collaboration and sharing of expertise.
  - a) Pakistan and its sub-missions at Mashhad and Zahedan worked in close collaboration with the Government of Iran and its health & local authorities during the peak of COVID-19.
  - b) Under President Hassan Rouhani’s instructions, two hospitals had been allocated for foreign pilgrims from Pakistan and other countries at the start of the COVID-19 pandemic.
2. Meetings of the Joint Consular Commission are held to review the progress made in facilitating the movement of people from both sides. Pakistan has welcomed the initiative for release of a number of Pakistani prisoners by the Government of Iran and their repatriation to Pakistan. Currently, there are 174 Pakistanis detained in Iran, 75% of whom had been arrested on charges of drug-trafficking.<sup>64</sup>
3. The Security Committee sessions are arranged to discuss the matter of border administration and its subsequent issues. Ten session have been arranged on the matter. Both sides acknowledge that the 700 kilometer border should be a “border of peace and friendship” and acknowledged the necessity of forging regular cooperation



and exchange of views between political, military and security officials to combat threats of terrorism, smuggling of narcotics, human trafficking, hostage-taking, money-laundering and abduction.<sup>65</sup>

4. Joint Economic Commission (JEC) meets to discuss measures to improve opportunities for economic cooperation and development. Twenty one sessions have been arranged till now. Measures decided to enhance bilateral trade to achieve the annual target of US \$ 5 billion through facilitation of business communities are: scaling down of trade barriers, establishing banking channels, holding trade exhibitions and facilitating preferential trade. Both sides have resolved to conclude a Free-Trade Agreement (FTA) on priority.<sup>66</sup>
5. Both countries are staunch advocates for an Afghan-owned, Afghan led peace process and agree on reaching an amicable solution to the war in Afghanistan through dialogue.
6. The Islamic Republic of Iran supports Pakistan's call for peaceful solution of the Jammu & Kashmir dispute based on the will of the Kashmiri people and in line with the UNSC Resolutions.
7. Two sessions of the Pakistan-Iran Higher Border Commission (HBC) have been held in Islamabad and Tehran. The HBC is a mechanism for consultations between the two countries to discuss all border related security issues for enhanced coordination at different levels. Both states agree on the effective implementation of existing border mechanisms within the relevant frameworks including the Agreement for Administration of Pakistan-Iran border of 1960. Both sides are committed towards opening of new border crossing points at Gabd-Reemdan and Mand-Pishin, updating border maps and border pillar descriptions and carrying out joint border surveys. They have pledged to build border markets that contribute towards improvement of the economic situation of local residents along the Pak-Iran border as an alternative to physical fencing.<sup>67</sup>
8. Both sides acknowledge the necessity of extending cooperation in the energy sector including export of electricity from Iran to Pakistan's Balochistan province.
9. The cross-cultural promotion of academic, cultural and tourism activities, particularly by encouraging more frequent exchange visits of intellectuals, folk artists, cultural troupes is a primary agenda of the bilateral consultations between both countries.

### **Pragmatic Neutrality**

The idea of maintaining cooperative relations with other Muslim countries has been a key guiding foreign policy principle for Pakistan ever since its inception, but this policy option has been challenged by warring parties and states in the Muslim world. During the Iran-Iraq war, Pakistan declared neutrality in the issue and chose not to align with either party. The recent Syrian civil war was also another conflict where Pakistan decided to remain neutral on the matter. The National Security Council has made it clear that Pakistan would not align with any group in regional conflicts. The difficulty of remaining neutral is nowhere near well exemplified than in the Iran-Pak-Saudi Arabia relationship.

Pakistan's strong ties with Saudi Arabia have been deemed as a factor that may have hampered the prospects of widening the Pak-Iran engagement. Saudi Arabia is among Pakistan's top 15 trading partners and around 2.2 million Pakistanis are working in Saudi Arabia - a significant source of remittances.<sup>68</sup> Saudi Arabia has provided Pakistan with financial loans during its economic crises and soft power projection of Saudi Arabia has been successful in Pakistan owing to its status as the focal point of the Islamic religion that appeals to a majority Sunni population.

However, Pakistan has continued to engage constructively with Iran. Pakistan has continued to maintain brotherly relations with Iran despite the U.S. and the GCC countries' strong opposition of the regime. Many fault lines have marked the Iran-Pak relationship from sectarian violence, reaction to insurgencies in their respective border provinces, and accusations of recruitment of Shia fighters from Pakistan into the Zainebiyoun Brigade in Syria.

Many experts claim that Pakistan is very much a cold battle ground for anti-Shia networks allegedly acting as proxies of Saudi intelligence and Iran backed militant groups operating under an anti-Saudi agenda. This proxy war for influence between Iran and Saudi Arabia has been typified by escalation of religious differences.

India presents yet another challenge for Iran-Pakistan relations. India has a growing strategic and economic interest in Iran. India's investment in Chahbahar Port and the opening of an Indian consulate in Zahedan have raised suspicions in Islamabad.

Pakistan's membership of the 41-nation Islamic Military Counter Terrorism Coalition (IMCTC) strengthens the Pak-KSA defense ties even further. The IMCTC has no Shia-dominated governments, such as Iran, Iraq and Syria and Iran was not given an invite to join. Islamabad has assured Tehran that it will not become a party to any such measure that damages the Iranian interests in the region. While debating on Pakistan's inclusion in the IMCTC, many policymakers advocated for a carefully crafted and a balanced approach to maintain brotherly relations with Saudi Arabia and Iran.

To balance the equation, Pakistan can neither overtly side with Iran nor can support the U.S. sanctions on the country. This policy of neutrality has its own far-reaching consequences as far as Pakistan's security paradigm and its economic growth are concerned. Pakistan and Iran still lack in economic convergence and infrastructural activity, which can be overcome by joining in regional partnerships. Close proximity to Central Asian States, Gulf of Oman and the Persian Gulf make Iran a 'hub-state' for all vertical and horizontal connectivity in the region and beyond. Pakistan can only balance the Iran-Saudi Arabia equation by collaborating with Iran on economics and trade. The current government, under Prime Minister Imran Khan, has tried its best to mend fences with Iran. Pakistan has not only tried to improve bilateral relations, but PM Khan has spearheaded efforts to mediate between Iran and Saudi Arabia, and also between

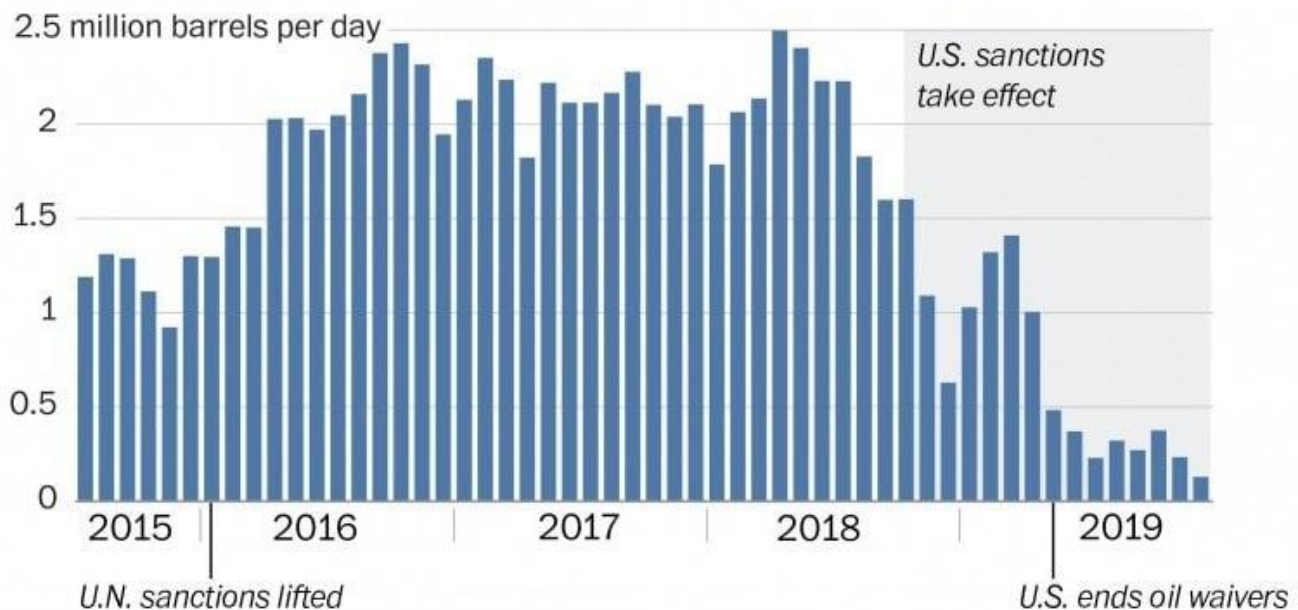
the United States and Iran. Pakistan believes that a conflict between either of the dyads would be disastrous for the region and beyond. Pakistan has also urged the United States to re-enter the JCPOA and lift sanctions on Iran, especially in times of COVID-19. During his recent visit to Pakistan, Iran's Foreign Minister, Dr. Zarif vowed to expand the scope of bilateral relations.

## 2. Fallout of U.S. Sanctions

The United States imposed economic and diplomatic sanctions on Iran after the Iranian Revolution in 1979. Iranian oil imports were banned and about \$11 billion dollars of its assets were frozen. Since 2006, Iran came again in the line of fire because of its nuclear program. The economic restrictions from stricter sanctions thus became more severe. In 2012, the European Union (EU) tightened its own sanctions by joining the United States' oil embargo against Iran. These sanctions were removed in 2016 when the P5+1 struck the Iran nuclear deal but in 2018, the United States unilaterally pulled out from this agreement. The U.S. reimposed heavy sanctions on Iran's oil sale, petrochemicals, shipping, metal trading and banking transactions. India, however, took the initiative and is continuously importing Iranian oil, caring less for imposed sanctions. Iran is almost losing \$60 billion dollars annually in energy investment due to these sanctions.<sup>69</sup> It is now relying on barter trade since its facility of payment in dollars has been stopped. Domestic companies are occupying the space left by the international companies, thus providing opportunity to domestic traders to flourish. The United States and its partners are also suffering economically due to sanctions because trading with Iran in various sectors, especially in energy sector, something which is causing trade loss and missed job opportunities. Iran's economy has now reached a point where it's becoming difficult to recover without foreign help and support. Now either rapprochement between Iran and the U.S. or cooperation with China can make Iran an emerging oil market again. Otherwise, Iran's economy will remain in doldrums. A purported strategic agreement with China is tipped to extricate Iran out of the economic quagmire going forward, should the deal become a reality.

Fig 1.3 Depleting oil exports of Iran due to the U.S. sanctions

### Iran's oil exports dwindle under sanctions



### 3. Opportunities for Economic Security

The economy of Iran is mostly based on public sector enterprises and folds into a transition-economy, being rated as 18th in Purchasing Power Parity (PPP).<sup>70</sup> Iran's economy mainly stands on oil and gas production with 10% and 15% of the world's proven oil and gas reserves, respectively, in its economic inventory.<sup>71</sup> With the 20 year vision plan, Iran's foundations are being placed on market-based reforms - an idea which has reoriented weak economies towards growth. Iran's current five-year development plan (2017-2020) is science and technology intensive and is likely to boost up its economic growth by making it a resilient economy to stand in the current world economic order. The major source of revenue collection is based on oil and gas which has drastically decreased because of U.S. sanctions re-imposed in 2018. These sanctions have further registered their mark by causing increased unemployment and inflation while crippling its undercapitalized banking system precipitously. Iran's currency usually remains devalued, subjecting it to low rating thus preventing 'the ease of doing business in open markets'. These economic constraints, germinating from insufficient foreign investments and closure of its tourism industry, have badly deteriorated its economic strength. Consistent efforts are needed to turn the tables with regard to the economy.

Flow of Iran's technical and engineering service export is mostly to Central Asian States and Africa. Iranian firms have invested in energy, pipelines, irrigation, dams and power generation in different countries. Thus, their industrial base is being expanded for its upward economic growth. Iran has commercial partnerships with many countries, but U.S. sanctions are the foremost hurdles in its economic and military development. France, UK, and Germany are still trading with Iran in spite of American sanctions and around 80% machinery and equipment in Iran is of German origin.<sup>72</sup> Iran has also increased its economic cooperation with other developing countries like China, India, South Africa, Cuba and Venezuela. Trade with Pakistan and Turkey is rising and the concept of establishment of common markets in West and Central Asia through Economic Cooperation Organization (ECO) is gaining currency. Firms from over 50 countries have invested in Iran with India, Singapore, Indonesia, Germany, and UK leading different development projects.

#### a. China - Iran Deal

As aforementioned and claimed by global news agencies, China is reportedly coming in a big way to invest \$280 billion dollars in Iran's oil and gas industry and \$120 billion dollars in production and transportation infrastructure.<sup>73</sup> It will also develop 5G based infrastructure in Iran and invest in banking, ports, railways, and various other related sectors. In return, China will have access to supplies of crude oil and gas from Iran at discounted prices for next 25 years. The Belt and Road Initiative (BRI) is not directly being spelled out in the agreement's terms of reference but practically it is the development of coastline along the mouth of Strait of Hormuz through which maximum export will take place. If this deal materializes, India might be excluded from the 628 kilometer Chahbahar - Zahedan Railway line, which is planned to be



extended to Zaranj in Afghanistan. India also looks to be shut out of Chabahar thus losing all the chances to access markets in Afghanistan and further to Central Asia.

**b. Belt and Road Initiative**

Iran is one of the countries that can benefit from the BRI. Its joining the BRI will have a profound effect on its geo-economic and geo-political status in times ahead. It will certainly boost China's importance in the political economy of Iran and establish a new era of cooperation between both countries. It will provide a chance for Iran to capitalize on its historical role in the ancient Silk Road. China on the other hand needs a stable Persian Gulf, solely out of its oil requirement and BRI is a step forward to capitalize on it. BRI is a giant infrastructural development plan connecting 70 countries i.e. 65% of the world population and aims at contributing about 40% to global GDP.<sup>74</sup> Major avenues of BRI have the capacity to constitute about 30% of global trade. BRI has the inbuilt capacity to connect Gwadar and Chabahar since both ports are located at the crossroads of an energy trading route through which almost 70% of the world oil passes.<sup>75</sup> Global geopolitics is so far holding Iran's ambitious regional economic interests hostage, but with BRI in place, this exploitation will cease to exist.

**c. Relationship with CPEC**

The Sino-Iranian agreement is a stepping stone towards the enhancement of Iran's weak economy and encompassing the benefits to be drawn by its sister projects like China-Pakistan Economic Corridor (CPEC) - the flagship project of the BRI. China intends to develop two major ports in Iran, the Jask and Chabahar ports and within a radius of 200 kilometers, China is building another major port in the Indian Ocean at Gwadar in Pakistan. It's a clear indication of future coordination among regional states with special emphasis on Iran's placement on CPEC. The project is one of the most advanced segments of Chinese New Silk Road Project. It is all about infrastructure connectivity i.e. the construction of roads, railways and Special Economic Zones (SZE). Geographically, it connects China's western Xinjiang province to the Persian Gulf bypassing the Strait of Malacca. Iran and Pakistan are already cooperating at local level and with the development of Chabahar and Gwadar, this coordination will get further fillip. This cluster of ports will serve as a major hub in the Indian Ocean providing furtherance to the BRI project. CPEC's multi-regional connectivity project has the potential to connect to trading routes in South Asia, Central Asia, Middle East and Africa. Gwadar is close to shipping corridors in the Persian Gulf, thus providing an easy alternative to China in hostile environments prevailing in the Strait of Malacca. Afghanistan, Iran, the Central Asian States and Russia all being in the neighborhood of CPEC can fully benefit once it's all related projects are completed. It shall extend Iran's connectivity to other regional countries by inter- coordination of Gwadar and Chabahar ports under the folds of the BRI.

#### d. Prospects of Energy Provision

With BRI getting operational, transportation of energy resources among regional states shall increase, much to the benefit of all, providing multiple avenues for mutual advantage. Pak-Iran gas pipeline and other avenues of connectivity shall all contribute to transportation and distribution of energy outputs. The Iranian part is already completed and Pakistan portion is pending availability of resources. Main line of communication in the form of BRI once completed shall have sufficient space for extensions of its mini-projects connecting its peripheral states. Iran being the hub market for distribution of energy resources shall find many transit states for the management of its supply of energy products. Certainly, Pakistan having transitory facilities in CPEC will have its handsome share in the exchange of trade projects among regional states.

Fig.1.4 Iran-Pakistan Pipeline Project



Source: GlobalSecurity.org

#### 4. Regional Ties

Iran is a founding member of the Organization of Petroleum Exporting Countries (OPEC). Iran has observer status in the Shanghai Cooperation Organization (SCO) , and has applied for full membership, however, because Iran was under sanctions levied by the United Nations at the time, it could not be granted membership. The SCO has stated that any country under UN sanctions could not be admitted a fulltime member. After the UN sanctions were lifted, Chinese President Xi Jinping expressed China's support for Iran's full membership in SCO. Upgrading it from an observer status will firstly allow Iran to formally join an eastern-led institutional multilateral framework that will reduce Iran's reliance on bilateral agreements through the process of regional integration. Secondly, this will improve Iran's global status and reinforce its role as major regional player. Thirdly, it will stimulate a spillover effect in Iran's political maneuvering in the Middle East going forward. Iran has an observer status in the South Asian Association for Regional Cooperation (SAARC) but has declared interest in joining as a fulltime member citing its geographical position as a bridge for East-West connectivity. Iran's inclusion in SAARC will foster better economic cooperation and energy trade under the banner of South Asian Free Trade Agreement (SAFTA).

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