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THE ECONOMIC DIMENSIONS OF THE US SANCTIONS ON IRAN AND THEIR REPERCUSSIONS ON IRAQ

Prof. Nabil Jaafar Abdulrida

Professor of Economy, College of Administration and Economics, University of Basrah

ABSTRACT

This study addresses US economic sanctions on Iran and their repercussions on Iraq. Although Iran has been under sanctions and pressure for nearly four decades, Iran has never been affected as much as during the era of President Donald Trump, though Trump imposed unilateral and not multilateral sanctions. The targeting of the economy is the most striking feature during this stage, which left unprecedented catastrophic ramifications as acknowledged by the Iranian government. As a result, Iran's economic indicators declined, its currency collapsed and exports came to a halt, especially in the oil and mining sectors. Iran was not allowed to deal with international financial institutions except within the framework of humanitarian assistance with the United States' permission. These US sanctions severely affected Iran's economic situation and its transactions with other countries, especially with its neighbors with which it has influential economic relations, most importantly Iraq. The aforesaid is the focus of this study.

Introduction

Iran has been under various US and international sanctions for over 40 years. However, the sanctions imposed by Trump in 2018 following the United States' withdrawal from the nuclear agreement had the greatest impact on the Iranian economy and society. Their ramifications impacted all aspects of life in Iran. The ramifications of the US sanctions were not limited to Iran, but also extended to other countries, particularly those countries that have close commercial and economic ties with Iran, as is the case with Iraq, with which it has great economic relations and ties reinforced by geographical proximity and common interests between the two countries.

US sanctions have no doubt had a significant impact on the Iranian economy and society. Since Iraq is of major importance to Iran's strategy, it has been impacted by these sanctions, particularly as it was considered one of the most important entry points for the Iranian government to overcome US sanctions after Washington's withdrawal from the nuclear agreement. Moreover, Iraq is an important pillar within Iran's confrontation strategy, which Tehran adopted in response to the US maximum pressure strategy that primarily intends to constrain the Iranian government's revenue streams by halting oil and other exports and through extensive sanctions on the country's overseas financial dealings. This explains the increase in the escalation between the United States and Iran in Iraq more than in any other arena in the region.

This study is significant as it addresses the outcomes of the US economic sanctions including the ramifications on Iranian international interactions as well as trade and economic exchanges of many international parties around the world with Iran, especially the parties that have relations with the United States. US sanctions, therefore, have placed unprecedented pressure on Iran. However, Iranian citizens are the ones who must bear the brunt of the country's economic deterioration.

This study will attempt to highlight the impact of US sanctions on both Iran and Iraq as well as on their economic relations by shedding light on their common economic characteristics, the reality of the economic relations between the two countries, the economic nature of the US sanctions, and the impact of these sanctions on both countries.

I. The Iranian and Iraqi Economies: Common Characteristics and Bilateral Relations

The Iraqi and Iranian economies share a set of common characteristics, the most prominent of which is the rentier nature of both economies and the high contribution of oil to the gross domestic product (GDP). Nevertheless, the balance of economic relations between both countries since 2003 is in Iran's favor. This is discussed as follows:

1. The Common Characteristics of the Two Economies

Iraq has a wide base of hydrocarbon resources, foremost of which are oil and natural gas. Iraq ranks fourth in terms of its oil reserves that amounted to 145 billion barrels (11.6 percent of global reserves) in 2018.(1) Iraq ranks as the second largest oil producer in OPEC, reaching 4.680 million barrels per day in 2019. It exported about 3.526 million barrels of crude oil per day in 2019.

Although Iraq's refining capacity reaches 815,000 barrels per day, it currently refines only 644,000 barrels of oil derivatives per day. This means that Iraq exports more than 86 percent of its crude oil while it only produces less than 14 percent of it,(2) indicating the underdevelopment of Iraq's oil industry and its inability to meet its domestic needs that were covered by importing oil products worth $2.8 billion in 2018.

Iraq also has about 3,729 billion cubic meters of proven natural gas reserves, according to data in 2018, which ranked it fifth in the Arab world.(3) Iraq produces a small amount of marketed gas that has not exceeded 14.5 billion cubic meters. Therefore, Iraq imports dry gas to feed its power plants amounting to more than $1 billion annually. The problem is that Iraq flares about half of the gas produced by its oil fields; the flaring waste is sufficient to meet Iraq's local needs for electricity generation.(4)

The Iraqi economy suffers from deep structural imbalances in its production sector, reflected in the relatively high contribution of oil to its GDP, which reached about 46 percent in 2018. The contribution of agriculture decreased to 2.4 percent and the processing industries to 1.9 percent during the same year. (5)

The common characteristic between Iraq and Iran is that they are both rentier states. Iran is one of the world's most resource rich countries in terms of oil and natural gas. Iran has about 155.6 billion barrels of proven oil reserves that constitute about (10.3 percent) of global crude oil reserves. Crude oil production was about 3.553 million barrels per day in 2018, which constituted about 4.7 percent of the world's crude oil production. Iran exported 1.850 million bpd, which represented 4 percent of total global exports in 2018. Oil export revenues are the main source of funding for Iran's foreign exchange budget. These are used for economic development, and budgetary support, in addition, these revenues are transferred or diverted to the people via the two mentioned means, or by other direct or indirect means. Also, oil is used as a fuel and a raw material in many productive activities.

Iran has a large refining capacity of 2.141 million barrels per day, which constitutes 2.15 percent of the world's refining capacity. However, its production of oil derivatives was only 1.691 million barrels per day in 2018. Iran has the largest natural gas reserves in the world. It ranked second after Russia in terms of gas reserves, which reached about 33,899 billion standard cubic meters in 2018. This represents 17 percent of the world's total gas reserves and two-thirds of OPEC reserves, including 33 percent of associated gas and 67 percent of non-associated gas. Iran is one of the largest natural gas producers. It ranks third after Russia and the United States, with 248.5 million standard cubic meters per day of natural gas production.[6]

Data from Iran's Central Bank shows that the non-oil sector including agriculture, industry and services constituted about 83 percent of the country's GDP during 2013/2014. This reflects the country's economic diversity. Oil constituted about 17 percent of the GDP during the same year.[7]

We can conclude from the foregoing that rentierism is the common characteristic shared by the Iraqi and Iranian economies. Both depend on oil resources to obtain foreign currencies, finance national budgets, and support other economic activities. The difference between the two economies seems obvious because Iran's agricultural and industrial activities are much more developed than Iraq's. This was reflected in the trade balance between them, which has recorded a large surplus for Iran since 2003.

2. The Reality of the Economic Relations Between Iraq and Iran

The invasion of Iraq and the fall of the former Iraqi regime in April 2003 forced Iran to adopt a clear vision towards its strategic interests in Iraq and to build a solid and multi-faceted base in the country: economically, socially, culturally, and politically in order to safeguard its own national security. This has allowed Iran to take a strategic position that enables it to reinforce its bilateral relationship with Iraq in various fields. The outcomes of this bilateral relationship have favored Iran, strengthening its economy and helping to resolve many of its economic problems.

Iraq has assumed great importance for Iran in the economic field. It is considered the lung with which Iran can breathe economically considering the US sanctions imposed on it. Iran has worked to link Iraq economically, and has attempted to make Iraq exclusively dependent on it, especially in relation to the import of electricity and natural gas. Iran ranks first among the top countries exporting non-oil commodities to Iraq during the last three years, after it ranked fifth in 2015. Iran ranks second after China in terms of the volume of trade exchange with Iraq.

The data in Table 1 indicates the upward trends in the value of Iranian merchandise exports to Iraq, which reached their peak in 2017 at $8.757 billion, constituting about 30 percent of the total imports of Iraq. However, Iraq's merchandise exports to Iran are practically zero since they were just over $700,000 in 2017. Therefore, the trade balance between Iraq and Iran was in surplus and significantly favored Iran between 2003-2018. It seems that the decline in the value of Iranian merchandise exports to Iraq in 2018, which amounted to $4.066 billion according to official Iraqi data, was mainly due to the non-registration of the flow of Iranian goods to Iraq through a number of unofficial ports that have opened in Iraq. These ports were established in response to the US sanctions on Iran and the restrictions they imposed on Iranian foreign trade settlements in US dollars.

Iran's share of the pharmaceutical and medical equipment market in Iraq was 1 percent, mines 11 percent, food products 18 percent, building materials 55 percent, extracting oil/refinery 48 percent, and petrochemical products 28 percent. Most of the goods exported to Iraq, which constitute 21 percent of Iran's total non-oil exports, are among the goods that create jobs and have a high added value. Studies indicate that more than a million professions in Iran depend on exports to Iraq.(8) Iran is the only exporter of oil products to Iraq, which reached $2.8 billion in 2018. The deals are carried out via the private sectors of both countries. Therefore, there is no problem with receiving revenues from international private transactions. A significant quantity of Iranian oil products is exported to Iraq via Kurdistan.(9)

Iraq also imported about 70 million cubic meters of dry gas per day from Iran in the summer and 45 million cubic meters per day in the winter at a cost of $2.419 billion in 2019. Iran exports gas to Iraq through two pipelines: the first pipeline is from Naft Khana oilfield to Baghdad, and the second is from Abadan to Basra. The cost of building these two pipelines was $808 million. Iraq will have to double the gas supplied to power stations from 1.485 million standard cubic feet (MMscfd) in 2018 to 2.920 MMscfd in 2022 to meet its growing demand for electricity in response to population and economic growth.

Work is currently underway to complete gas complex facilities for Basrah Gas Company, Nahr Bin Omer, Nasiriyah, Halfaya, Mansouriya and Majnoon oil/gas fields, which hopefully will enter production in 2022 if adequate funding is available. Therefore, Iraq will continue, considering its growing need for dry gas, at least over the next three years, to import Iranian gas due to the lack of internal and external alternatives.(10)

Iraq relies on Iran to address part of its energy needs. The former imports about 1,100 megawatts of electric power from Iran through four electric lines. The contract for supplying Iraq with electric power was extended for two years on July 4, 2020. It costs Iraq about $800 million annually. Iraq refused to pay its debts to Iran, ranging from $5 billion to $6 billion, through Chinese banks for fear of US sanctions. This debt was accumulated through the import of Iranian electricity, gas, and oil products. An Iranian company was established in Iraq to purchase the basic goods Iran needs on behalf of the Iranian government to settle the Iraqi debts to Iran. The payment is made through the Trade Bank of Iraq (TBI).(11) Iraqi tourists constitute 40 percent of all foreign tourists that visit Iran. Their number reaches more than 3 million Iraqi tourists, meaning that Iran gained $3 billion approximately.(12)

Table 1: The Development of Iraq's Imports of Iranian Non-Oil Commodities (2002-2018)

Year	Imports (in million USD)	Share %
2002	218	2.8
2003	588	5.9
2004	369	1.7
2005	1,234	6.2
2006	1,718	9.2
2007	1,842	10.1
2008	4,119	13.6
2009	4,560	13.9
2010	4,539	12.1
2011	4,735	11.6
2012	5,678	11.3
2013	5,257	10.5
2014	6,182	13.7
2015	6,206	15.2
2016	5,959	20.4
2017	8,757	30.1
2018	4,066	11.9

Source: Baghdad, Ministry of Planning, Central Bureau of Statistics.

II. US Economic Sanctions on Iran

International economic sanctions are one of the sanctions regimes recognized in international law. These sanctions interrupt economic relations with individuals or states to modify aggressive behavior, protecting the interests of other countries, and maintain international peace and security.[13]

US-Iran relations worsened after the Iranian revolution in 1979, which raised the slogan “Death to America,” and the storming of the US embassy in Tehran in November 1979. The Iranians took 52 American diplomats as hostages. In response, America severed diplomatic relations with Iran on April 7, 1980 during the term of former President Jimmy Carter.

The United States imposed sanctions on Tehran, which included trade embargos and travel bans. At the time, Iran tried to normalize relations with the United States, so it released the diplomatic staff it had detained after storming the US embassy on January 20, 1981, coinciding with Ronald Reagan entering the White House. In 1986, the Reagan administration took advantage of Iran’s need for weapons, so a deal was concluded via Israeli mediation to secretly resolve the American hostage crisis in Lebanon to win the favor of the US public during his second term, but the deal was uncovered and later became known as the “Irangate” scandal.

US sanctions against Iran continued. In July 1988, 290 passengers on an Iranian plane were killed after being hit by a missile fired from the American warship USS Vincennes. Under President Clinton in 1995, a comprehensive economic embargo was imposed to halt the supply of nuclear weapons technologies to Iran.[14]

In 1996, the US Congress approved the Iranian-Libyan Penal Code, later known as the Iranian Penal Code, to prohibit the export of aviation equipment to Iran and imposed economic sanctions on companies that dealt with Iran and Libya, especially those companies that invested more than $20 million annually in the oil and gas sectors of both countries. However, America failed to implement the sanctions after European countries protested.

In 1997, US President Bill Clinton issued executive orders prohibiting the export of all goods and services from the United States to Iran and vice versa. Washington also imposed sanctions on three Iranian banks. The expression “the proliferator of weapons of mass destruction” was used to refer to the Iranian Revolutionary Guard Corps. Since then, the US Department of the Treasury has added several Iranian banks to its blacklist. It has also identified about 20 petroleum and petrochemical companies as being under the control of the Iranian government, making these companies ineligible to deal with the US commercial sector. In 2007, the UN Security Council imposed sanctions on individuals and companies connected to Iran’s nuclear program, and froze the assets of 28 individuals and companies connected to Iran’s nuclear development and ballistic missile programs.

In 2008, financial restrictions on Iranian officials and companies that Washington accused of helping Iran develop its nuclear program increased and travel restrictions were also imposed on certain individuals and companies. The partial ban on trade in items for both civilian and military uses was expanded to cover all sales of such technology to Iran. The UN Security Council adopted the Iranian sanctions law which was passed in 2010 to prevent Iran from conducting ballistic missile tests and to prohibit the transfer of major weapons systems to it. This law also included banning investment in the Iranian energy sector and the UN Security Council severing ties with foreign banks that dealt with Iranian banks. [15]

The US sanctions reached their peak in 2011 during Barack Obama's term, when he targeted Iranian oil products and the Iranian banking sector, which came into force parallel with UN political and economic sanctions. Therefore, Iran's economic crisis deepened and impacted basic sectors, the Iranian currency exchange rate declined, and the rate of inflation and unemployment increased. On January 11, 2012, the European Union agreed to implement the ban on oil imports from Iran. The US Congress expanded its threats including secondary sanctions against companies and individuals who have a relationship with Iran through the Iranian Threat Reduction Act. The US Communications Regulatory Authority expanded the general ban on American citizens that conduct business in Iran.[16]

In 2013, the automobile sector and Iran's currency were targeted, and Washington added to its sanctions list major Iranian electronic producers, state internet companies, and the TV broadcasting authority affiliated with the Iranian government.

Under such intense pressure, Iran, the United States, the United Kingdom, France, Russia, China, and Germany signed the Joint Comprehensive Plan of Action in 2015. Iran, under this agreement, was obliged to limit its nuclear program activities in exchange for the easing of sanctions by the United States, Europe and the UN. Once Iran met the requirements specified in the deal, many international restrictions imposed on Iran would also be lifted.

However, in 2016, despite the sanctions and embargo ending that prevented trade/dealings with Iran's various economic sectors/companies (banks, insurance, oil, gas, petrochemicals, maritime transport, ports, gold and automobiles), the US Congress extended the sanctions law imposed on Iran for 10 years following a vote on a draft to impose sanctions on the Syrian government and its supporters, including Iran, for its war crimes and crimes against humanity.[17]

After Donald Trump became the president of the United States in 2017, Washington decided to withdraw from the nuclear agreement with Iran on May 8, 2018. As a result, a new round of US unilateral sanctions was imposed on Iran. These sanctions came into force in two stages; the first was on August 7, 2018, and the second was on November 5, 2018. These new sanctions targeted Iran's Central Bank, and the country's financial and oil sectors, as well as shipping and other critical sectors. The first round of sanctions included: giving companies and banks a six-month period to end their commercial ties with Iran, as well as time to dispose of Iran's sovereign debt and currency, and to stop Iran's trade in gold, coal, steel, aluminum, automobiles and luxury items such as Iranian carpets and caviar. In addition, these new sanctions disrupted many Iranian commercial transactions with a number of foreign companies valued at billions of dollars, including the Boeing deal to sell aircraft to Iran, and the deal concluded with Total and China's national oil company to develop part of the Pars gas field, valued at $5 billion. Finally, these new sanctions targeted companies that deal with the Iranian oil industry, including foreign financial institutions which carry out large financial transactions with the Iranian Central Bank.

The second round of US sanctions implemented on November 4, 2018, targeted companies that manage Iranian ports and firms operating in shipping and shipbuilding. These sanctions also targeted Iran's energy sector, particularly the oil industry, to prevent the export of crude oil and petrochemicals. Furthermore, the sanctions targeted Iran's Central Bank and its financial transactions.

In May 2019, the United States announced the ending of the sanction waivers granted to several countries to import Iranian oil. The countries that were granted the US waivers were Turkey, India, Greece, Italy, Taiwan, China, Japan, and South Korea. [18]

The imposition of sanctions in accordance with the US maximum pressure strategy included people and entities inside and outside Iran. These sanctions impacted the commercial, banking, and financial networks that helped Iran to circumvent US sanctions, and Iran's militias in the region. Additional sanctions targeted Iran's mineral exports and imports.

Some of the most important Iranian institutions targeted by the sanctions[19] include The National Bank of Iran, a private bank, not the Central Bank of Iran, which is 92 years old, founded in 1927, and fully owned by the state, employs more than 39,000 people and has about 3,350 branches at home and abroad. The sanctions also impacted The National Development Fund (NDF), a sovereign wealth fund used to finance non-oil projects and support private institutions to strengthen the economy and to create job opportunities for young graduates. The funds from the NDF have declined from $91 billion to $19 billion after the Iranian government withdrew a lot of money from it to cover the national budget deficit because of the US sanctions.[20] The sanctions impacted the Pars Trade Accreditation Company which is based in Iran. It is used to fund logistical procurement for the country's armed forces. Also funds from the NDF are used for this objective.[21]

III. The Impact of US Sanctions on the Iranian Economy and Society

The Iranian economy and society have suffered because of the US sanctions, especially the recent sanctions, leading to a stifling economic crisis described by Iranian President Hassan Rouhani as the hardest in 40 years. The most important impacts of US sanctions on Iran are the following:

1. The Low Rate of Economic Growth

The recent US sanctions in 2018 led to a sharp contraction of the Iranian economy, as Iran's GDP registered a negative growth of 4.7 percent annually (2018-2019). This negative growth increased to 8.2 percent (2019-2020). This was associated with a 37 percent decline in production in the oil sector in 2019. The non-oil GDP growth was close to zero in 2019, which is a marginal improvement compared to the 2.1 percent contraction in 2018. Non-oil industries grew by 2 percent, stimulated by the construction sector. The annual growth of the services sector decreased by 0.2 percent. US sanctions and the outbreak of the coronavirus pandemic significantly disrupted tourism and trade during the busiest period for travel and tourism during the Iranian New Year. Therefore, all the expenditure components of GDP decreased, indicating a deep economic recession. Thereafter, private consumption decreased by 6 percent and government consumption by 2.4 percent, and investment by 2.6 percent in 2019.

2. The Negative Impact on the Oil Sector in Iran

Since the imposition of US sanctions on Iranian oil exports in November 2018, after Trump unilaterally withdrew from the nuclear agreement concluded between Tehran and six major countries in 2015, Iranian oil production decreased in 2010 by about 1.2 million barrels per day compared to 2018. However, production reached 2.356 million barrels per day in 2019. It then declined to 1.978 million barrels per day in the first half of 2020.(22)

Iranian oil exports fell to a record low (23)* as the coronavirus crisis exacerbated the impact of US sanctions which were already limiting shipments, confirming the declining significance of oil in the country. In the past, Iran was the second largest producer and exporter of oil in OPEC. However, Iranian oil exports reached about 200,000 barrels per day during the first half of 2020, the lowest in five decades.(24)

With US sanctions deeply impacting Iran's oil refining industry, Tehran faces difficulties in meeting domestic energy demand due to a decline in the country's refining capacity. In addition, a scarcity of spare parts has made it difficult to keep refineries in shape. However, amid a serious economic crisis and sanctions burdening the Iranian people, the Iranian government announced its decision to ration the distribution of gasoline and hike its price by 50 percent for the first 60 liters. It can be purchased at the beginning of each month, then the percentage increases to 300 percent if it is more than this amount. This step has been justified by the Iranian government to save $800 million annually to meet the goal of social justice for about 60 million low-income Iranians, and combat fuel smuggling as well as corruption.

Although this decision triggered the outbreak of popular protests in Iran, there are other reasons that led to these protests, including: US sanctions that suffocated the Iranian economy and led to a dramatic decrease in oil exports and restricted the country's financial transactions, adversely impacting its local currency, increasing the Iranian budget deficit to $30 billion in 2019, and increasing extreme poverty, unemployment and hyperinflation. Therefore, there were widespread and very violent protests, which caused serious damage to shops, and banks, as well as to public and private properties.

The impact of US sanctions has extended to the petrochemical sector. Iran is the second largest producer of petrochemicals in the Middle East. The share of the petrochemical industries in Iran's economy is estimated at more than a quarter of the economy's total industries, and it is the sixth largest sector in the economy. The volume of Iran's petrochemical exports in 2018 reached more than $12 billion, estimated at more than a quarter of all Iranian oil exports. The US sanctions targeted the Persian Gulf Petrochemical Industries Company and the holding group's network of 39 petrochemical subsidiaries and foreign sales agents. This company and its subsidiaries accounts for 40 percent of Iran's petrochemical production capacity and is responsible for 50 percent of Tehran's total petrochemical exports, meaning that Iran will lose about $6 billion annually due to new US sanctions.[25]

3. The Decline of Iran's Industry

The industrial sector is one of Iran's important economic sectors. This sector includes several industries, notably fertilizers, textiles, carpets, edibles, automobiles, construction, electronics, and other industries. For example, Iran's car industry ranks 16th in the international auto industry. Its revenues reached $80 million. Iran ranks first in the world in the carpet industry.[26]

The implementation of the first round of US sanctions resulted in nearly 10 major international companies leaving Iran. Prominent among them were Total, the French oil company; the Danish company for maritime transport Maersk Sealand; Peugeot, the French automobile company; the American company, General Electric; Honeywell Technology Solutions; Boeing, the American airline company; Lukoil, the Russian oil company; Reliance, the Indian oil company; and Siemens, the manufacturer of health, industrial, energy and automobile products.

US sanctions have severely damaged Iran's manufacturing, which depends on advanced technologies that Iran imports from advanced industrial countries. These sanctions cast a negative shadow on the Iranian auto industry in light of the depreciation of the Iranian rial and the embargo on the supply of spare parts to Iranian auto factories, which reduced car production in Iran and then decreased employment in this industry, in which nearly 750,000 workers are employed. Therefore, hundreds of thousands of Iranian workers lost their jobs. As approximately 60 industries in Iran are associated with the auto industry, the decline in employment of this industry will impact other industries associated with it.

With the withdrawal of French, Japanese and Korean car companies from the

Iranian market, and the devaluation of the Iranian currency, the prices of foreign cars in the Iranian market increased by 150 percent at the end of 2018. The first round of sanctions included a trade embargo on Iranian carpets and foodstuffs. It is known that Iran exported carpets worth $126 million to the United States in 2017/2018. Iran also lost the opportunity to use international financial markets and their financing tools. If Iran violates the financial sanctions, its assets will be frozen by the United States, as witnessed in 2008 when the United States froze Iranian assets worth $2 billion invested in US bond markets. [27]

4. The Collapse of the Iranian Currency Exchange Rate

The significant decline in the Iranian currency exchange rate began in April 2018, before the actual implementation of US sanctions against Iran. The Iranian currency lost more than half of its value, which raised the level of inflation to 50 percent, negatively impacting the real income of citizens.

Although the Iranian government controls the local currency market and took a series of punitive measures targeting currency exchange offices and merchants, the Iranian rial exchange rate still collapsed. A growing segment of businesses thus stopped, not only due to sanctions, but also because of the progressive deterioration of the Iranian currency. Several shops stopped selling throughout the country, because they did not know to what extent the national currency would continue to decline.

In less than one year after the imposition of US sanctions, the Iranian currency witnessed a significant decline in its value against foreign currencies, especially the dollar, which rose against the Iranian toman by nearly 300 percent in September 2018. The differential rate increased to about five times between the official rate of the Iranian rial, which was estimated at 42,000 rials against the US dollar and the exchange rate in the free market, which reached 220,000 rials (22,000 tomans) against the dollar at the beginning of the second half of 2020.

However, the sharp decline in the Iranian rial exchange rate is nothing but a reflection of the impact of sanctions on Iran. As the Iranian economist Dr. Farhad Shirazi said, the core objective of the sanctions is to isolate Iran from the global economic system, thus, the country's economic structure as well as its health and education sectors will be paralyzed. Shirazi added that the Iranian economy is unidimensional, depending solely on energy resources, namely oil and gas exports. Sanctions harm Iran's main artery, and it will be practically impossible for any giant energy-producing company to risk undertaking any business or investment in Iran as this requires funds from the United States or an American contribution. For example, the United States contributes nearly 90 percent to financing the operations of the French company Total and American investors own 30 percent of the shares of the company, which has invested more than $10 billion in American operations. However, its investments in developing the South Pars gas field in Iran did not exceed $46 million.[28]

The sharp decline in the price of the Iranian rial led to serious economic repercussions for Iran, including: rising costs for imported intermediate goods needed for local production, particularly in industrial and agricultural sectors, rising prices for imported goods, hiked inflation rates leading to a decline in the purchasing power of people earning fixed incomes and the poor in general, as well as income inequality, class differences, and an increase in social injustice. [29]

It seems clear that the value of the Iranian rial will continue to collapse in the remaining months of 2020 especially as the Iranian economy contracted, and the local economy has shut down as a result of the measures implemented to confront the coronavirus pandemic. In addition, there are also tremendous pressures resulting from the increasing unemployment rates that have reached unprecedented levels, and the rise in poverty to historic levels as well. All these pressures will keep the Iranian currency under constant strain.

5. The High Level of Inflation

The Iranian economy is suffering from severe crises, deeply impacting the working class and the poor. Poverty has increased, which threatens economic growth in the country as it continues to suffer from sanctions and the coronavirus pandemic. The decline in value of Iran's currency exchange rate and the rising inflation rate reached record levels in Iran. Iranian citizens from the poorest segments of society continue to suffer after the rise in prices and the decrease in purchasing power. The high inflation rate in recent years has led to large segments of the population falling below the poverty line.

The sharp decline in the Iranian currency exchange rate caused by US sanctions, the decline in the rates of domestic production and the decrease in the level of imports was accompanied by a significant rise in the inflation rate, which reached 40 percent according to the Iranian Statistical Center in 2019. Food prices increased by 55.7 percent, but inflation in other sectors, especially housing and services, was lower.[30]

The annual inflation rate in Iran reached 22.5 percent in June 2020, the prices of drinks and food increased by 14.9 percent, housing and services by 21.7 percent, transportation by 48.6 percent, health and medical services by 24 percent, clothes and shoes by 28 percent, and restaurants and hotels by 17.9 percent, according to the Trading Economics Report issued on July 2, 2020. Spiraling inflation will quickly erode the real value of cash transfers distributed in subsequent years and will impact the poorest segments, and US sanctions have increased poverty levels, worsened by the fallout from the coronavirus pandemic. The poverty problem is to deepen further in Iran.

6. The High Rate of Unemployment

Unemployment has become a widespread phenomenon in countries that experience financial hardship, economic sanctions and face the ramifications of war, adversely affecting the workforce, and all citizens who are able and willing to work.

The report of the Iranian Statistical Center on the labor market in the second quarter of 2020, compared to the second quarter of 2019, shows that nearly 2 million people left the labor market, and the economic participation level decreased by 7.3 percentage points to 41 percent. Although more than 767,000 people were added to the population aged 15 years and over, the number of employed people in Iran decreased by 2 million people which can be interpreted as a consequence of their inability to find work.

According to the report, comparing the number of workers in the second quarter of 2020 with the same period in 2019 shows that the number of workers in the Iranian labor market decreased by about 1.5 million people. As a rule, this decrease in employment should be linked to US sanctions as they negatively impacted Iran's business environment, leading to a decline in domestic commodity production, particularly in the oil and industrial sectors. In addition, companies closing due to the coronavirus crisis impacted the employment rate, one of the most severe consequences of which was the great decline in employment in the tourism sector. The estimates of the International Monetary Fund show that the unemployment rate in Iran reached 13.6 percent in 2019, and that it will reach 16.3 percent in 2020. The youth unemployment rate reached 22.9 percent in 2019.[31]

IV. The Impact of US Sanctions on the Iraqi Economy

The implementation of US economic sanctions on Iran will lead to the economies of neighboring countries experiencing potential pressures, especially Iraq. These sanctions, if fully implemented, will likely undermine trade and investment transactions between the two countries, which will cause severe damage to both countries. The Iraqi government realizes that broad political and economic interests, that connect it with Iran, will be damaged if it fully complies with US sanctions. In this manner, it appears that the Iraqi government faces two difficult choices: to comply with US sanctions and lose its partnership with Iran, or not to comply with the sanctions and thus lose its partnership with the United States of America.

This may prompt the Iraqi government to try to adopt a balanced policy, reflected in its measures as the Central Bank of Iraq notified the country's commercial banks to ban transactions in dollars with Iranian banks as a preliminary indication of the country responding to US sanctions. At the same time, the Central Bank of Iraq did not ask them to stop using euros in their dealings with Iran. The Iraqi government succeeded in obtaining US exemptions to continue importing Iranian electricity and gas.

Despite the US sanctions on Iran, the flow of Iranian goods to the Iraqi market has not been affected. The Iraqi territory remains one of the main points for providing dollars to the Iranian market, by transferring money to Iran through a network of traders and smugglers operating at the many border crossings with Iraq.

Given the wide-ranging commercial and economic relations between Iraq and Iran, and the nature of the geographical proximity and their exceptional political relations, US economic sanctions have cast a shadow on the Iraqi economy.

We can refer to the most important actual and potential impacts on the Iraqi economy as follows:

1. Iraqi deposits in Iranian banks suffered great losses due to the collapse of the Iranian currency exchange rate in 2018, and Iraqi deposits lost half of their value, taking into consideration that some estimates indicate that Iraqi deposits amounted to about $1 billion. This means that Iraqis who deposited their money in Iranian banks have lost about half a billion dollars. Many Iraqis prefer to deposit their money in Iranian banks for several reasons:

A. There is a crisis of confidence between Iraqi citizens and the Iraqi banking sector, especially the private banking sector. Due to the lack of liquidity, some private banks failed to settle the accounts of depositors, which pushed many of them to withdraw their deposits from private banks and transfer them to Iranian banks. This trend has been reinforced by the administrative complications and the bureaucracy in Iraqi governmental banks.

B. The interest rate decreased in Iraqi banks which only amounted to 5 percent. Iranian credit institutions granted high interest rates that ranged between 18 percent to 22 percent. This encouraged many Iraqis to sell their properties and transfer their money to non-banking financial institutions in spite of the risk that these institutions may go bankrupt because they offered high financial interest rates, undertook rapid ill-considered lending without adequate guarantees, had poor central management, failed to follow the law, and lacked professional experience in management.

C. Iranian banks have set easy conditions through which depositors can receive interest rates monthly, quarterly, semi-annually, or annually, while the original deposits remain in the bank. Depositors cannot withdraw until one year after depositing in the case of medium-term deposits.

D. Many merchants were forced to deposit their money in Iranian banks that hold dollars and convert it into Iranian currency in order to finance their large imports from Iran, which exceed $6.5 billion annually.

H. Some Iraqi religious fatwas encouraged Iraqis to deposit their money in Iranian banks given that Iran is an Islamic country that does not deal with interest. Because Iraqi depositors suffered great losses in Iranian banks, it is expected that the coming period will witness a significant decrease in those deposits due to the real interest rate in Iran turning negative as a result of high levels of inflation.

2. The possible influx of Iraqi funds to Iran to invest in some fixed assets in Iran, such as homes, hotels, and land due to the low prices which are denominated in US dollars.

3. Iran will become the preferred tourist and treatment destination for most Iraqis because of cheap travel and accommodation costs.

4. Religious tourism in Iraq is expected to decline because of the possible decline in the number of Iranian visitors to the holy shrines in Iraq due to the high cost of travel and accommodation for Iranian visitors.

5- Iraq will become a preferred corridor for Iran to import many of the commodities Iran is prohibited from importing.

6. Unexpectedly, Iranian exports to Iraq may decline significantly, especially after the second round of US sanctions in case the two parties, Iran and Iraq, are unable to overcome the restrictions that the United States will impose on the international payment and financial/ banking systems. Iraq and Iran will adopt a barter system or a direct payment method outside the banking system to finance their trade.

7. It is expected that the demand for the US dollar in Iraq will increase as it is smuggled into Iran. This may increase the price of the US dollar in the Iraqi parallel market on the one hand and significantly drain Iraq's balance of foreign currencies on the other.

8. It is expected that Iranian workers will migrate to Iraq and other countries in search of job opportunities because of the unemployment rate worsening and the deterioration of living standards in Iran because of US sanctions.

9. If the exemption granted to Iraq to import electricity and gas from Iran is not extended, it will stop importing Iranian gas and power. Iraq is the second largest importer of Iranian gas after Turkey. This will significantly decrease Iraq's electricity and gas imports from Iran, which may reach 4,000 megawatts.

10. If Iraq refuses to comply with US sanctions, this means that Iraq will be subjected to US sanctions, including American banks freezing Iraqi funds, especially since Iraq is the fourth largest Arab country investor in US Treasury bonds, which amounted to about $ 32.7 billion at the end of October 2019. The United States will no longer protect Iraqi funds abroad, which exposes it to the demands of creditors who have won on many issues in relation to recovering their dues from the debts owed by Iraq. US sanctions may extend to include US dollar flows resulting from the sales of Iraqi oil that flow to Iraq through the US Federal Reserve Bank, which will expose the Iraqi economy to catastrophic repercussions, including the collapse of the Iraqi dinar exchange rate.

Conclusion

US sanctions have led to a significant decline in Iranian oil exports and have limited the flow of foreign currencies to Iran. As a result, foreign reserves have decreased, and Iran's general budget deficit and its current account deficit have widened. The US administration focused its sanctions on the major economic sectors and left a margin for the commercial sector. Many companies in this sector are linked to the government, such as those involved in edibles. The US administration also tried to control other sectors and reduce their performance levels via hindering banking cooperation. These measures have increased Iran's transaction costs and have decreased its profits due to two main factors: merchants are forced to sell their goods at lower prices, and the cost of the returning commodities to the Iranian economy is high. While US sanctions led to a sharp decline in the Iranian currency exchange rate, they increased levels of inflation, unemployment, and lowered the standard of living of the Iranian people. These sanctions impacted the Iraqi economy and society: Iraqi deposits in Iranian banks suffered huge losses as a result of the significant deterioration in the Iranian currency exchange rate due to US sanctions on Iran, and the decline in religious tourism in Iraq due to the decrease in the number of Iranians visitors to Iraq because of a decline in their real incomes. In exchange, the number of Iraqi tourists and travelers to Iran for treatment and entertainment purposes increased. The migration of Iranian workers to Iraq increased in search of employment. It is possible that if Trump wins in the upcoming presidential elections in November 2020, he would impose further pressure and sanctions impacting the two countries and would pressure Iraq specifically to curb or reduce some aspects of economic cooperation with Iran.

Endnotes

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(23) * Iran's oil exports have decreased significantly due to the full implementation of US sanctions, but they will not reach zero for several reasons. Firstly, it is hard to monitor all Iranian shipments, especially since tankers sometimes shut down the tracking systems to evade surveillance. Iran also adopts the reduction of oil prices policy, which is selling oil to buyers at prices less than the market prices, and it also granted them up to 60 days grace periods. The National Iranian Tanker Company also undertakes the task of transporting oil shipments to its customers instead of international

companies. Iran also adopts a barter system and develops new financial systems, which is one of the ways that allow countries to import Iranian oil, and avoid the US sanctions system. It also transfers major shipments of oil to be stored abroad, similar to what Iran had done previously when the National Iranian Tanker Company transported a cargo of 22 million barrels to the Chinese port Dalian, to store it there in the hope that it would be later sold to other buyers. Iran usually changes the identities of ships or registers them in other countries, disables GPS devices, or transfers shipments to smaller vessels on the open seas. Those ships sail through undetectable sea routes. This runs in parallel with its plans to transfer the oil export center from the port of Kharg to the port Bandar-e- Jask on the Gulf of Oman. Not to mention, Iran smuggles oil via land routes to neighboring countries such as Pakistan, Afghanistan and Iraq. One of the main land routes for smuggling Iranian oil is Sadiqabad in Iran and Zahir Pir in Pakistan, which has many warehouses to store it, where it is later transported for distribution and domestic market consumption. There were other methods used during the recent sanctions period between 2010 and 2015 which was to store oil in huge tankers off the coast of the Gulf. Currently, there are also six ships capable of carrying a total of 11 million barrels parked at sea as floating storage containers, which may relieve pressure on ports and allow for quick deliveries to be made. Even if Iran could smuggle oil from its ports, it would be difficult for Iran to receive money into its accounts.

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