

How the Nuclear Deal has impacted Iran?

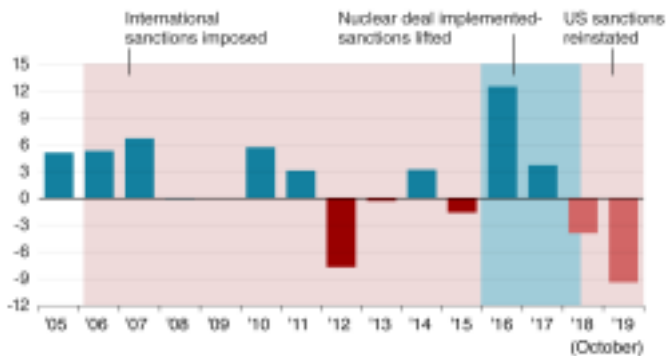
By- Samarveer Singh

One of the major issues the world faces today is the uncertainty of peace and stability in the Middle East, which is one of the world's busiest trade routes and accommodates the largest markets for oil. Iran, one of the world's biggest suppliers of oil has been dealing with a fall in its exports and reducing market share in the oil market. The primary reason behind this problem are the sanctions imposed by the Trump administration when the United States of America exited the Nuclear Deal. The Iran Nuclear Deal was an agreement between Iran, the United Kingdom, the USA, Russia, China, France and Germany, under which Iran agreed to restrict its nuclear activities in exchange for the lifting of the crippling economic sanctions. The deal was considered a historic agreement as it restricted Iran from moving forward with its ambitious nuclear programme.

In May 2018, US President Donald Trump withdrew from the deal, as the USA believed Iran to be in violation of the deal by secretly developing a nuclear weapon and thus led to the imposition of a series of economic sanctions on Iran, consequently hurting their already crippling economy. World trade with Iran declined drastically and the economy fell into a deep recession. Its oil exports plummeted, the currency's value was reduced to half and the inflation in the country soared drastically (BBC, December 2019). These economic effects have had a huge impact on people's daily life in Iran.

Economic growth in Iran

GDP growth rate %





Source- BBC, December

2019-<https://www.bbc.com/news/world-middle-east-48119109> Following these developments, this paper investigates how the sanctions by the United States of America have impacted Iran and its effects on the Iranian economy and the people.

Race for the Nuclear Weapons

At the very beginning of the nuclear weaponry, it was only the USA that possessed nuclear weapons, and their first usage of these was during the bombing of Hiroshima in Japan. In the last months of World War II, the atomic bombs 'Little Boy' and 'Fat Man' were dropped on Hiroshima and Nagasaki claiming 129,000 and 226,000 lives respectively, drawing the war to close in the east. The nuclear arms race began when in 1949, the Soviet Union tested their first atomic bomb. Both countries have since been developing several nuclear weapons and bigger bombs threatening peace and stability (AMNH).

Presently, seven countries possess nuclear arsenals. These are India, USA, UK, Russia, China, Pakistan and France. This arms race between several nations has called into question their purported individual stands on peace and stability. In the 21st century, many countries like Iran and North Korea have been trying to develop nuclear weapons, which the nations of the Western world believe are a threat to peace and stability in their respective regions. One of the major reasons that have been outlined for the countries to possess nuclear weapons is that they help to deter an attack from any non-nuclear or nuclear regional power and therefore prevents war, possibility of nuclear conflict, especially with a major external power like the United States or Russia (Arms Control Association).

Several nations comprising majorly of western powers have pressurised many countries into refraining from developing a nuclear weapon to promote harmony and deterrence in their respective regions. Countries like Iran and North Korea have specifically been made to stop their

nuclear programmes to avoid global instability. One of the ways that the USA and European powers ensured their goal is through the imposition of severe economic and political sanctions on Iran and North Korea. The concerns in the USA regarding the Iranian Nuclear Programme are believed to be that, despite Iran claiming their Nuclear Programme to be peaceful, it will surreptitiously be used to destabilise the region. The USA also believes that these Nuclear arsenals built by North Korea and Iran could be used against USA's regional interests and allies as well as against it. The USA also sees that as North Korea is a non-democratic nation, and thus their nuclear energy could be used for threatening their ideological hegemony with nuclear bombs rather than self-protection (Chicago Tribune, 2018). Thus, nations that have ambitions of developing nuclear arsenals face political and economic pressure from leading world powers. The western nations have also been dealing with calls of disarmament to promote peace but no nation has complied yet.

Middle East's Role in Iran's Nuclear Programme

Iran's nuclear programme has been highly criticised by the regional powers in the Middle East. However, these criticisms have been mainly levelled by Saudi Arabia and Israel, who are key US allies and arch-rivals of Iran. The Sunni Muslim Kingdom of Saudi Arabia has been a long-time rival of Shiite Iran and both countries have been long involved in proxy wars on opposite sides in Iraq, Syria, Yemen and Lebanon (Reuters, May 2018). Saudi Arabia has expressed its great concerns regarding Iran's nuclear programme and believes that it is not meant for peaceful purposes. The Kingdom of Saudi Arabia has also called for a strong deal that lasts for a longer duration to restrict Iran from possessing nuclear arms and avoid further conflicts. The Saudi Crown Prince, Mohammed Bin Salman, has proclaimed that they would be developing their own nuclear bomb if Iran develops one (BBC, March 2018). The Kingdom has even supported the sanctions that were reimposed by President Donald Trump on Iran as they believed the 2015 Nuclear Deal to be a flawed agreement. According to the Saudis, Iran has violated the deal by trying to secretly develop a nuclear bomb (Reuters, July 2021).

Another arch-rival of Iran in the Middle East is Israel, which has been long rejecting Iran's efforts to develop nuclear weapons and has also been accused by Iran for several attacks on its nuclear facilities. Iran has accused Israel of assassinating its top nuclear scientist, Mohsen Fakhrizadeh, who was a key member of Iran's ambitious nuclear programme. Israel has neither claimed the responsibility nor denied the claims for the assassination, thus raising suspicion regarding its role in the event (Aljazeera, May 2021). Israel has also been accused of not only assassinations but also of using cyber warfare against Iranian nuclear sites, with the help of the CIA and American National Security Agency. The latest incident of a fire at an Iranian nuclear facility has been linked with Israel when a mysterious fire broke out in the facility causing significant damage. This damage put Iran back by a year or two in their progress on the nuclear programme. Israel sees Iran's nuclear programme as one of the threats to the State of Israel,

mainly because of the rivalry both countries share (Aljazeera, 2021). Thus, the rivals of Iran in the Middle East have been one of the major reasons why Iran cannot develop nuclear arsenals.

What is the Nuclear deal and why did Iran agree to it?-

The Iran Nuclear Deal also known as the Joint Comprehensive Plan of Action (JCPOA) is an agreement signed between Iran and the five permanent members of the UN and Germany signed in 2015. Under the conditions mentioned in the deal, Iran has agreed to dismantle much of its nuclear programme and allow the foreign nations to inspect its nuclear facilities, in exchange for relief from the billions of dollars sanctions imposed from 2012-2014 (Council of Foreign Relations, August 18, 2021). The deal had also been met with backlash from major Iran rivals Saudi Arabia and Israel. Israel believes that this deal is very lenient and has opposed it strongly. The Saudis believe that they should have been consulted before the deal was signed as they would be most affected if Iran becomes a nuclear state. Some countries opposing the deal had stated that the relief from these sanctions under the deal will help Iran fund terrorism in the Middle East like Houthi Rebels in Yemen. (Council of Foreign Relations, August 18, 2021).

Under the deal, Iran has agreed to refrain from producing highly enriched uranium which can be used in developing a nuclear weapon and also use its nuclear facilities like Nantaz for medical and industrial research. Iran has also agreed to provide unrestricted access to its nuclear facilities for inspection from the inspectors of the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog organisation. Another Joint Commission has been formed including all the partners of the deal and a majority vote by these partners can help IAEA inspectors to gain access to undeclared sites as well oversee the transfer of Nuclear materials (Council of Foreign Relations, August 18, 2021).

Role of Other Member Countries

The European Union, UN and the USA, have been committed to lifting the sanctions imposed on Iran under the terms of the nuclear deal. Some sanctions imposed by the US on Iran for its support for terrorism and human rights abuses still remained in effect but the economic sanctions on its oil exports and international trade were withdrawn.

The deal also includes contingency planning, if Iran is found out of compliance with the terms, then the UN and the member countries can vote to reinstate sanctions on Iran. The US and many other European nations also unfroze the assets belonging to Iran worth \$100 billion. However, the deal came to collapse when the USA withdrew from the deal in 2018, under former President

Donald Trump, who then reimposed severe economic sanctions on Iranian oil exports, bringing the Iranian economy to a standstill (Council of Foreign Relations, August 18, 2021).

USA's 2018 exit of the Nuclear Deal

In 2018, the USA withdrew from the historic Iran Nuclear Deal and reinstated sanctions against Iranian oil exports, their ballistic missiles programme as well as their proxy wars in the region. President Donald Trump also accused Iran of secretly developing nuclear weapons and not following the terms of the nuclear deal. Meanwhile, Iran accused the USA of not following its commitments and unilaterally taking decisions without consultation from its European partners.

However, the USA came out with a policy of waivers where its allies and other countries could still trade oil and other products (Council of Foreign Relations, August 18, 2021). These waivers were lifted in 2019, among the efforts by the USA to stop Iranian oil exports completely, which severely impacted the Iranian economy. After the USA exited the nuclear deal, Iran announced its revival of the nuclear programme in the event member countries also decided to not follow the terms of the deal. By 2019, Iran had started its uranium enrichment, research and development on centrifuges and expanding stockpile of nuclear fuels (The Print, April 2021).

In 2019, President Donald Trump tightened his sanctions on Iran under his 'maximum pressure' policy in order for Iranians to renegotiate the deal but Iran still maintained their insistence to move up with its nuclear programme. Despite the restrictions imposed by the US in 2019, Iran started enriching uranium at higher levels than what had been specified under the deal and developing centrifuges for higher-grade uranium production at many of its nuclear facilities. In 2020, the USA also assassinated Iran's top general Qasem Soleimani after which Iran announced that it will no longer follow the nuclear deal and in October started construction of centrifuges at the nuclear facility of Natanz (Council of Foreign Relations, August 18, 2021).

Effects of US sanctions on Iranian Economy

The Iranian economy suffered a massive blow when President Donald Trump announced sanctions on Iran in 2018 and tightened them in 2019, to completely stop its oil exports. The Iranian economy shrank, its foreign investments dried up as companies were barred from trading with Iran, the value of the Iranian currency was reduced to half in comparison to the dollar and the inflation and living costs went up in the country (BBC, December 2019). Those who suffered most from these sanctions were the general public of Iran, for whom daily life had been severely impacted. The local businesses were not able to produce as much as they did before as the

production cost rose drastically due to the high cost of imported materials. The housing prices, living costs and rent went up in the capital and major urban centres where people with low income were not able to afford reasonable housing thus leaving them with no choice but to shift to smaller homes (BBC, December 2019). Even the food and beverage prices went up prompting large queues at government subsidised grocery shops and meat prices also went up leading the government to ban exports of livestock (BBC, December 2019).

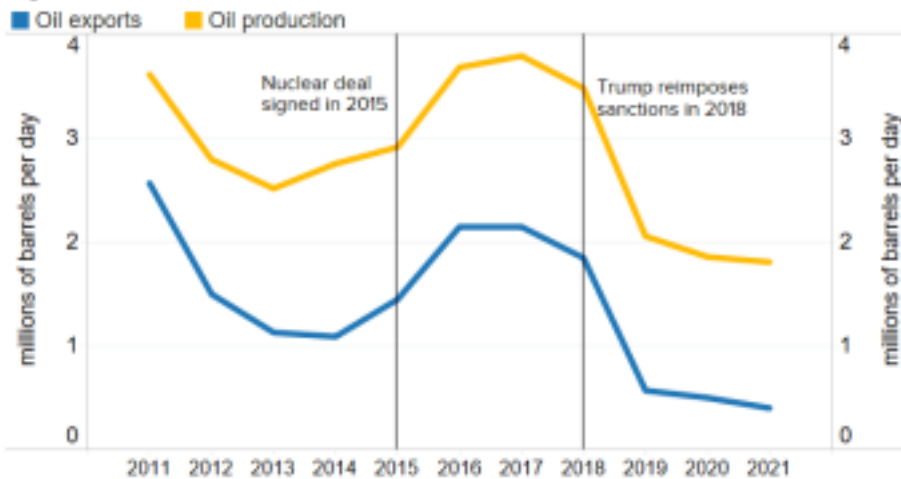
Fall in World Trade and export of Oil

Iranian economy started crumbling after the devastating economic sanctions imposed on its trade with foreign countries after the USA's withdrawal from the nuclear deal. Many European nations, the USA and companies worldwide stopped their trade with Iran in order to avoid the impact of these sanctions. This resulted in a trade deficit of 6 billion euros with European countries as the trade volume of Iran with Europe was around 8.5 billion euros in 2018 which had reduced to around 2 billion euros in 2019, with around 76% decline in trade with Europe (DW News, 2019). Many foreign companies including Daimler and the oil group Total had wound up their operations in the country and thus added to the rising unemployment. (The Wire, 2019). As Foreign companies were moving out of the country, the Iranian economy faced high unemployment and a fall in the volume of trade with other nations even as this gave a chance for the domestic market to expand.

The Iranian oil exports were the hardest hit by the sanctions. Given that most of the country's economy largely depended on the oil industry, the economy immediately struggled with a reduction in oil exports. At the start of 2018, Iran produced 3.8 million barrels of crude oil per day, according to the Organisation of Petroleum Exporting Countries (OPEC) but this number was reduced to 2.3 million barrels per day after sanctions were imposed (BBC, 2019).

Oil exports have fallen since new sanctions were imposed

Figures used for 2020 and 2021 are IMF estimates



SOURCE: International Monetary Fund (October 2020)



Source: CNBC, March 2021

<https://www.cnbc.com/2021/03/23/these-6-charts-show-how-sanctions-are-crushing-irans-economy.html>

The above graph depicts how the oil production in Iran, as well as its exports, had started declining and continues to decline continuously as the sanctions on Iran were imposed in 2018. These declining exports pushed up the oil prices for a short term period in the global market as Iran, one of the largest oil exporters of 2018, faced economic sanctions. This rise in prices started

to decline after it touched prices as high as \$80.13 per barrel in 2019. The USA urged its allies like Saudi Arabia to increase the supply of oil in order to bring down the oil prices, which worked. Therefore, the oil prices started declining after the supplies by other oil-exporting nations increased, excluding Iran.

Brent crude reaching \$80

US dollars per barrel



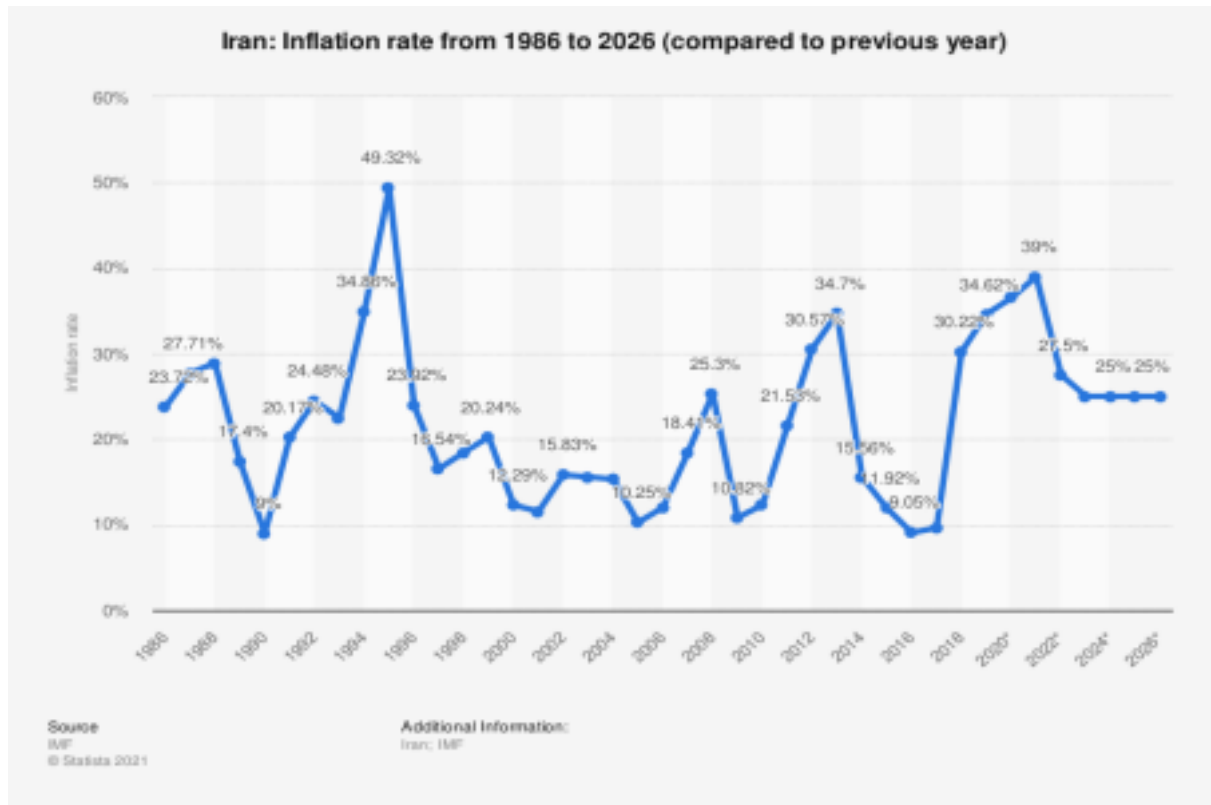
Source: Bloomberg, 28 September 2021, 12:35 GMT

BBC

Source: BBC, September 2021 <https://www.bbc.com/news/business-58727437>

Rising Inflation and Falling Currency Value

With the sanction in 2019, the prices of food products and other essential goods skyrocketed. Iran's public was facing rising inflation day by day and the value of currency fell worldwide. The inflation in Iran stood at 30.22% which then rose to 34.62% in 2019 and still continues to rise. Not only rise in food prices, but Iran also faced a rise in food shortages (CNBC, 2019). A local cook in Tehran estimated that food prices increased from 50% to 100% from 2018 to 2019 (CNBC, 2019).



Source: Statista, May 2021 <https://www.statista.com/statistics/294320/iran-inflation-rate/>

Many local businesses in Tehran were forced to shut because they faced a hike in importing materials from outside the country, to a cost which they couldn't bear. The Iranian government in an effort to help the people cope up with the rising inflation had set up distribution systems for essential products like Sugar. The prices of sugar in Iranian markets in 2019 was between 100,000 Rials (Iranian Currency) to 180,000 Rials, which were exorbitantly high so the government set up a price ceiling between 38,000 to 40,000 rials and also decided to distribute it publicly (CNBC, 2019). According to the general public, this system did not work as the government ran out of sugar. One of the products that have seen the most inflation effect is meat, which is a staple consumption good in Iran. The meat prices had been so high that the public had to stop purchasing the good and newspapers had called for a crackdown by the government to regulate prices (CNBC, 2019). For example, prices of beef products stood at 380,000 rials per kilo at the start of 2019 which rose to 1.2 million rials in July (CNBC, 2019). The efforts made by the government to subsidize food products had failed, making the public angry (CNBC, 2019).

Iran also saw a rise in petrol prices as the oil and gas industry faced the bite of US sanctions. The government removed the subsidies provided to the public on Petrol prices and the prices of

petrol

rose by 50% and reached 15,000 rials per litre. The government also came up with a policy that stated that if anyone wishes to buy more than 60 litre petrol per month, the prices would rise to the rate of 30,000 rials per litre (Financial Times, 2019).

The value of the Iranian Rial has fallen by 50% in comparison to the dollar after the imposition of the sanctions. It added fuel to rising economic woes for the Iranians as the value of their savings reduced drastically. The lowest value that the Rial touched in comparison to the dollar was in 2018 when the value of Rial to one dollar was 176,000 to the dollar (BBC, 2019).

Iran's currency has hit record lows recently

Number of Iranian rials to one US dollar at unofficial market rate



Source: Bonbast.com

BBC

Source: BBC, December 2019. <https://www.bbc.com/news/world-middle-east-48119109>

Impact on General Public

The impact of these sanctions has affected the general public of Iran the most. The rise in food and oil prices, food shortages, business closures and rising unemployment has heavily impacted the public. People said in interviews with the BBC that they are unable to cope with the food shortage and their savings were swiftly declining. Iranian students studying abroad had been also facing the effect of these sanctions as they struggled to open accounts in other countries, facing many legal barriers. Many indigenous businesses in Iran were forced to shut down as the cost of production for the imported raw materials has increased leading to falling production. Therefore these shutdown of services to the Iranian people has resulted in public anger as they struggle to

acquire essential products.

The prices of electrical goods and appliances had seen massive inflation leading to higher housing prices. People who had saved money for many years to buy property saw their savings go to waste as the currency lost its value and the inflation continued to rise (BBC, 2018).

Conclusion

The sanctions against Iran have had devastating effects on its economy and its people. On one hand, the USA believes that these sanctions might provoke Iran to return to the nuclear deal whereas, on the other hand, Iran believes that these sanctions have caused a humanitarian crisis in their country. Through this research paper and the pieces of evidence provided to support the argument, it can be assessed that these sanctions on Iran have had catastrophic implications to the Iranian people and in the past had failed to stop the Nuclear Programme. Presently, the Biden Administration in the USA is currently working with the Iranian Government and other European countries for the revival of the nuclear deal. Thus, it makes us question, whether the nuclear deal will be brought back or Iran will end up bearing the effects of the USA's sanctions.

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