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Iran's survival strategy

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It is by now common knowledge that Western-imposed economic sanctions on Iran have had detrimental impacts on the Iranian economy. Iranian officials have long since shifted their public statements from outright denial to explicit acknowledgement of the effect of sanctions on Iran's economy, conceding that sanctions were partly to blame for Iran's recent currency depreciation as well as its rampant inflation.

Still, debate about the extent of the sanctions' impact continues. Western media outlets have reported a loss of over US\$50 billion in Iranian oil revenues over the last year, an estimate Iranian officials have so far been reluctant to acknowledge. (According to some sources, Iran's petroleum minister recently reported the loss of around \$40 billion in oil revenues over the last nine months, but a ministry spokesman swiftly dismissed the report, indicating the controversial nature of the issue.)

Whatever the sanctions' actual effectiveness, they have won the praise of Israeli officials who have generally been skeptical of the effectiveness of non-military options towards Iran. Heartened by Iran's recent sharp currency depreciation, the Israeli Finance Minister Yuval Steinitz last September even went so far as to characterize the Iranian economy as on the verge of collapse.

It is safe to conclude that sanctions have partly contributed to the sharp rise in the price of commodities and other consumer goods in Iran, thus eroding the general welfare of ordinary Iranians and threatening further economic hardships down the road. In the longer run, Western-

imposed sanctions may also significantly undermine the capacity of the Iranian government to provide public welfare programs and other social services by cutting its revenues and hindering its ability to import necessary foodstuffs and medicine.

Although Western sanctions were initially advertised as "targeted" and "smart" - aimed only at disrupting Iran's nuclear procurements and denying it financing for its alleged nuclear weapons program - it has become increasingly difficult for Western officials to sweep under the rug the indiscriminate and "dumb" nature of their sanctions. The extent and depth of the sanctions reveal that they are geared toward inflicting economic hardships on ordinary Iranians in the hope of inciting public discontent and possible revolts.

But whether these crippling sanctions will meet their ostensible political goal of changing Iran's nuclear posture is a different story. Finding itself the target of an economic onslaught of unprecedented scale, Iran is pursuing its own three-pronged strategy to survive and emerge victorious. This strategy consists of economic, diplomatic, and psychological dimensions.

On the economic front, Iran's strategy is geared toward minimizing the adverse effects of sanctions on the general population. For example, anticipating the US plan to impose a gasoline embargo, the Iranian government moved in advance to produce extra gasoline domestically by shifting the operations of a number of its petrochemical complexes to gasoline production. Iran also adopted price measures to effectively curb domestic gasoline consumption.

In other areas, Iran's economic strategy has taken the form of government intervention in the market to regulate and control prices. The recent action by the Iranian government to establish a parallel currency exchange center was meant to stifle further currency depreciation by providing alternative sources of foreign currency supply for imports and other needs.

In future crises, it is expected that the Iranian government will intervene more forcefully in the market by taking over some economic activities, imposing stricter price regulations, and if push comes to shove, rationing essential commodities. To these measures, one should also add a variety of initiatives to curb inessential imports, encourage domestic production, and when possible bypass the sanctions altogether.

On the diplomatic front, Iran has left the door open for a face-saving compromise over its nuclear program. Although it is unimaginable that the Iranian government would compromise its core right of nuclear enrichment, Iran possesses the necessary bargaining chips to achieve at least a partial removal of the sanctions. Suspending its 20-percent nuclear enrichment activities, providing for further transparency in cooperation with the IAEA, and implementing the IAEA Additional Protocol are among these.

On the psychological front, Iranian officials understand that the objective scope of economic hardship is less important than how it is perceived by the general public. Iranian officials have made their best effort to convince Iranians of the logic of their resistance against Western pressures and to encourage them to make sacrifices in the face of sanctions-induced economic hardships.

As I have noted elsewhere, the official narrative is that economic hardships are the price that the Iranian people need to pay to safeguard their political independence. Western demands on Iran's nuclear program are presented as illogical and discriminatory and thus worthy of resistance. Adopting this attitude naturally defines a higher tolerance threshold for average Iranians in the face of increasing economic hardship.

Finally, the self-sustaining nature of Iran's economy (which is capable of producing most of its own commodities and consumer durable goods), Iran's geographical location (which provides numerous outlets to the outside world and gives Iran influence in the strategic Persian Gulf), and its political influence in the greater Middle East (which lends it a degree of deterrence from Gaza to Afghanistan) all seem to give Iranian officials confidence that they will be able to weather the storm.