

Preface

Thirty six years after the Islamic Revolution, Iran stands at the threshold of a new chapter in its tumultuous relations with the Western world. Albeit it may be difficult to predict the parameters that will guide this interface, there can be no doubt about the new ascendance of pragmatism among all parties. On the one hand, in Iran, the ruling elite confronts a weakening ideological grip and a crisis of legitimacy, while at the same time, finds itself unable to avoid mounting social and economic challenges which have long been neglected, thanks to oil exports revenues. On the other hand, major world powers have recognized that Iran, with its rich history, culture, and political and economic influence can no longer be reduced to the status of a pariah state, to be contained and marginalized. While today's Iran cannot be ignored, its present importance pales compared to what its future might hold, as a rising economic and political power. This promising future would reconnect Iran with its glorious past and allow it to recover its place in the concert of nations after a decades-old hiatus.

Indeed, Iran, located at the cross-roads of civilizations and inter-continental trade, has, throughout its long history, played an important role in the movement of goods, people, and ideas. The political factors that have hobbled Iran's development in recent years should not prevent the scholar, the business practitioner, or the policymaker to appreciate Iran's potential as a key player in the economic, political, and technological development of its region and beyond.

This book has been written in recognition of the aforementioned potential. It purports to provide its readers with a fuller understanding of the economic complexities of the present and the promise of a future rebirth in an important country, perhaps the last emerging market; a country whose potential has been dormant or held in check, but whose significance has remained unaffected.

The recent thaw in the relations between Iran and the West, following the election of Hassan Rouhani has lent additional urgency to the writing of this book, as the prospect of loosening of economic sanctions and détente between adversaries, clearly expands the realm of possibilities.

The people of the West and the greater Middle East could, in a not too distant future, build a bridge of cooperation with Iran, based on shared interests, an outcome that would be beneficial to the entire world. Opportunities exist for the development of geostrategic, cultural, technological, political, trade, and economic relations. However, the primary focus of this book is trade and investment, with ancillary areas addressed only to the extent that they affect the former two. Indeed,

while nuclear negotiations have generated a wealth of analyses focusing on the political and strategic significance of the rapprochement between the West and Iran, the possible economic ramifications have yet to be fully investigated.

In sum, although Iran is a large, untapped market and a great potential contributor to the world economy, after more than three decades of relative isolation, the state of our knowledge about this country has been constrained by the dearth of exchanges and the opacity of Iranian society. Based on this realization, as editors of this book, we have strived to bring together the perspectives of scholars from a variety of backgrounds. Together, these contributors offer a broad overview of the challenges and opportunities presented by the gradual, and likely fitful, reintegration of Iran into the world economy.

This book does not aim to be exhaustive or to cover the whole gamut of mutually beneficial relationships that could arise from a lessening of political and ideological impediments to closer ties. It strives, instead, to explore the potential offered by cooperation in areas of more immediate interest to businesspeople, international organizations, civil societies, social thinkers, and policymakers.

The timeliness or importance of this book is not predicated on the success of the current negotiations between Iran and the West. These may or may not come to fruition, although the recent drop in oil prices and America's new engagement with another longtime foe, Cuba, point to the likelihood of compromise. However, the reintegration of Iran in the global economy is not contingent on any single fact or process, as critical as they may be. Indeed, the question of the emergence of Iran as a key economic player should not be posed as whether it will happen or not, but rather when will it happen. A closer look at the Iranian society suggests that the internal dynamics of Iranian society have reached a critical juncture: a young and well-educated population yearning for opportunities is confronted to a shackled economy, battered by sanctions and corruption that cannot even begin to address its needs. Externally, the strategic necessity to secure oil from the region has begun to recede as the paramount reason for the West's engagement with the Middle East. It is increasingly being replaced by a search for stability, prosperity, and new markets. The stage is set for the reemergence of Iran after years of isolation.

The book is organized into three parts preceded by an introductory chapter and followed by a brief conclusion.

The introductory chapter will revisit Iran's contributions to world civilization through cultural diffusion and trade. Throughout its long history, Iran has been a central node in the trade routes along which traveled people, ideas, and goods.

In recognition of the enduring importance of energy exports to Iran's economy, the next chapter, the first of three focusing on Iran's major industries, is entirely devoted to the petroleum sector. Deprived of investment and technology, Iran's oil infrastructure is in dire need of Western capital and expertise to ramp up sagging output and manage facilities efficiently. Iran's immense oil reserves are surpassed only by its vast natural gas resources, which together present great opportunities for

expansion. Iran's exports earnings have been and are likely to remain heavily reliant on the energy sector. Chapter 3 turns to Iran's non-oil exports and its fitful development. Although insignificant in terms of income when compared to the oil sector, these exports are an important source of employment and critical to lay the base for diversifying the economy. This sector has been devastated by the loss of access to major markets, the difficulties in securing needed production inputs and the challenges of international payments in the face of crippling economic sanctions. Yet, should the political impediments to economic activities be eliminated, the potential of the sector is far from negligible. Chapter 4 examines a major industry in the non-oil sector, automotive production, and assembly. Prior to 2012, when new E.U. sanctions came into force, many European companies were manufacturing and selling vehicles in Iran. As a middle-income country, Iran and its 78 million inhabitants represent indeed a lucrative market. Most vehicles are absorbed by the domestic market, with some exports to neighboring countries. The lifting of sanctions will unleash the full potential of this sector and companies like Peugeot and Renault are poised to resume their activities as soon as the political impediments are eased. It must be recognized, however, that even in the absence of sanctions, the challenges of operating in the Iranian market are daunting, particularly in light of the fact that any meaningful privatization of the economy has yet to take place. Nevertheless, the rewards can also be very attractive and opportunities exist in a number of sectors. Chapter 5 focuses on the Iran's political economy and the potential role of the diaspora. The Islamic Revolution of 1979 has spawned an Iranian exile community across the world whose numbers surpass the million mark. Often, well-educated members of the middle class, many members of this diaspora are today well-adjusted and prosperous citizens of their host country. Many successful businessmen and entrepreneurs, leading figures in major companies, scholars, scientists, and other knowledge workers hail from that community. These Westerners of Iranian descent can play a major role as facilitators or direct contributors to investments in their ancestral land. They could also be pivotal in influencing or even shaping the policies of their host country toward Iran.

The next two chapters focus on the nuclear negotiations between Iran and the five-member countries of the UN Security Council and Germany. Chapter 6 examines the rationale for negotiations for the parties, the dynamics of coercive bargaining, and the use of threats and incentives as applied to the contentious relationship between Iran and the United States in particular. The chapter demonstrates how the strategic use of economic coercion and inducements can increase the likelihood of an agreement. Chapter 7 takes a geopolitical approach in analyzing the likely effects of an agreement, arguing that the nature and scope of the latter will determine to a large extent its consequences. The interests and motivations of different constituencies within Iran and the United States in embracing or obfuscating improved relations are scrutinized. Finally, the calculus and influence of regional and global players such as Israel, the European Union, Russia, and China are examined and their often-conflicting interests discussed.

Chapter 8 focuses on Iran's trade relations with India. Although the two countries' bilateral relations are far from having reached their full potential, they have grown tremendously over the last decade. However, in the last few years, the tightening sanctions on Iran have affected negatively the volume of transactions as payments as well as shipping and insurance have become more difficult to secure. It remains that the two countries have complementary needs as a growing India experiences an increasing need for energy imports while supplying Iran with some of its food and industrial needs. Chapter 9 investigates Iran's relationship with China. Perhaps even more than India, China is of critical importance for Iran in more than one way. Not only is China the biggest buyer of Iran's oil exports, but the two countries have numerous areas of shared interests from a strategic and geostrategic perspective. What China perceives as attempts at containment and encirclement by the West and its Asian allies can only be beaten back by reaching out to countries that share the same concerns about the United States' designs, first and foremost, Iran. Even after a thaw in relations between Iran and the West, China is likely to remain a privileged trade and strategic partner for Iran. Chapter 10 brings this book to a close by focusing on the complex and contentious relationship between Iran and the United States. It might come as a surprise to learn that the two countries do, indeed, share strategic interests in a number of areas, as the title of the chapter suggests. Nevertheless, the tormented history between the two countries and the weight of resentments and mutual recriminations cannot be underestimated. Political machinations by domestic interest groups in both countries and external political considerations add additional layers of complexity to the fraught relationship. The chapter concludes by pointing out that it is in the best interests of the two countries to reach an agreement.

To be sure, pragmatism and the pursuit of national interests create a powerful dynamic toward reaching compromise, but history has shown that this dynamic is neither irresistible nor irreversible. Reconciliation is a long road rather than a destination, and it requires continual vigilance from those committed to tread that path.

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