The Islamic Republic of Iran

- 76 million people, Alaska-sized.
- 90% Shi’a muslim population, 51% Persian.
- World’s 4th largest oil exporter; Trade ratio ~ 60%.
- Government a mix of democratic and appointed positions.
- Economic freedom index ~ 4.7
- Gov’t expenditures /GDP ~ 28% (up from 16%).
- Life expectancy ~ 71 years.
- HDI = .702
- Unemployment ~ 15% (down from 25% in 1990s).
- Investment share 32% (up from 15% in 1994)

A Brief History of Islam (“surrender to God”)

- Prophet Mohammed of Mecca in early 7th Century received revelations from God (Allah) through Angel Gabriel. Fled from persecution to Medina (hijra), then returned to conquer Mecca.
  - Qur’an (Koran) written in suras.
  - Hadith his sayings and parables.
- Mohammed died in 632, succeeded by caliphs.
  - Mohammed’s son-in-law Ali was the 4th Caliph, assassinated in 661, son Hussein killed in battle in 680 over succession.
    - Split between Shi’ite minority and Sunni majority.
    - Hidden imams – descendents of Mohammed.
- Jihad (holy war) extended Islam across north Africa to Spain, east to north India, central Asia, Malay peninsula, Sumatra.
A Brief History of Islam ("surrender to God")

- Under Baghdad Caliphate, Islam began an intellectual flowering that lasted until Mongol invasions and crusades: a revival of Hellenistic science, mathematics, and philosophy.
- After Mongol invasions in 12th-13th Centuries, Islamic countries grew more culturally conservative.
- Starting in 14th Century, Ottoman Turkish Empire conquered much of Middle East, Byzantine Empire, Eastern Europe.
- Ottoman Empire collapsed in 1918, followed by brief control by Western European powers. Oil became a strategic interest in Iran, Iraq, and Arabia.

Key Principles of Islam

- *Shari'a* legal system.
- *Umma* – unified Islamic community, unified religion and politics (no separation of church and state, no consumer sovereignty).
- *Khilafah* (vice-regency with Allah) – stewardship, not ownership.
- *Adalah* (justice) includes principles of:
  - *Zakat* (almsgiving for poor)
  - *Gharar* (no gambling)
  - *Riba* (no interest)
  - *Qirad* (profit-sharing is approved).
- Support for the *Ulama* (the clergy) as scholars of the Qur’an and Hadith.
Islamic Banking

- Islamic banking to keep to letter of the law while allowing development of financial markets.
  - Mudarabah system: profit-sharing by lender.
  - Murabaha system: mark-up by lender.

Persian History

- Iran has a very ancient history – e.g., center of Persian Empire.
- Zoroastrians forcibly converted to Islam.
- Maintained independence after 1502, never part of Ottoman Empire.
- Nationalist uprising against the Shah, limited constitution in 1906, discovery of oil in 1908 by British.
- Reza Khan made himself Shah in 1925, installing the new Pahlavi dynasty. Iran began to modernize and to secularize politics. Forced by Allies to abdicate in 1941 in favor of his son, Mohammad Reza Pahlavi.
Pre-revolutionary Iran

- Under Prime Minister Mohammed Mossadeq, Iran nationalized the British-owned oil industry in 1951, and the Shah fled the country. The CIA led a coup against Mossadeq in 1953. Shah established a dictatorship and police state (the Savak).
- Oil embargo of 1973 led to windfall – higher prices, misspent oil revenues, impoverishment.

Revolution

- Qom massacre in 1978 helped to set off both secular democratic and Islamic revolutions.
- Shah left Iran in 1979 to get cancer treatment, Grand Ayatollah Ruhollah Khomeini, the imam, returned from Paris.
- Confiscation of Shah’s assets, redistribution through foundations.
- Revolution led to halt in oil exports, 2nd Oil Crisis, 1980 Recession in U.S.
- Attempt by Iraq to take oilfields along border and control of Sha’at-il-Arab in 1980 led to an eight-year war (U.S. supported Iraq).
- Effort to spread Islamic revolution abroad was not popular with most of Iran’s neighbors.
Radical phase (1979-84)

- Move towards “Islamic socialism” led to nationalization and centralization
- Law of interest-free banking
- Land reform blocked by Ulama.
- Increasingly isolated (U.S. trade embargo).
- *Shari’a* legal system was imposed, and Khomeini’s writings were also the basis of law.
- Grand Ayatollah is the "Leader of the Islamic Revolution" and head of state.
- An appointed Council of 12 Guardians vets all politicians and can veto any legislation.
- *Khums* tax of 20% for Ulama, plus required taxes for zakat.
Pragmatic phase (1985-)

- Trade liberalization with rising trade in spite of embargo.
- Price liberalization.
- Privatization of some SOEs, minority stock sale of others.
- President Rafsanjani's five-year plan for economic development was approved by Khomeini in 1989.
- Iran sought foreign loans, but mismanagement, inefficiency, and infighting made coherent economic policies difficult.

Iran after the revolution

- Unstable growth record due to revolution, war, embargo, overvalued exchange rate, and inflation.
  - Per-capita income in 1988 only 60% of 1979 level.
  - Per-capita growth 1990-2002 averaged around 3.3%, inflation around 7%, unemployment around 10%.
- President Mohammed Khatami overwhelmingly elected in 1997, a moderate cleric promising more women's rights, reduced policing, openness to the outside, and political reform, but Iranian presidency was weak and Iranians were disappointed.
Petroleum

- Iran is the second biggest producer in OPEC (4m bpd), after Saudi Arabia, and oil accounts for 85% of Iranian exports.
- Top ten producers of petroleum in 2006 were, in order: Saudi Arabia, Russia, United States, Iran, Mexico, China, Canada, United Arab Emirates, Venezuela, and Norway.
- Top ten exporters of petroleum in 2006 were, in order: Saudi Arabia, Russia, Norway, Iran, United Arab Emirates, Venezuela, Kuwait, Nigeria, Algeria, and Mexico.
- The curse of oil: reforms delayed, corruption encouraged, inequality worsened, high consumption without investment in physical or human capital.
- Recent rise in oil prices increases oil exports to almost $100 billion per year.

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**Petroleum Price**

Europe (UK) Brent Blend Spot Price FOB

- Weekly Data
- Dollars per Barrel
- Price range from $0 to $160
Current Issues

- Islamic conservatives took power of Majles after Council of Guardians excluded many reformists from running for re-election.
- Current President Mahmud Ahmadinejad elected in 2005 in run-off election against Rafsanjani. Re-elected in an election most observers think was stolen.
- Ahmadinejad has taken a hardline approach to relations with the West, particularly on the issue of the development of a nuclear power industry, leading to the imposition of more international sanctions.
- Iran is also accused of intervening in the U.S. occupation of Iraq, another (now) dominantly Shi’ite nation. War with the U.S. seemed possible in mid-2000s.