

The necessity of international negotiations to contain the consequences of sanctions and achieve economic prosperity

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Article Info	Abstract
<p>Letter to Editor</p> <p>Main Object: Economics Scope: Iran</p> <p>Received: 23 April 2025 Revised: ----- Accepted: 24 April 2025 Published online: 10 May 2025</p> <p>Keywords: brain drain, economic prosperity, international sanctions imposed on Iran, Iran-US negotiations, Iranians' per capita income.</p>	<p>The international sanctions imposed on Iran between 2012 and 2019 have had a profound and pervasive impact on the country's economy. The findings of this study show that these sanctions have reduced Iranians' per capita income (based on purchasing power parity) by an average of \$3,600 per year, creating a significant gap between Iran and countries with similar governance conditions. In addition, the sanctions have caused an average annual decline of 11 percentage points in the share of the middle class in the population; part of this population has been relegated to low-income groups or has migrated. Indicators such as gross fixed capital formation, foreign trade volume, and the level of informal employment have also been significantly negatively affected. In such circumstances, the lifting of sanctions through international negotiations will pave the way for economic recovery, provide the basis for the return of investment in key sectors such as energy and industry, and facilitate the country's scientific and technological interactions. Also, the reduction of political and economic uncertainties will be accompanied by an increase in tourism and the containment of the brain drain phenomenon. The results of this study indicate that an agreement with the United States and other global players will not only enable Iran to return to the global economy, but will also bring mutual benefits to all parties.</p>

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Introduction

Iran's economy has suffered significant damage under sanctions. In this article, in an analytical study, Iran's economic performance is compared with a group of similar countries; these countries had a similar development trend to Iran before the sanctions in 2012. The comparison concluded that there is a significant gap between Iran's per capita income and these countries. Estimates show that sanctions have reduced the per capita income of each Iranian by an average of \$3,600 per year (based on purchasing power parity) during the period 2012-2019. In other words, each Iranian during this period could have been, on average, \$3,600 richer per year if sanctions had not been imposed¹. In these calculations, the quality of governance has also been taken into account, and countries with a similar situation to Iran in terms of governance before the sanctions were selected. Therefore, it seems unlikely that the estimated loss is due to problems with Iran's internal governance.

The decline in per capita income in Iran has brought about significant changes in the country's social structure. Research estimates show that as a result of sanctions, the size of the middle class (people earning between \$11 and \$110 per day at purchasing power parity prices) has significantly decreased between 2012 and 2019. The average annual effect of sanctions has caused the share of the middle class in the total population to decrease by about 11 percentage points per year, compared to similar countries without sanctions. This decrease has been mostly shifted to lower-income groups. In other words, part of the middle class has joined more vulnerable groups, while another part has migrated from the country. Given the vital role of the middle class in consumption, investment, savings, and support for economic reforms, sanctions have put a heavy strain on the Iranian economy.

In addition, there are other reasons to be concerned about the effects of sanctions. There is a significant gap between Iran and its peers in indicators such as gross fixed capital formation, imports, exports, industrial value added, and informal employment. These costs highlight the importance of lifting sanctions and returning Iran to its pre-sanctions growth path in order to restore Iran's market share in the global economy.

Negotiating and neutralizing economic sanctions

Negotiations with the United States, as the main sanctioning country, are a logical option for the Iranian government to change the country's economic trajectory. This is especially important in a context of widespread middle class decline and increased risk of political unrest and violence, as the opportunity costs of conflict are reduced and the difficulties of collective action under economic pressure are

1. See more: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4882432

diminishing, especially given Iran's institutional weaknesses¹. On the other hand, foreign actors may see significant opportunities for their commercial interests in the Iranian economy. Iran still has a large, albeit weakened, middle class. There is also a significant human capital base in the country, which makes it attractive for foreign investors. There are significant investment opportunities in Iran's oil, gas, and renewable energy industries.

Iranian universities have been hit by sanctions and international isolation, especially since the 2022 protests. The lifting of sanctions provides excellent opportunities for academic collaborations and joint projects with Western institutions and reduces the rate of brain drain.

With the reduction of political and economic risks resulting from the lifting of sanctions, Iran's tourism industry will witness a significant transformation. In general, countries that emerge from political isolation see an average increase in tourist arrivals. With more than 30 UNESCO-registered sites and unique natural attractions, Iran can become one of the regional tourism hubs. This growth will not only directly boost the hotel and transportation sectors, but will also have positive side effects on handicrafts, local shops, and restaurants.

Iran's reintegration into the global economy will also require compliance with international standards in areas such as financial transparency, property rights, and corporate governance. Experience in similar countries shows that such a process usually leads to deep institutional reforms. For example, the need to attract foreign direct investment (FDI) will be a stimulus to improve business indicators, strengthen the judicial system, and fight corruption. However, under sanctions, the incentives for such reforms are severely weakened due to limited access to technologies and international financial markets.

From a game theory perspective, the sanctions relief scenario can be analyzed as a "Pareto-optimal Nash equilibrium" in which both sides—Iran and the United States—achieve greater benefits by choosing a strategy of cooperation than by confrontation. For the United States, the agreement creates new trade opportunities in Iran's 85 million-person market and increases regional stability.

Conclusion

The present analysis shows that international sanctions have had a significant detrimental impact on the Iranian economy, including a decline in per capita income, a weakening of the middle class, and a disruption in macroeconomic indicators. However, lifting sanctions through constructive negotiations would both help restore Iran's economic growth and create beneficial trade and geopolitical opportunities for the other side, especially the United States. An improved business environment, expanded scientific and technological

1. See more: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5073466

cooperation, and a revival of the tourism industry are among the likely benefits of this path. In the long run, this approach would not only increase Iran's economic stability, but also reduce regional tensions and strengthen international cooperation. Therefore, adopting a strategy of constructive engagement, rather than confrontation, is a rational choice for all stakeholders.

Conflict of interest

The author declared no conflicts of interest.

Ethical considerations

The author has completely considered ethical issues, including informed consent, plagiarism, data fabrication, misconduct, and/or falsification, double publication and/or redundancy, submission, etc. This article was not authored by artificial intelligence.

Data availability

The dataset generated and analyzed during the current study is available from the author on reasonable request.

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