

Trump heightens risk for Iran economy, but JCPOA likely to remain

Despite the hype, Verity Iran does not expect the next President of the United States to undo the JCPOA deal or reverse Iran's reintegration into the global economy. The change of government in the United States certainly amplifies the downside risks for the Iranian economy, not least if postures harden in Tehran and Washington over the future of the relationship. But Iran faces the same priorities it did on the 8th November: reform, diversification and the fight against corruption.

The Iranian business community awoke to a shock on the 9th November, along with much of the rest of the world, to learn that Mr Donald J. Trump was to be the 45th President of the United States. Iran featured prominently in the election campaign as a key foreign policy issue and Mr Trump had referred to the Iran nuclear deal as a "disaster", proposing to "dismantle" it if he were to win the keys to the White House. His win has aroused understandable concern in Iranian business circles, where so much has been invested in Iran's reintegration into the global economy.

Despite the hyperbole of the campaign trail, Verity Iran takes a more sober view of the JCPOA's likely fate in the context of a Trump administration. There is a significant difference between the headline grabbing narratives of the election campaign and the complex and nuanced policy landscape that greets a US President in office. It is too early to know how high up Mr Trump's list of priorities his opposition to the JCPOA will sit, but it is likely his campaign-posture will soften as he receives a fuller briefing on the situation in Iran and the wider region. Certainly, the fight against ISIS and stability in Syria are likely to sit ahead of Iran in the pecking order, and dealing with those issues complicates Mr Trump's stated hard-line position on Iran.

The nuclear agreement initiated something that is very difficult for a new US administration to put back in the bottle. The JCPOA occurred as a result of an historically unprecedented degree of international collaboration – both in constructing and unwinding a

Fig 1. Tehran Stock exchange (TEDPIX All Shares Index) 21 March 2016 to present

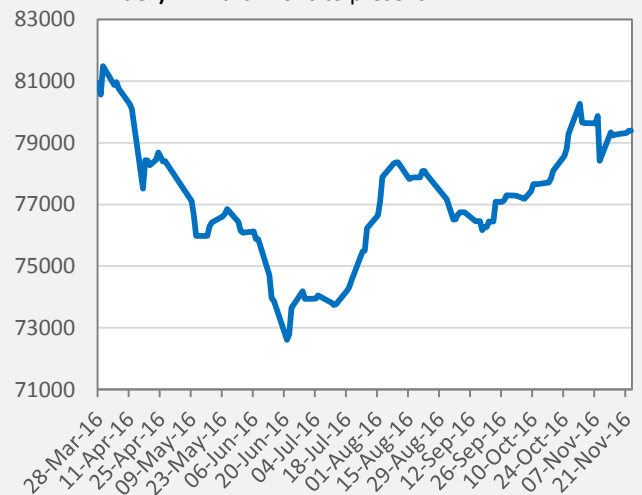
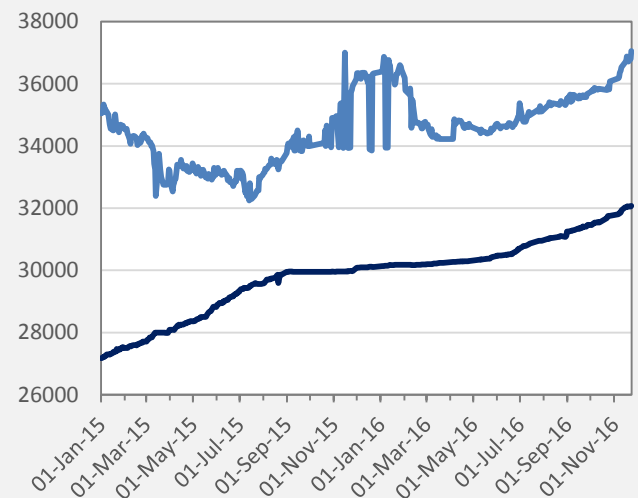


Fig. 2 Iranian Rial to USD, dual exchange rates 1 January 2015 to present



suffocating sanctions framework – and a perfect alignment of geopolitical will. It is a multilateral agreement underpinned by a United Nations Security Council resolution and it is widely seen as successful in the other P5+1 signatory states. The United States does have the right to withdraw from the deal, of course. It also has disproportionately large powers to upset the JCPOA's implementation if it were to re-impose extra-territorial financial sanctions that punish third parties for dealing with Iranian firms. But the international coalition that made the global economic sanctions so effective in the first place is highly unlikely to reassemble with the same unity of purpose. Russian and Chinese authorities are of no mind to reverse what they see as a progressive foreign policy achievement.

Countless business delegations have flown in and out of Iran over the past year, making connections, sharing ideas, striking deals.

Last month the European Union opened a trade office in Tehran after the pro-business dialogue outgrew the EU representatives dotted around European embassies. The UK authorities removed Bank Saderat from the financial sanctions blacklist, unfreezing its assets after six years and reopening its doors to European business. German state run lender KfW IPEX apparently agreed a US\$1.3 billion credit line to help finance the development of the Tehran to Mashhad railway, the largest deal of its kind since the JCPOA. And France's Total and China's CNPC signed an agreement in principle to invest US\$4.8 billion in the South Pars development, with a final contract to follow at the start of 2017.

The reaction of the Iranian authorities to the US election result has been relatively sanguine. The President, the Governor of the Central Bank of Iran and the Foreign Minister have all counselled for calm and downplayed expectations of a change in US policy trajectory. The head of Iran's nuclear programme, Ali Akbar Salehi said he expects the next US President to be unlikely to tear up the deal once he has received the full briefing on its wider ramifications. The head of the Tehran stock exchange downplayed the "Trump effect" and said there were no long-term implications for Iran's investment market. The TEDPIX has been essentially flat since the election (Fig 1).

Of course, the election result does accentuate the downside risks facing Iran's economy. The last thing the business community wants to see is a downward spiral of political posturing and back-tracking on the terms of the deal. There are hardliners close to the inner circle of Iran's Supreme Leader and the US President-elect who would like to see the back of the JCPOA. With an Iranian presidential election only months away, perceived breaches of the agreement on either side will be highly scrutinized - Iran's adherence to the terms of the deal are more important than ever to avoid fuelling that fire. The recent passage of US legislation to extend Iran Sanctions if the terms of agreement are breached, plus the indictment of four Turkish and Iranian nationals on charges of violating historical sanctions, are widely seen in Iran as being against the spirit of the deal and will not help the dynamics.

Regardless of the US election, Iran still faces the same challenges it did on the 8th November to place the economy on a surer footing and to raise prosperity over the long term. These are challenges of regulatory and financial reform, combating corruption, upgrading infrastructure, modernising industry, diversifying the economic base and widening the middle class. The more progress it can make along these lines, the more secure Iran's economic trajectory will be regardless of political developments in other countries

Fig 3. Brent Crude Oil Price \$/barrel
(March 2016 to present)





@VerityIran

contactus@verityiran.com

