

# **REBUILDING IRAN'S ECONOMY USING THE INDEX OF ECONOMIC FREEDOM**

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# INDEX OF ECONOMIC FREEDOM AND IRAN'S STANDING IN THE WORLD ECONOMY

## Introduction

The 2024 Index of Economic Freedom<sup>1</sup> evaluates the economic policies and conditions of 184 sovereign countries. The index focuses on four key aspects of the economic and entrepreneurial environment: 1. Rule of Law, 2. Government Size, 3. Regulatory efficiency, and 4. Market Openness.

Islamic Republic of Iran's economic ranking against the wealthiest nations illustrates a stark and disturbing image and the extent of mismanagement the country has endured.

According to this index, Iran's economy is categorized as "repressed and primarily unfree," with a score of 41.2. It is ranked 169th out of the 184 countries assessed. Its rating has decreased by 1 point from last year, and Iran is ranked 14th out of 14 countries in the Middle East/North Africa region. The country's economic freedom score is lower than the world and regional averages.

State interference undermines every pillar of economic freedom measured in the Index. Corruption and institutional deficiencies in the legal framework undermine the rule of law. The government dictates production activity and derives most of its revenue from the oil sector. The private sector remains constrained by a restrictive and burdensome regulatory environment. Employment regulations are restrictive, and the labor market remains stagnant<sup>1</sup>.

Economic freedom is the fundamental right of every human to control their labor and property. In an 'economically free society,' individuals can work, produce, consume, and invest however they please. In such free societies, governments allow labor, capital, and goods to move freely by curbing corruption and refraining from coercion or constraint of liberty beyond the extent necessary to protect and maintain economic liberties. This requires a new approach to foster stability and encourage competition by reducing bureaucratic barriers, investing in failing public infrastructures, and fostering an environment conducive to entrepreneurship, which could stimulate economic growth and diversification beyond reliance on the oil sector.

## Iran's Economic Instability

Since its inception, Iran's economy has been seeing severe turmoil and mismanagement of its waste resources. High inflation rates and currency depreciation have been persistent issues in Iran. Inflation erodes purchasing power, while currency depreciation can lead to increased costs of imported goods and create instability in the foreign exchange market. Economic mismanagement, including ineffective policies, poor planning, and corruption, has contributed to Iran's economic instability.

## Iran's Economy Today Using the Index of Economic Freedom

The 2024 Index of Economic Freedom, which considers economic policies and conditions in 184 sovereign countries from July 1, 2022, through June 30, 2023, shows that Iran's economy, taken as a whole, is primarily unfree and is ranked 169 out of 184 countries Table 1.

Table 1- Overall Score of Economic Freedom	Average	Ranking
Singapore	83.5	1
Switzerland	83	2
Ireland	82.6	3
Taiwan	80	4
Iran	41.2	169
Middle Eastern Countries	56.8	-
World Average	59.1	-

Before 1979, Iran's economy was one of the boasting countries in the Middle East, with a high GDP growth rate and per capita income. In contrast, fifty years ago, Singapore faced high unemployment, poor infrastructure, and a housing shortage. During that time, Singapore faced significant challenges in the mid-20th century, including high unemployment, poor infrastructure, and a severe housing shortage.

Today, Singapore is ranked among the most prosperous countries globally, with the highest GDP per capita of \$82,807 and level of human capital development<sup>5</sup>.

Switzerland is among the top 10 economies by GDP per capita ranking (USD 92,000 in 2022). Approximately 74% of Swiss GDP is generated by the services sector and 25% by industry. The agricultural sector contributes less than 1%. The EU is Switzerland's leading trading partner. Around 67% of Swiss imports are from the EU, while 50% of Swiss exports are to EU countries. Most Swiss businesses (over 99%) are SMEs employing fewer than 250 staff.

The Republic of Ireland's economy is an advanced knowledge economy focused on high-tech services, life sciences, financial services, agribusiness, and agrifood. Ireland is an open economy (3rd on the Index of Economic Freedom) and ranks first for high-value foreign direct investment (FDI) flows.

Taiwan transformed itself from a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, primarily in Asia. Today, Taiwan's economy is an advanced free-market economy. It is the eighth-largest in Asia and 20th-largest in the world by purchasing power parity, allowing Taiwan to be included in the advanced economies group by the International Monetary Fund.

None of the four countries has the natural resources and wealth of Iran, and indeed, Iran's and these countries' economic trajectories have followed starkly different paths over the past few decades.

Economic mismanagement, including ineffective policies, poor planning, and corruption, has contributed to Iran's economic challenges<sup>6</sup>.

Table 2 demonstrates a lack of prudent policies, which resulted in low ranking in comparison not only to the top four countries but also to the Middle Eastern countries, as shown in Table 3. Iran scores an exceptionally low ranking given its natural resources, such as oil and gas, a highly

educated young population, and newly discovered lithium. The scores in Rule of Law, Government Size, Open Markets, and Regulatory Efficiency can be attributed to four decades of poor governance, traitorous policies, widespread corruption in government personnel and their families, and terroristic behaviors that have drawn international sanctions, further disadvantaging the Iranian people with high tax burden and government spending.

Table 2- Twelve Economic Freedom Index					
RULE OF LAW	Iran	Singapore	Switzerland	Ireland	Taiwan
Property Rights	23.8	94.2	94.2	93.5	82.2
Judicial Effectiveness	18.8	58.3	98.1	94.3	94
Government Integrity	17.1	88.3	91.3	83.4	73.4
GOVERNMENT SIZE					
Tax Burden	81.1	90.7	70.4	78	79.2
Government Spending	95.3	89.2	64.6	82.4	90.5
Fiscal Health	62.5	76	95.7	91.7	90.3
OPEN MARKETS					
Trade Freedom	56	95	95	79.2	86.4
Investment Freedom	5	90	86.4	90	70
Financial Freedom	10	80	90	70	60
REGULATORY EFFICIENCY					
Business Freedom	38.2	86.9	89.3	91.3	84.9
Labor Freedom	48.8	77.3	60.7	62.8	69.1
Monetary Freedom	23.8	76.3	80.8	74.5	80.1

### **Iran’s Index of Economy Freedom and Disastrous Economic Policy of the Islamic Republic**

Despite Iran’s vast natural resources, including the world’s second-largest reserves of natural gas, the fourth-largest reserves of crude oil, the second-largest lithium reserves, and its highly educated labor force, the country's economy still performs below that of most Middle Eastern Countries.

Iran’s economic freedom score is 41.2, making its economy the 169th freest in the 2023 Index. Its score decreased from 50.9 in 2018 to 41.2 in 2024. Iran is ranked 11th out of 11 countries in the Middle East/North Africa region (Table 3).

Table 3- Year 2024	United Arab Emirates	Israel	Qatar	Bahrain	Oman	Saudi Arabia	Kuwait	Jordan	Egypt	Lebanon	Iran
Overall Score	71.1	70.1	68.8	63.4	62.9	61.9	58.5	58.3	49.7	48.3	41.2
Property Rights	64.8	82.1	70.4	65.1	72.7	47.6	42.1	54.0	40.0	30.7	23.8
Government Integrity	64.9	65.5	51.7	38.0	42.2	43.9	41.9	48.4	26.2	22.7	17.1
Judicial Effectiveness	35.2	84.4	41.5	30.2	24.2	37.0	41.4	43.4	21.9	24.0	18.8
Tax Burden	100.0	59.3	99.7	99.9	97.6	99.1	97.7	84.4	85.4	90.5	81.1
Government Spending	78.4	50.7	74.0	68.7	59.4	67.2	11.3	67.8	80.8	94.7	95.3
Fiscal Health	98.1	58.6	96.4	0.0	73.8	79.5	100.0	2.3	11.8	69.2	62.5
Business Freedom	80.2	80.8	66.1	72.0	65.5	69.9	56.2	62.8	48.9	48.9	37.9
Labor Freedom	65.3	58.0	52.5	56.7	53.3	44.4	53.0	56.5	32.8	57.6	48.8
Monetary Freedom	78.3	78.4	72.2	79.5	80.3	79.6	67.9	78.7	72.9	10.1	38.2
Trade Freedom	78.0	83.0	81.6	85.2	76.2	74.2	75.6	71.4	60.2	71.4	55.8
Investment Freedom	50.0	70.0	60.0	85.0	60.0	50.0	55.0	70.0	65.0	30.0	5.0
Financial Freedom	60.0	70.0	60.0	80.0	50.0	50.0	60.0	60.0	50.0	30.0	10.0

Iran's economy flourished before the 1979 Iranian Revolution, driven by oil revenues. The country experienced rapid industrialization and modernization, with a high GDP growth rate and per capita income compared to its Middle Eastern counterparts, as shown in Table 3. However, Iran must catch up in every aspect of the index, especially investment and financial freedom. Iran sends millions of dollars to Lebanon, but Lebanon has a better index than Iran.

In free economic societies, governments play a limited role. However, the Islamic Republic's government has played an active role in Iran's economy in the face of budget deficits and hyperinflation over the last several years. It has resorted to increasing its intervention in the National Development Fund (NDF), which was created to invest in infrastructure and long-term development projects. The government is using NDF to manage daily affairs and cover deficits.

By withdrawing 50% of the resources from the NDF and failing to settle previous debts to the fund, the government of the Islamic Republic may risk undermining the fund's ability to support future development and improve the welfare of future generations. This approach could lead to short-term relief but could exacerbate economic challenges in the long run.

This strategy differs from oil-rich countries in the Persian Gulf, which typically use their national wealth funds to invest in domestic and foreign projects that promote long-term economic growth and stability.

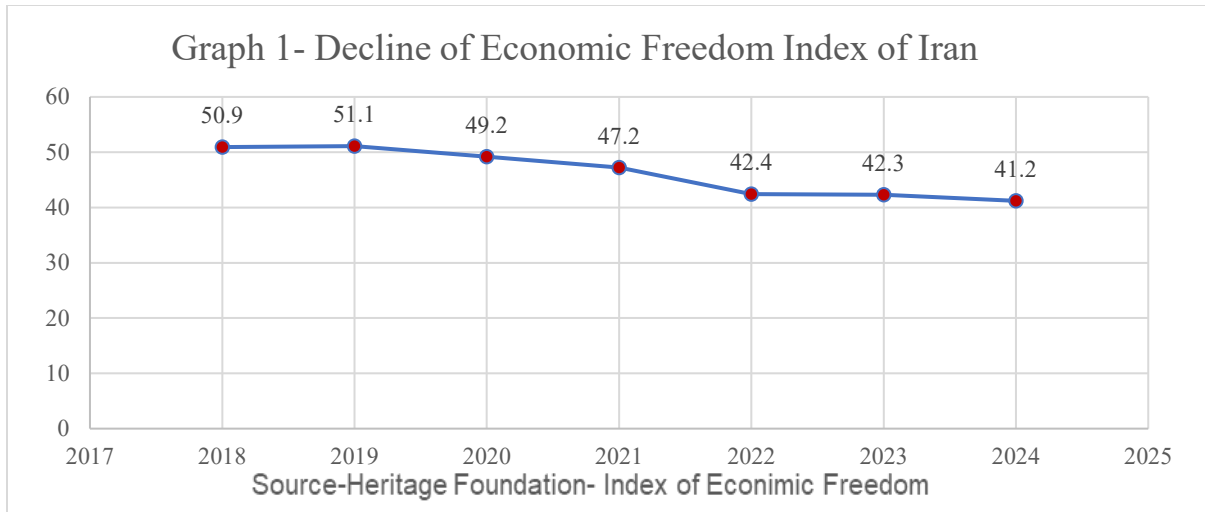
There are many factors contributing to low index, as considered below:

1. **Government Interference:** Government interference has deteriorated in every category of economic freedom measured in the Index. This level of interference limits the autonomy of the private sector and stifles economic growth.
2. **Banking System:** Iran's banking system faces near bankruptcy due to a lack of liquidity and capital reserves, government incompetence, strict Islamic banking law, and economic sanctions. Some of the factors that have contributed to these difficulties are listed below:

- a. **Lack of Liquidity:** Iran's banking system has struggled with liquidity issues, partly due to the impact of economic sanctions. Sanctions have restricted Iran's ability to engage in international financial transactions and trade, making it difficult for the country to access foreign currency and maintain sufficient liquidity.
  - b. **Capital Reserve:** Capital adequacy is crucial for the stability of any banking system. Banks that do not maintain adequate capital reserves may be more vulnerable to financial shocks and crises. Inadequate capital reserves can result from various factors, including non-performing loans and mismanagement. Apart from these conditions, Iran's banks may face other problems because they do not have unanimous rules in Islamic Banking without an "Interest Rate."
3. **Corruption and Lack of Rule of Law:** Corruption undermines the rule of law, creating an environment where businesses may face arbitrary regulations and unfair competition. This erodes trust in the legal framework and discourages investment.
  4. **Mafia-Like Control:** The private sector is controlled by a system tied to the ruling elite, resembling a mafia-like structure. This results in favoritism, nepotism, and further stifling of competition.
  5. **Illegitimate Regime Hegemony:** Revenue from activities such as the sale or trade of national resources is used to finance illegitimate regime hegemony in other countries. This diversion of resources away from domestic development exacerbates economic challenges.
  6. **International Sanctions:** Sanctions imposed by the United States and other countries have targeted key sectors such as oil and finance, restricting Iran's ability to trade internationally and access global financial systems. These sanctions have severely constrained Iran's economy, impacting its overall economic freedom score.

The dire situation of Iran's economy underscores a highly centralized economic system in Iran, where the government exerts significant control over production activities and relies heavily on revenue from the oil sector. This centralized control, coupled with a restrictive regulatory environment, has marginalized the private sector, limiting its access to capital and opportunities for growth. Such a system can harm the economy, stifling innovation, discouraging investment from domestic and foreign sources, and perpetuating economic inequality. It can also contribute to inefficiency and corruption, as resources are allocated based on political connections rather than merit or market demand.

The decline in Iran's economic freedom index reflects a trend of increased government control, corruption, and a lack of rule of law, which hinder economic prosperity and development. Graph 1 shows a steep decline in Iran's standing in the world ranking among Free economies.



## Rebuilding Iran’s Economy Using the Index of Economic Freedom- A New Perspective

### 1. Is GDP a good criterion for measuring economic property?

Gross Domestic Product (GDP) is commonly used to measure a country's economic performance. GDP per capita is a monetary measure of economic prosperity per person. It helps assess a country's standard of living and wealth distribution.

Here's how GDP per capita helps in assessing economic prosperity:

- **Standard of Living:** GDP per capita reflects the average income individuals earn in a country. A higher GDP per capita means that residents have more income to spend on goods and services, thereby indicating a higher standard of living.
- **Wealth Distribution:** While GDP per capita provides an average measure of prosperity, it also indicates wealth distribution within a country. Disparities in income distribution can affect how GDP per capita translates into individual prosperity. For example, a high GDP per capita with unequal distribution may not accurately reflect the economic well-being of all residents.
- **Economic Well-being:** Higher GDP per capita often correlates with better access to education, healthcare, housing, and other necessities, contributing to overall economic well-being. It can also indicate higher infrastructure development and public services available to residents.

However, to assess economic prosperity comprehensively, it is essential to consider other factors alongside GDP per capita. These factors may include income inequality, access to basic needs, quality of life indicators, and environmental sustainability. Here are some key reasons why GDP is not a perfect measure of prosperity:

- **Excludes Non-Market Activities:** GDP only counts goods and services bought and sold in markets. It excludes unpaid work, such as caregiving, household labor, and volunteer activities, all contributing to societal well-being. A country with a high GDP might still have significant social and economic inequality.

- **Ignores Income Distribution:** GDP measures total economic output, but it doesn't provide information about how wealth is distributed within a society. A high GDP could be paired with high inequality, where the benefits of economic growth are concentrated among a small portion of the population while others may remain in poverty.
- **Doesn't Account for Environmental Costs:** GDP does not factor in the depletion of natural resources or the negative impact of economic activities on the environment, such as pollution and biodiversity loss. Economic growth that leads to environmental degradation could increase GDP while reducing overall well-being and future prosperity.
- **Focuses on Quantity, Not Quality:** GDP measures the value of goods and services produced but doesn't capture the quality of life. For example, it doesn't account for the population's health, life expectancy, education levels, work-life balance, or the overall happiness of citizens.
- **Overlooks Social and Cultural Factors:** Prosperity isn't just about wealth; it's also about social cohesion, cultural richness, and other intangible aspects of society. GDP fails to measure these factors, which are crucial to a country's overall prosperity.
- **Doesn't Reflect Well-Being or Happiness:** GDP is not directly related to the well-being or happiness of citizens. For instance, a country may have a high GDP, but its citizens may not necessarily experience high life satisfaction, good health, or fulfillment.
- **Short-Term Focus:** GDP focuses on short-term economic activity and does not consider long-term sustainability or prospects. It might show strong growth based on activities that are not sustainable in the long run, such as over-exploitation of natural resources or excessive borrowing.

## 2. Other Indices

For the above reasons, many economists and policymakers have argued that alternative measures—such as the **Human Development Index (HDI)**, the **Genuine Progress Indicator (GPI)**, or measures of happiness and well-being—should be considered alongside GDP to provide a more comprehensive picture of prosperity.

The observation that alternative measures like the Human Development Index (HDI), Genuine Progress Indicator (GPI), and happiness measures focus on a broader perspective of well-being is valid. However, it's also true that these metrics often don't align directly with the 12 components of economic freedom as outlined by frameworks like the Economic Freedom Index.

For detailed explanations of these indices, see Appendix II. Appendix II will be provided upon request.

### Rebuild Iran's Economic Freedom Index

The Economic Freedom Index focuses on factors such as property rights, government integrity, judicial effectiveness, and tax burden to illuminate areas for improvement and areas for policy optimization.

Understanding the nuances of these components is crucial for formulating strategies that align with Iran's unique economic and cultural dynamics. Each index component directly impacts foreign investment, domestic entrepreneurship, and economic growth. A detailed analysis can thus guide policymakers in creating a more conducive environment for business, leading to

sustainable economic development. However, HIM Reza Pahlavi could start to rebuild Iran's economy based on the following crucial economic freedom indexes.

1. Tax Burden
2. Fiscal Health
3. Trade Freedom
4. Investment Freedom
5. Financial Freedom
6. Business Freedom
7. Monetary Freedom

## **1. Tax Burden**

Iran's Overreliance on oil revenues has often deprioritized tax collection, limiting the role of taxes in financing public services and creating fiscal vulnerabilities during oil price fluctuations.

Generally, inefficient tax collection and 50% of state-owned and charitable organizations are exempt from taxes. The inadequate tax system has led to weak enforcement mechanisms, which have led to significant tax evasion and reduced potential government revenue.

### **Recommendations: Broaden the Tax Base:**

- Introduce progressive income taxes while maintaining low rates for lower-income groups to reduce inequality.
- Expand coverage to include informal sectors by incentivizing businesses to formalize a fair tax by reducing rates for small businesses.
- Implement a unified digital tax platform for filing and payment to improve efficiency and compliance.
- Encourage voluntary compliance by offering amnesty programs with penalties for late filers.
- Strengthen enforcement mechanisms and improve transparency in tax collection.

Here are some examples of the countries that simplified their tax code to increase their tax revenue:

### **Georgia:**

The country simplified its tax structure and introduced flat taxes, which increased compliance and revenues. It also digitized tax filing systems, reducing corruption and administrative costs.

## **2. Fiscal Health**

Persistent budget deficits fueled by volatile oil revenues and growing public debt undermine fiscal sustainability. Weak fiscal discipline and limited transparency in budget processes have exacerbated economic instability. Corruption and mismanagement have also exacerbated inefficiencies in resource allocation. Given the lack of sufficient resources, Iran has spent about \$30 billion in Syria, \$700 million a year to Lebanese Hezbollah, and over \$500 million on the Hamas organization since 2011, according to a prominent Iranian lawmaker and Secretary of

State Mike Pompeo. Iranian frozen assets in international accounts are calculated to be worth between \$100 billion [8][9] and \$120 billion.[10][11][2] Almost \$2 billion of Iran's assets are frozen in the United States.[6] According to the Congressional Research Service, Iran's frozen assets include real estate and other property, in addition to the money locked up in foreign bank accounts. The estimated value of Iran's real estate in the U.S. and their accumulated rent is \$50 million.[13] Besides the assets frozen in the U.S., some parts of Iran's assets are frozen worldwide by the United Nations.[14]

### **Recommendations for Improvement:**

- **Strengthen Budgetary Discipline:** Establish fiscal rules to control deficits and ensure balanced budgets over the economic cycle.
- **Diversify Revenue Sources:** Reduce dependence on volatile oil revenues by encouraging non-oil sector growth and tax diversification.
- **Enhance Transparency:** Publish detailed budgets and fiscal reports to build public trust and attract international investors.
- **Manage Debt Effectively:** Limit borrowing to sustainable levels and focus on debt restructuring where necessary.
- **Digital Transformation:** Leverage technology for efficient tax collection, budget monitoring, and service delivery.
- **Public-private partnerships (PPPs):** Collaborate with the private sector to fund and manage public services, reducing the government's fiscal burden.
- **Economic Diversification:** Encourage private sector-led growth in industries beyond oil to stabilize revenues and reduce fiscal dependency.
- **Diversify Revenues:** To stabilize government income and develop non-oil sectors like agriculture, manufacturing, and services.
- Promote tourism and export-driven industries by creating supportive policy environments.
- **Enhance Debt Management:** Restructure existing debt to reduce costs and extend repayment periods.
- **Public-Private Partnerships (PPPs):** Utilize PPPs to fund infrastructure projects while reducing the government's direct financial burden.
- **Economic Diversification:** Follow Malaysia's approach by leveraging its oil wealth to invest in electronics, palm oil, and tourism, reducing dependence on oil.

## **4. Trade Freedom**

Building a Gateway to Regional and Global Markets

**Simplify Customs Procedures:** Launch a Single Window Customs System to integrate all import/export documentation digitally.

Train customs officials to ensure faster processing and reduce corruption at borders.

**Reduce Non-Tariff Barriers (NTBs)**

- Eliminate unnecessary import/export licenses except for sensitive goods (e.g., military technology).
- Introduce transparent regulations for inspections and quality checks.
- Engagement in Regional Trade Agreements: Strengthen ties within the Economic Cooperation Organization (ECO). In 1985, Iran, Pakistan, and Turkey established the Economic Cooperation Organization (ECO) to promote economic, technical, and cultural cooperation among the member states. ECO is the successor organization of the Regional Cooperation for Development (RCD), which remained in existence from 1964 up to 1979. In 1992, the Organization was expanded to include seven new members: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- Lower tariffs on raw materials and intermediate goods to support domestic manufacturers.
- Other trade blocs, such as the Shanghai Cooperation Organization (SCO), can be used to attract investment and gain market access.

#### **Modernize Infrastructure:**

- Invest in port modernization (e.g., Bandar Abbas) to reduce shipping delays.
- Upgrade rail and road networks connecting Iran to neighboring countries.

#### **Develop Sectoral Export Strengths:**

- Support industries like petrochemicals, processed foods, and high-tech manufacturing.
- Provide export incentives, such as tax credits, for companies achieving export milestones.
- Diversify Trade Partners: Expand partnerships beyond oil buyers, focusing on emerging economies in Africa, Southeast Asia, and Latin America.

#### **Current Issues in Iran:**

- High average tariffs on imports restrict competitiveness.
- Extensive use of non-tariff measures like quotas, licensing requirements, and bans on certain goods.
- Sanctions limit access to global markets and technologies.
- Lower import duties on essential goods, raw materials, and capital equipment to reduce production costs for local businesses.
- Implement free trade agreements (FTAs) with key regional players, such as Turkey, Pakistan, and Russia, to access larger markets.

#### **Improve Customs Efficiency:**

- Implement a Single Window System for trade, where all import/export processes are centralized digitally.
- Use risk-based inspections to reduce delays and minimize corruption at ports.

#### **Diversify Export Partners:**

- Shift focuses on non-traditional partners in Asia, Africa, and Latin America to counteract sanctions.
- Provide export incentives for high-value sectors like electronics, pharmaceuticals, and processed foods.

### **Develop Trade Infrastructure:**

- Invest in ports, railways, and road networks to improve connectivity and reduce logistics costs.

### **Example:**

**Vietnam:** By joining global trade agreements and simplifying customs procedures, Vietnam became a global manufacturing hub, with exports accounting for a significant share of GDP.

By reforming its trade policies, Vietnam was able to join the World Trade Organization (WTO), which helped Vietnam reduce trade barriers and significantly boost exports.

### **Singapore:**

Singapore eliminated almost all tariffs and non-tariff barriers, making it one of the world's most open economies. It built a state-of-the-art port and adopted efficient customs procedures.

**Result:** Singapore became a global trade hub, attracting multinational corporations and significantly boosting its GDP.

### **Rwanda:**

Simplified customs processes and joined regional trade blocs like the East African Community (EAC).

Reduced border delays and increased trade within Africa and globally, contributing to sustained economic growth.

### **South Korea:**

Focused on export-led growth by reducing tariffs, entering global markets, and investing in manufacturing capacity.

Result: South Korea transformed from an agrarian economy to a high-income industrial powerhouse.

### **Challenges:**

- High tariffs, non-tariff barriers, and cumbersome customs procedures hinder international trade.
- Economic sanctions have restricted Iran's ability to engage in global commerce.
- Limited access to global trade networks reduces competitiveness.

### **Recommendations:**

- Reduce Tariffs and Non-Tariff Barriers:
- Simplify and standardize tariff structures to encourage imports and exports.
- Remove quotas and licensing requirements that restrict trade flows.

#### **Modernize Customs Systems:**

- Implement digital customs platforms to streamline procedures and reduce corruption.
- Train customs officials to ensure efficient and transparent handling of goods.

#### **Engage in Regional Trade Agreements:**

- Strengthen ties with neighboring countries through bilateral and multilateral trade agreements.
- Leverage regional platforms like the Economic Cooperation Organization (ECO) to increase market access.

### **4. Investment Freedom**

#### **Attracting Domestic and Foreign Capital**

##### **I. Immediate Actions (1–2 Years):**

- Amend foreign investment laws to allow 100% foreign ownership in non-strategic sectors (e.g., technology, renewable energy, and agriculture).
- Provide guarantees against expropriation and streamline approval processes through a centralized Investment Facilitation Office.
- Special Economic Zones (SEZs): Launch pilot SEZs in regions like Chabahar and Mashhad, offering tax holidays, duty-free imports, and simplified regulations.
- Incentivize Domestic Investment: Provide low-interest loans or grants to encourage private sector development in high-potential sectors like renewable energy and ICT.

##### **I. Medium-Term Actions (3–5 Years):**

- Privatize Inefficient State-Owned Enterprises (SOEs): Begin transparent privatization of non-strategic SOEs to attract private investors.
- Encourage public-private partnerships (PPPs) to modernize critical infrastructure.
- Strengthen Legal Protections for Investors: Establish independent arbitration mechanisms for resolving investment disputes.
- Create transparent land ownership and leasing laws for foreign investors.

##### **II. Long-Term Vision (5+ Years):**

- Brand Iran as an Investment Hub: Market Iran as a regional investment destination with rich natural resources, a skilled labor force, and strategic access to major markets.
- Create international roadshows and summits to showcase energy, agriculture, and technology opportunities.
- Institutionalize Reforms: Adopt international standards (e.g., OECD Investment Policy Reviews) to maintain a transparent and predictable investment climate.

#### **Examples of Success:**

**India:**

Liberalized FDI policies allow up to 100% foreign ownership in several sectors, including telecoms and e-commerce. Created Special Economic Zones (SEZs) offering tax breaks.

**Result:** India became a top destination for global investment, with significant growth in the IT, manufacturing, and services sectors.

**Indonesia:**

Simplified investment regulations and launched an online platform to approve investments quickly.

Result: Attracted billions in FDI, particularly in infrastructure and renewable energy projects.

**Morocco:**

They established free trade zones near major ports (e.g., Tangier Free Zone) to attract manufacturing and logistics companies.

**Result:** Became a regional hub for the automotive and aerospace industries.

**Current Issues in Iran:**

- FDI is restricted in many sectors, particularly oil and gas, which should be a strength.
- Legal uncertainty and fears of expropriation deter foreign investors.
- Limited government support for domestic startups and innovative ventures.

**Recommendations for Reform Investment Laws:**

- Create a comprehensive Foreign Investment Protection Act to guarantee against arbitrary expropriation.
- Allow 100% foreign ownership in non-strategic sectors like manufacturing, retail, and services.
- Establish Special Economic Zones (SEZs): Develop SEZs offering tax holidays, simplified regulations, and infrastructure to attract investment.
- Focus SEZs on industries like renewable energy, ICT, and advanced manufacturing.

**Incentivize Domestic Investment:**

- Offer grants or low-interest loans for startups and small businesses, particularly in technology-driven sectors.
- Establish incubators and accelerators to support innovation.
- Improve Transparency and Dispute Resolution:
- Introduce public online databases for tracking investment opportunities and approvals.
- Join international arbitration frameworks like the International Centre for Settlement of Investment Disputes (ICSID) to resolve disputes fairly.

**Example:**

## **United Arab Emirates (UAE):**

The UAE attracted significant foreign investment by creating free zones such as Dubai Internet City and Jebel Ali Free Zone, boosting economic diversification.

### **Challenges:**

- Severe restrictions on foreign direct investment (FDI) limit capital and technology inflows.
- Bureaucratic red tape and lack of legal protection deter domestic and foreign investors.
- Economic sanctions and isolation from global financial systems further restrict investment opportunities.

### **Recommendations:**

- Relax FDI Restrictions:
- Open strategic sectors to foreign investors while maintaining national security safeguards.
- Provide tax incentives and guarantees to attract long-term investments.

### **Streamline Investment Processes:**

- Establish a one-stop shop for investment approvals to simplify procedures.
- Reduce administrative delays and improve transparency in decision-making.

### **Strengthen Legal Protections:**

- Ensure enforceable contracts and protection against expropriation to build investor confidence.
- Establish international arbitration mechanisms for resolving disputes.

## **5. Financial Freedom**

### **Challenges:**

- The dominance of state-owned banks and limited competition in the financial sector.
- Weak regulatory frameworks and lack of access to international financial markets.
- High inflation and currency instability deter private sector borrowing and investment.

### **Recommendations:**

#### **Liberalize the Banking Sector:**

- Privatize state-owned banks to foster competition and improve service quality.
- Encourage the entry of foreign banks to diversify financial products and increase capital availability.

#### **Strengthen Financial Regulation:**

- Develop an independent regulatory body to oversee the financial sector and ensure stability.
- Implement anti-money laundering (AML) measures to improve credibility and combat the financing of terrorism (CFT).

#### **Expand Access to Finance:**

- Promote microfinance institutions to support small businesses and underserved populations.
- Encourage the development of capital markets to provide alternative financing options.

#### **Case Study:**

**Turkey:** Reforms in the banking sector, including the entry of foreign banks and improved regulatory oversight, stabilized Turkey's financial system and expanded access to credit.

#### **Iran-Specific Approach to Open Markets**

##### **Sanctions Management:**

- Seek diplomatic solutions to reduce sanctions, allowing reintegration into global trade and financial systems.

##### **Focus on Regional Partnerships:**

- Prioritize trade and investment ties with neighboring countries in the Middle East, Central Asia, and South Asia.

##### **Diversification of Exports:**

- Move beyond oil exports by developing sectors like petrochemicals, agriculture, and manufacturing.

##### **Leverage Technology:**

- Use digital platforms to facilitate cross-border trade and financial transactions.

#### **Final Thoughts:**

Improving Trade, Investment, and Financial Freedom will require both internal reforms and external diplomacy. These changes can significantly boost economic growth, attract foreign capital, and enhance Iran's integration into the global economy. Let me know if you'd like a deeper dive into any of these areas!

### **3. Financial Freedom**

#### **Current Issues in Iran:**

- Limited access to international banking systems (e.g., SWIFT restrictions).
- Over-reliance on state-owned banks leads to inefficiencies.
- High inflation and currency volatility reduce trust in financial institutions.

## **Recommendations for Strengthen Banking Systems:**

- Privatize state-owned banks to encourage competition and better customer service.
- Establish a robust credit rating system to manage lending risks effectively.
- Reintegrate with Global Finance: Engage in diplomatic efforts to lift sanctions restricting access to global banking networks.
- Adopt international banking standards like Basel III to improve the credibility of financial institutions.
- Support Financial Inclusion: Promote digital banking and mobile payment systems to expand access for rural and underserved populations.
- Encourage microfinance institutions to support small-scale entrepreneurs.
- Tame Inflation and Currency Volatility:
- Allow the central bank greater independence to implement anti-inflationary measures.
- Introduce foreign exchange reforms to stabilize the currency and attract foreign investors.

### **Example:**

**Turkey:** Reforms in the banking sector allowed international banks to enter, while the government focused on building financial stability through prudent monetary policies.

## **Integrated Strategy for Open Markets in Iran**

### **Short-Term Actions:**

- Reduce non-tariff barriers and streamline customs.
- Create SEZs to attract immediate FDI.
- Digitize banking and payment systems to improve access for businesses and individuals.

### **Medium-Term Goals:**

- Broaden trade partnerships, focusing on regions like Central Asia and Africa.
- Diversify the economy to reduce reliance on oil, emphasizing manufacturing and services.
- Modernize financial regulations to meet international standards.

### **Long-Term Vision:**

- Achieve full integration into global trade and financial systems by addressing sanctions and aligning policies with global norms.
- Build a resilient and competitive domestic economy that thrives in open market conditions.
- Would you like more examples, or should we explore a specific aspect further?

## **Unlocking Capital and Empowering Businesses**

### **Examples of Success:**

#### **Kenya:**

Invested in mobile banking platforms like M-Pesa to improve financial inclusion, especially in rural areas.

**Result:** Revolutionized access to finance for millions, boosting entrepreneurship and reducing poverty.

**Brazil:**

Liberalized its financial sector, allowing foreign banks to enter and privatizing state-owned financial institutions.

**Result:** Increased competition led to better access to credit and financial services for businesses and individuals.

**Malaysia:**

Strengthened its banking regulations and created Islamic banking as a niche sector to attract global investors.

**Result:** Malaysia became a leader in Islamic finance, attracting significant foreign investment.

**Key Takeaways for Iran:**

**From Singapore:** Prioritize trade infrastructure and streamline customs to become a regional hub.

**From India and Morocco:** Leverage SEZs to attract FDI and diversify the economy.

**From Kenya:** Expand financial inclusion through mobile banking to empower small businesses and rural populations.

**From South Korea:** Use trade freedom and investment-friendly policies to drive export-led industrialization.

Here's a tailored implementation strategy for Iran based on the success stories of other nations, adjusted to Iran's unique political, economic, and social context. Each area (Trade Freedom, Investment Freedom, and Financial Freedom) includes immediate, medium-term, and long-term actions.

**Immediate Actions (1–2 Years):**

- **Expand Mobile and Digital Banking:** Partner with local tech companies to roll out mobile banking solutions targeting rural areas.
- **Subsidize digital payment platforms** for small and medium enterprises (SMEs).
- **Reform State-Owned Banks:** Audit state-owned banks to identify inefficiencies and corruption.
- **Begin partial privatization** or encourage competition by licensing new private banks.
- **Support Financial Inclusion:** Promote microfinance institutions to provide credit to underserved communities. Launch low-interest loan programs for startups and small businesses.

### Medium-Term Actions (3–5 Years):

- Integrate with Global Financial Systems: Engage in diplomatic efforts to re-enter the SWIFT network.
- Adopt international anti-money laundering (AML) and combating the financing of terrorism (CFT) standards.
- Develop Capital Markets: Expand the Tehran Stock Exchange by listing more private companies.
- Create incentives for startups and SMEs to raise funds through equity markets.

### Long-Term Vision (5+ Years):

- Establish Iran as a Financial Hub: Develop a global banking system as a niche and financial instrument.
- Build partnerships with international financial institutions to co-finance infrastructure and energy projects.
- Stabilize Inflation and Currency: Grant the Central Bank of Iran independence to implement prudent monetary policies.
- Introduce a stable exchange rate mechanism to reduce currency volatility.
- Integrated Implementation Timeline for Open Markets

Timeframe	Trade Freedom	Investment Freedom	Financial Freedom
1–2 Years	Simplify customs, reduce NTBs	Launch SEZs, amend investment laws	Expand mobile banking, reform SOEs
3–5 Years	Lower tariffs, modernize infrastructure	Privatize SOEs, strengthen investor protections	Develop capital markets, re-enter SWIFT
5+ Years	Diversify exports, join global trade blocs	Brand Iran as an investment hub	Establish financial stability

## Focus on the Investment Sector in Iran: Detailed Reforms

### 1. Amending Foreign Investment Laws

Foreign investors are crucial to boosting Iran’s economy, but the existing regulatory framework can be a barrier. Here’s a breakdown of how to reform these laws:

Key Steps: Opening up Non-Strategic Sectors: Many foreign investors are deterred by the inability to fully own businesses in critical sectors like oil or telecommunications. Iran can begin by allowing foreign ownership in non-sensitive sectors such as:

- Agriculture
- Technology
- Retail
- Renewable Energy

**Action Plan:** Establish explicit legal protections for foreign investors, such as safeguards against expropriation and repatriation of profits.

Create a Foreign Investment Facilitation Office to streamline the process and reduce bureaucracy. This office can act as a “one-stop shop” for all approvals and paperwork.

### **Revised Investment Laws for Strategic Sectors:**

Foreign ownership can be capped in sensitive areas where national security is a concern (like defense and certain industries), but joint ventures can still be encouraged.

For instance, foreign firms could form joint ventures with Iranian companies in sectors like petrochemicals and mining. This allows knowledge transfer while maintaining national control.

### **Challenges and Solutions:**

**Challenge:** Foreign investors might still be skeptical about the stability and predictability of the legal framework.

**Solution:** Iran can offer investment guarantees or create an International Arbitration Center to resolve disputes between investors and the government to mitigate this. This would increase investor confidence.

**Challenge:** Fear of corruption and lack of transparency in the approval process.

**Solution:** Digitalize the investment approval process. This would reduce human intervention, ensuring transparency and efficiency.

## **2. Establishing Special Economic Zones (SEZs)**

Special Economic Zones are critical for attracting foreign and domestic investment. Iran can turn regions like Chabahar, Mashhad, and Qeshm into investment magnets.

**Key Steps:** Design Attractive Incentives for Investors: SEZs can offer a range of tax breaks and other incentives to encourage investment. These might include Tax holidays for 5–10 years.

## **3. Strengthening Legal Protections and Dispute Resolution Mechanisms**

Legal and contractual protections are essential to ensure a secure environment for investors.

**Key Steps:** Adopt International Standards for Investment Disputes:

Join global agreements like the International Centre for Settlement of Investment Disputes (ICSID) to provide foreign investors with confidence in the event of a dispute.

Strengthen Iran’s Investment Law by explicitly recognizing international protection standards for investors, such as the Convention on the Settlement of Investment Disputes.

## **4. Privatization and Reducing the Role of State-Owned Enterprises (SOEs)**

Iran has many inefficient state-owned enterprises (SOEs) that hinder private sector development. Privatizing these SOEs and encouraging private sector participation is crucial for long-term economic growth.

**Key Steps:** Transparency in Privatization: Iran can gradually privatize SOEs by selling minority shares to the public and investors, starting with non-strategic SOEs in the transportation or

## **6. Business Freedom: Simplifying the Path to Start and Operate a Business**

**Current Issue:** Iran's complex business registration process delays entrepreneurs' entry into the market.

**Reform:** Introduce a single-window registration system that allows businesses to complete all legal, tax, and social security registration processes online in one go.

**Action Plan:** Create an online portal for business registration, integrating the Ministry of Trade, Ministry of Labor, tax authorities, and social security office into a unified system.

- Lower the cost and the time required to set up a business. For example, businesses should be able to register in less than 10 days.
- Reduce Regulatory Barriers to Entry: High barriers to entry, especially in key sectors like telecom and energy, discourage domestic and foreign investment.
- Gradually remove unnecessary regulations and liberalize entry into most sectors, mainly services, ICT, and agriculture.
- Simplify licensing procedures by reducing paperwork, making it available online, and decreasing the required licenses.
- Reduce the Cost of Compliance: Iran's high business compliance costs hinder economic activity.
- Streamline and digitize business regulations, tax filings, and reporting requirements.
- Implement a simplified tax system for small and medium-sized enterprises (SMEs), with lower tax rates and fewer filing requirements.
- Encourage businesses to adopt electronic invoicing to cut costs and reduce corruption.

### **Current Challenges and Solutions:**

**Challenge:** Bureaucratic resistance to changes and entrenched processes.

**Solution:** Gradually implement reforms with precise public awareness campaigns—Incentivize adoption of digital systems by showcasing efficiency gains.

**Challenge:** Concerns about regulatory capture and corruption.

**Solution:** Create independent bodies to monitor regulatory reforms, ensure transparency, and publish results periodically.

### **Business Freedom: Simplifying the Business Environment**

Detailed Reforms and Strategies: Simplifying Business Registration:

### **Global Example: Singapore**

Singapore's "BizFile" system allows businesses to register online in just a few hours. The system integrates multiple government agencies (e.g., tax, social security, business licensing) into a seamless process.

**Action Plan for Iran:** Develop a centralized digital business registration portal that connects key government departments.

Create a simple step-by-step guide for businesses to register and comply with all necessary regulations.

**Incentive:** Offer reduced registration fees for SMEs to encourage entrepreneurship.

#### **Challenges & Solutions:**

**Challenge:** Bureaucratic delays and inefficient coordination between ministries.

**Solution:** Designate a central authority or investment facilitation office to oversee and manage the registration process. This can expedite approvals and reduce delays.

Reducing Regulatory Barriers:

### **Global Example: Georgia**

Georgia reformed its business climate by removing unnecessary licensing requirements and simplifying regulations. The country introduced an online platform for all permit applications, dramatically reducing business launch time.

**Action Plan for Iran:** Simplify licensing requirements by eliminating or merging overlapping licenses and permits.

For specific sectors like ICT and retail, create flexible regulatory frameworks that support rapid business growth.

Offer tax breaks and customs exemptions for foreign companies setting up businesses in key sectors such as technology and renewable energy.

Challenges & Solutions:

**Challenge:** Political reluctance to remove state controls in certain sectors.

**Solution:** Implement pilot programs in non-strategic sectors to showcase the benefits of deregulation. Use public-private dialogue to demonstrate how easing entry barriers can stimulate economic growth.

## **7. Monetary Freedom: Stabilizing Iran's Monetary Policy**

### **Central Bank Independence and Inflation Control:**

The banking system in Iran is currently facing near bankruptcy due to a lack of liquidity, capital reserve, incompetency of the government, strict Islamic banking law, and economic sanctions.

Apart from these conditions, Iran's banks may face other problems because they do not have unanimous rules in Islamic Banking without an "Interest Rate."

The banking system in Iran has faced significant challenges in recent years, and some of the factors that have contributed to these difficulties are listed below:

**Lack of Liquidity:** Iran's banking system has struggled with liquidity issues, partly due to the impact of economic sanctions. Sanctions have restricted Iran's ability to engage in international financial transactions and trade, making it difficult for the country to access foreign currency and maintain sufficient liquidity.

**Capital Reserve:** Capital adequacy is crucial for the stability of any banking system. Banks that do not maintain adequate capital reserves may be more vulnerable to financial shocks and crises. Inadequate capital reserves can result from various factors, including non-performing loans and mismanagement.

**Incompetency of the Government:** Political and economic instability and issues related to governance and management can impact the overall health of a country's banking system. Government policies and actions can significantly influence the financial sector's stability and performance.

**Strict Islamic Banking Law:** Iran follows Islamic banking principles, prohibiting the charging or paying interest (riba). Instead, Islamic banks operate on profit and loss sharing (Mudarabah) and risk-sharing (Musharakah). While these principles align with Islamic finance, they can be complex and challenge traditional banking operations.

**Economic Sanctions:** International economic sanctions, particularly those imposed by the United States, have significantly constrained Iran's ability to engage in global trade and financial transactions. This has had a negative impact on the country's overall economic health, including its banking sector.

**Action Plan for Iran:** Legal Reforms: Amend the Central Bank of Iran's charter to clearly define its independence and mandate to control inflation and stabilize the economy.

**Policy Focus:** Shift the monetary policy focus towards inflation targeting by setting clear, transparent inflation targets and adjusting interest rates accordingly.

### **Challenges & Solutions:**

**Challenge:** Political pushback against central bank autonomy.

**Solution:** Engage economic experts and influencers to raise public awareness of the benefits of central bank independence for long-term economic stability.

### **Currency Stabilization and Exchange Rate Reform:**

#### **Global Example: Brazil- Central Bank Independence**

Brazil reformed its central bank by granting it operational independence from political interference. This helped control inflation and stabilized the Brazilian economy.

### **Global Example: South Africa- Exchange Rate Flexibility**

South Africa adopted a floating exchange rate system, allowing its currency to fluctuate based on market forces. This approach provided flexibility and helped stabilize the currency over time.

Banking Sector Reform:

### **Global Example: Turkey -Banking Sector Restructuring**

Turkey restructured its banking sector by introducing more transparent practices, enforcing Basel III standards, and consolidating small banks to improve efficiency.

### **Action Plan for Iran:**

- Gradually move from multiple exchange rates to a single floating exchange rate, where the market determines the rial's value.
- Foreign Exchange Reserves: Increase reserves by encouraging remittances and foreign investments and diversifying exports beyond oil (e.g., manufacturing, technology).
- To curb currency volatility and inflation, the central bank can introduce a managed floating system that intervenes only when necessary to prevent excessive volatility.
- Restructure State-Owned Banks: Privatize or restructure inefficient state-owned banks to ensure competition and reduce the burden on the state budget.
- Implement Basel III: Adopt Basel III banking standards, which focus on improving financial institutions' capital adequacy, liquidity, and risk management.

**Challenge:** Bank privatization might face political resistance.

**Solution:** To win over skeptics, focus on gradual privatization with transparency in the process and emphasize how it will improve the banking system's efficiency and competitiveness.

### **Control Over Inflation and Currency Volatility:**

Iran could stabilize prices and anchor inflation expectations by making the Central Bank independent and focusing on inflation targeting. Monetary policy reforms would enhance confidence in the currency.

**Impact:** A stable inflation rate (around 3%–4%) and a predictable exchange rate would reduce the risk of hyperinflation and currency devaluation, which have historically hurt Iran's economy. Central bank reforms in countries like Brazil led to inflation control and currency stability, contributing to sustained economic growth.

### **Attracting Foreign Investment:**

A stable currency and low inflation are critical factors in attracting foreign investment, as they reduce the risks associated with exchange rate fluctuations and capital erosion.

**Impact:** A stable macroeconomic environment encourages foreign investors to invest capital and technology. In Turkey, stable currency policies and strong fiscal governance have helped attract substantial FDI in the energy, telecom, and manufacturing sectors.

### Banking Sector Reform: Improving Credit Availability:

Restructuring the banking sector to align with international standards (like Basel III) would improve capital adequacy and liquidity in the banking system. It would ensure that banks can better serve small businesses and entrepreneurs with access to affordable credit.

**Impact:** More accessible bank loans and capital would grow small businesses and provide opportunities for expansion in industrial sectors. Countries like Turkey and India saw their SME sectors grow rapidly as banks improved their lending practices.

### **Key Reforms:** Central Bank Independence and Inflation Control:

**Current Issue:** Iran's central bank is often influenced by political decisions, and inflation remains high, affecting economic stability.

**Reform:** Grant the Central Bank of Iran (CBI) greater independence and mandate it to control inflation.

**Action Plan:** Reform the central bank's legal framework to ensure its decisions are based on economic factors rather than political pressures.

The CBI should be able to set interest rates and adopt inflation-targeting policies similar to those in successful economies like Brazil or Turkey.

### Exchange Rate Flexibility and Currency Stabilization:

**Current Issue:** Iran's overvalued official exchange rate and multiple exchange rate systems contribute to currency volatility.

**Reform:** Move towards a single, market-determined exchange rate and introduce mechanisms for stabilizing the currency.

**Action Plan:** Phase out multiple exchange rates and adopt a floating exchange rate with market forces dictating the rial's value.

Implement policies to build foreign exchange reserves and strengthen the currency.

### **Banking Sector Reform:**

**Current Issue:** The banking sector is inefficient, with high non-performing loans (NPLs) and limited business access to finance.

**Reform:** Restructure the banking system by focusing on financial transparency and improving access to credit.

**Action Plan:** Privatize or restructure inefficient state-owned banks and implement Basel III standards for capital adequacy and liquidity management.

Expand access to credit for SMEs by creating special loan programs and guaranteeing loans for businesses in strategic sectors.

## Challenges and Solutions:

**Challenge:** Resistance from entrenched banking interests and vested political groups.

**Solution:** Introduce gradual liberalization measures while promoting public awareness of the benefits of a more efficient and independent central bank.

**Challenge:** Currency volatility and inflation management.

**Solution:** Build foreign exchange reserves and gradually align inflation control mechanisms with global standards.

Iran's overall regulatory environment is very inefficient and not conducive to entrepreneurial activity. The country's business freedom score is far below the world average, its labor freedom score is below the world average, and its monetary freedom score is well below the world average.

Component	Reform Focus	Timeline	Challenges & Solutions
Business Freedom	Simplify registration, reduce regulatory entry barriers, and lower compliance costs.	1–2 years	Bureaucracy and corruption – digitalization and transparency.
Labor Freedom	Enhance labor market flexibility, improve skills training, and promote inclusion.	2–4 years	Resistance from unions – engage in dialogue and gradual reforms.
Monetary Freedom	Strengthen central bank independence, stabilize exchange rates, and reform the banking sector.	3–5 years	Political resistance – gradual liberalization and public education.

## Summary of Actionable Reforms with Challenges & Solutions:

Summary of Actionable Reforms with Challenges & Solutions:				
Component	Reform Focus	Global Examples	Challenges	Solutions
Business Freedom	Simplify business registration, reduce regulatory barriers	Singapore, Georgia	Bureaucracy, vested interests	Centralized digital systems, public-private dialogue
Labor Freedom	Enhance labor market flexibility, vocational training	Germany, Singapore	Worker resistance, skill mismatch	Gradual reforms, public-private partnerships
Monetary Freedom	Central bank independence, exchange rate reform	Brazil, South Africa	Political pushback, currency instability	Legal reforms, managed floating system, forex reserves

Banking Sector Reform	Restructure state-owned banks, Basel III adoption	Turkey	Political resistance to privatization	Gradual privatization, transparency in the process
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## Fiscal Health and Economic Stability:

A stable monetary policy and an effective central bank can also improve fiscal health by reducing reliance on the government to stabilize the economy through ad hoc measures like currency devaluation or interest rate manipulation.

Impact: Improved public sector financial stability and reduced fiscal deficits would strengthen public sector finances, enhance Iran's credit rating, and reduce borrowing costs. Fiscal stability attracts more foreign debt investment and helps boost economic growth.

Summary of Economic Impacts:		
Reform Area	Key Economic Impact	Potential Long-Term Outcome
Business Freedom	Increased entrepreneurial activity	Higher GDP growth, job creation, and greater market competition
	Attraction of Foreign Direct Investment (FDI)	Diversification of the economy and enhanced productivity
Labor Freedom	Lower unemployment rates, especially among youth and women	Enhanced economic inclusion, higher per capita income, and economic mobility
	Improved job matching and labor mobility	Higher private sector wages, reduced poverty, and growth of the middle class
Monetary Freedom	Stable inflation and exchange rates	Reduced economic volatility, improved investor confidence, and more vigorous growth
	More significant investment inflows and improved fiscal health	Long-term economic stability and sustainability

Iran's overall regulatory environment is inefficient and not conducive to entrepreneurial activity. The country's business freedom score is far below the world average, its labor freedom score is below the world average, and its monetary freedom score is well below the world average.

Iran's overall rule of law is weak. The country's property rights score is below the world average, its judicial effectiveness score is below the world average, and its government integrity score is below the world average.

The top individual income tax rate is 35 percent, and the top corporate tax rate is 25 percent. The tax burden equals 6.6 percent of GDP. Three-year government spending and budget balance averages are 12.5 percent and -4.7 percent of GDP, respectively. Public debt amounts to 34.1 percent of GDP.

The trade-weighted average tariff rate is 12.1 percent. The state continues to hold back economic development, undermining trade and investment flows. Government controls limit access to financing for businesses. State-owned commercial banks and specialized financial institutions account for most of the banks.

## CONCLUSION

According to the Heritage Foundation, the top 20% of the countries on the Index have twice the per-capita income of those in the second quintile and five times that of the bottom 20%.

Economic freedom is the fundamental right of every human to control their labor and property. In an ‘economically free society,’ individuals can work, produce, consume, and invest however they please. In such free societies, governments allow labor, capital, and goods to move freely by curbing corruption and refraining from coercion or constraint of liberty beyond the extent necessary to protect and maintain economic liberties. This implies that economic freedom correlates positively with prosperity, with higher economic freedom associated with higher incomes.

There is a clear connection between economic freedom and prosperity. Economic freedom grants individuals control over their labor and property, allowing them to work, produce, and invest as they see fit. Free markets with minimal government intervention and a focus on protecting economic liberties are key aspects.

Iran can be a prosperous country again by following a free-market economy and implementing these recommendations. This requires a new way of promoting transparency, strengthening the rule of law, and creating a more level playing field for businesses. As stated at the top of the paper, prudent policies could foster stability and encourage competition by reducing bureaucratic barriers, investing in failing public infrastructures, and fostering an environment conducive to entrepreneurship. This could stimulate economic growth and diversification beyond reliance on the oil sector.

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## Appendix I

### Description of Index of Economic Freedom

The Heritage Foundation publishes the Index of Economic Freedom, which tracks countries' economic advancement over the last two decades. The index measures the degree to which countries' policies and institutions support economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property.

According to the index, each country's economic index is calculated using four categories or pillars of economic freedom. Within the broader four categories are twelve economic freedoms,

each graded on a scale of 0-100 (zero to hundred). A country's freedom score is an average of these twelve numerical grades.<sup>2</sup>

1. **Government size:** This pillar includes fiscal health, which covers debt as a percentage of GDP and deficit, analyzing a country's ability to manage its budget. The other economic freedoms under this pillar include government spending, which measures how and where a country spends funds, and tax burden, which measures tax burden as a percentage of GDP and marginal tax rates on individual and corporate income.

2. **Regulatory efficiency:** This pillar includes three economic freedoms related to business, labor, and money. Business freedom measures the cost and freedom to operate a business across multiple factors, including licensing and procedures. Labor freedom includes quantifying labor rights, employment opportunities, and wages. Lastly, monetary freedom analyzes price stability and inflation rates.

3. **Rule of law:** This pillar includes government integrity, which measures public trust in the government and against political corruption, such as bribery, embezzlement, and extortion. Judicial effectiveness covers judicial fairness, especially around property rights. Lastly, property rights cover the legal protection of private property rights, including enforcement and physical and intellectual property rights.

4. **Open markets:** This pillar covers Financial, investment, and trade freedom. Financial freedom covers the efficiency and independence of banks from governmental control. Investment freedom measures freedom of investment for individuals and companies, while trade freedom measures the effect of tariffs on imports and exports.