

Theses of the PhD Dissertation

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Development Myth in Iran: The Political Economy of Oil Rent Shock

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Chapter 1

1.1 Introduction

Understanding the intricate dynamics of economic development, particularly the interplay between economic growth and structural transformation in developing nations, necessitates a comprehensive exploration of the mechanisms of rent distribution among political powers and ruling elites. In many developing countries, rents—defined as excess returns above the normal levels expected in a competitive market—are often allocated through informal channels such as patron-client networks and, in some cases, through coercive means. These channels significantly influence political elites, either fostering opportunities for structural transformation or reinforcing existing power structures. Strategic decisions, shaped by internal power configurations and external factors like international sanctions, play a pivotal role in determining whether episodes of rapid economic growth are sustainable or susceptible to stagnation and decline.

This thesis investigates episodes of economic growth in Iran, a nation characterized by alternating periods of expansion, deceleration, and stagnation under varying political settlements, rent distributions, deal spaces, and the influence of sanctions. It explores the role of political and economic elites in the allocation of rents among economic agents, shaping the deal space—the practical arrangements and agreements between political elites and economic actors. Over the past century, Iran has transitioned between dominant and competitive political settlements within a high-rent economy, all while navigating the challenges imposed by intensive sanctions. This historical context makes Iran an ideal case study to examine how these factors influence different phases of economic growth.

Recognizing the pivotal role of rent and sanctions in influencing economic growth, this thesis selects the automotive industry as a case study within the manufacturing sector to illustrate how rent dynamics can impact industrial development in Iran. Additionally, the thesis employs an econometric approach in its final chapter to investigate the impact of oil rent shocks on structural transformation, complementing the qualitative analysis. By shifting the focus from average economic impacts, such as the Dutch disease effect or rent volatility, to the political and policy determinants of growth, this research seeks to uncover causal relationships between power configurations, rent allocation, external sanctions,

and economic outcomes.

To achieve a comprehensive understanding, this study employs a triangulation method, integrating the theory of political settlements with the concepts of rent space and deal space. This framework categorizes entrepreneurs according to target markets and rent sources, offering valuable insights into the dynamics of the private sector, state-business relationships, and the role of sanctions within the deal matrix.

In summary, this research seeks to address the following questions:

- How have changes in political settlements in Iran before and after the 1979 revolution influenced the distribution of economic rents among political elites and economic agents?
- What role has oil rent played in shaping the economic growth trajectory of Iran, particularly in periods of rapid growth versus stagnation?
- How have oil rent shocks and sanctions affected political settlement and rent distribution?

By addressing these questions, the thesis aims to better understand the complex interactions between political structures, rent dynamics, and economic development in resource-rich developing countries.

Based on the research questions outlined, the following hypotheses are proposed:

- **H1:** Changes in political settlements before and after the 1979 revolution have led to significant shifts in the distribution of economic rents among political elites and economic agents in Iran.
- **H2:** The allocation and management of oil rents have played a crucial role in determining Iran's economic growth trajectory, with mismanagement leading to periods of stagnation and effective utilization contributing to rapid growth.
- **H3:** Oil rent shocks and international sanctions have adversely affected Iran's structural transformation in the manufacturing sector, hindering diversification and industrial development.

By testing these hypotheses, the research aims to provide empirical evidence on the impact of political and economic factors on Iran's development, offering insights that could inform policy decisions in similar contexts.

1.2 Motivation and contribution

The prerevolution regime was characterized by 20 years of remarkable economic progress, the rise in oil prices, and political stability, which suddenly collapsed

due to the mounting popular opposition in a year (1978-1979). The emergence of a new regime in Iran, led by senior Shi'ite clergy and purported to be the Islamic Republic, which has since evolved into a legitimate regional political and military force over the last 45 years, requires further research to understand its consequences and implications for the region, particularly in the context of sanctions. The disparity in growth rates before and after the revolution highlights that oil rents have not had a consistent impact over time; their distribution under varying political and economic pressures, including sanctions, has led to divergent development outcomes.

Iran's modern history demonstrates that external and internal shocks have repeatedly constrained its potential for sustained development. The nation has endured two major social revolutions, three externally influenced coups, four prolonged foreign occupations, and numerous uprisings and social movements over eight decades in the twentieth century. In the post-revolutionary era, these challenges persisted, beginning with eight years of war with Iraq, followed by armed uprisings, political assassinations - including two targeted presidents and more than 100 members of parliament - and prolonged domestic unrest. These internal conflicts have been exacerbated by the increasing international sanctions for more than four decades, putting additional pressure on the political and economic landscape (Momeni and Naeb, 2017). Sanctions, particularly those targeting Iran's energy sector, military entities, and financial institutions, have had a profound impact on the nation's ability to leverage its oil wealth for welfare and sustainable development. Such external pressures interact with Iran's internal dynamics of rent distribution and power struggles, further complicating the country's development path. The role of sanctions underscores the importance of understanding the broader context of rent allocation, political settlements, and their interaction with international economic and political pressures.

As highlighted by Torvik 2009: "Recently, we have seen a shift in the resource curse literature" for answering this question of why nations failed in developing countries. The main drawback of the rentier-state theory lies in its rigid commitment to oil determinism. This theory assumes that resource-abundant states exhibit similar economic and political behaviors, regardless of their unique social order, class coalitions, geopolitical standings, ideology, internal power structure, and historical context (Rosser, 2006). Consequently, the rentier state theory overlooks the influence of country-specific factors in shaping policy decisions and economic outcomes. This disregard for contextual and historical elements renders the theory unresponsive to the temporal aspects of politics. Within this static theoretical framework, resource booms are believed to generate identical economic and political consequences, regardless of their location or timing. Once again, this inflexible and deterministic framework fails to account for the considerable variations observed in resource-rich states' economic and political behavior over time and across different countries.

To address these shortcomings, this study applies a reconceptualized framework of political settlements introduced by (North et al., 2009) and Khan (1999).

By integrating this framework with Werker et al. (2018) concepts of rent space and deal space, the research aims to provide a nuanced understanding of how internal and external factors, including sanctions, shape the political economy of resource-rich nations such as Iran. This approach offers a valuable contribution to the literature on resource curse, providing insight into the temporal and contextual elements that influence the development trajectories in Iran.

One of the main premises presented in this thesis is that history generally moves along the evolution paths by continuous incremental changes (referred to as path dependence). However, there are occasions known as critical junctures such as revolution, war, and sanctions, where individual actions can significantly change these established paths, resulting in major political disruptions and the emergence of new directions. This understanding of historical transformation is rooted in historical institutionalism (Mahoney, 2001).

Therefore, the analytical framework of this research starts with examining the historical trajectory of political settlement, rent, and deal space in the case of Iran. Comparing the historical paths of Iran provides a valuable methodological approach. It is crucial to recognize that history progresses through critical junctures and path dependence to understand the present. In addition, this analysis aims to determine the impact of politics on the manufacturing sector, whether it degenerates into a rent-seeking vehicle or evolves into a growth-enhancing engine. In the end, the econometric results can be compared with qualitative results in the first chapters.

1.3 Justification for the Case Study

"Research into how institutions are formed, sustained and changed requires detailed historical, comparative and theoretical inquiry, drawing on a wide range of disciplinary perspectives in which questions are asked not only about structures but also about agents, leadership, and ideas in politics (Leftwich, 2006)" .

A case study, according to Seawright and Gerring (2008), involves an in-depth (both qualitative and quantitative) examination of one or a small number of units, with the aim of illuminating insights applicable to a broader set of comparable units.

Combining a strong theoretical framework with empirical evidence is the most effective way to address this thesis's research questions. A country case study is well-suited for this purpose, allowing theory-driven questions to be tested against development plan outcomes. The results help assess and refine the theory, contributing to wider scholarly discussions.

For this thesis, the empirical case chosen is the economic development of Iran from a historical perspective. The selection of Iran is justified for two reasons: First, it represents a highly debated case pragmatically, due to the existing familiarity of researchers with the country (Salihu, 2023). Second: Western scholars

have largely overlooked Iranian domestic institutions, owing to barriers such as linguistic challenges, limited knowledge of institutional structures, and restricted access. This oversight is concerning, given the profound influence these institutions exert on Iran's internal politics and foreign policy. The situation is further complicated by their dynamic nature—marked by ongoing evolution, structural modifications, and leadership changes. A comprehensive analysis of these transformations is essential for gaining a deeper understanding of Iranian politics (Kazemi, 1993).

The auto industry represents a significant sector within the Iranian economy, with implications for employment, manufacturing, and overall economic growth. However, the dynamics of political settlement within this industry can profoundly impact its trajectory and contributions to the broader economy. Understanding the political settlement of the auto industry in Iran is essential for devising effective strategies to promote economic diversification, sustainable development, and resilience in the face of challenges posed by the 'oil curse hypothesis'. By exploring this research question, policy makers and stakeholders can gain insight into how to harness the potential of the auto industry to drive inclusive and sustainable growth in Iran.

1.4 Triangulation for Completeness and Confirmation

Triangulation refers to the examination of a research problem from multiple perspectives (Flick, 2004), or the use and integration of various methodologies in the investigation process of the same phenomenon (Denzin, 2015). Triangulation aims to amalgamate different types of methods or materials to identify convergence or divergence patterns (Saukko, 2003). Triangulation is commonly used in qualitative research, particularly in studies that involve elite perspectives and political economy (Natow, 2020). The inception of the concept of triangulation in the social sciences is attributed to Campbell and the notion of "multiple operationism," which suggests that multiple methods can be used to validate data, ensuring that any variation arises from the characteristics of the phenomenon being studied rather than the use of multiple methods (Jick, 1979).

This study uses various data sources, including listening to some elite interviews through the Iranian Oral History Project website and reading their transcriptions. Political economics books are based on interviews with elites before and after the revolution, documentary/archive materials, secondary data sources such as the Central Bank of Iran and the Chamber of Commerce, and international sources such as the World Development Bank. These sources were collected from various groups of respondents, ranging from political elites to managers and industrialists. This approach, known as data triangulation (Hussein, 2009; Denzin, 2015), involves using multiple data sources from different individuals, locations, and domestic and international data sources to obtain a complete and compre-

hensive data set for research purposes. Using this strategy, I validated the data obtained from different interviewees and compared them with the data from documentary and secondary sources.

In addition, interaction takes place in the form of presentations at conferences, research forums, and research workshops such as the International Iranian Economic Association (IIEA) which takes place monthly, and gave me influential feedback. The objective of such interactions was to seek advice, share ideas and exchange points of view. This particular approach, known as investigator triangulation in the literature (Hussein, 2009), involves the participation of multiple observers in the research process.

The purpose of this approach is to minimize any potential bias that could arise if only one observer was involved (Thurmond, 2001).

Furthermore, another triangulation technique employed in this research is referred to as theoretical/methodological triangulation. In this technique, the researcher familiarizes himself with and explores various theoretical perspectives through which the research phenomenon can be analyzed (Denzin, 2015). In the present study, the theory of political settlement from well-known economists has been combined with the concept of rent and deal space. This combination aims to provide a deeper understanding of the dynamics that influence the performance of political and economic elites.

In general, the triangulation methodologies applied in this research have ensured a comprehensive and nuanced understanding of the political and economic phenomena under study, contributing to a more rigorous and credible analysis.

1.5 Research Sources

The qualitative sources used include the following. US Foreign Relations documents compile the correspondence exchanged between the State Department and the US embassies in Iran during the period 1950 to 1980 Sanders (1967), which encompasses various political and economic concerns within these nations. This particular source, known as Foreign Relations of the United States, can be accessed online through the State Department's Office of the Historian website. The aforementioned source provided valuable insight into the geopolitical relations of the Pahlavi regime with foreign nations, particularly the United States and the United Kingdom. Furthermore, it offered specific information on the interactions between Iranian policymakers, particularly technocrats from the PO, CB, and ME, and advisors from the International Monetary Fund (IMF) and the World Bank.

The economic policies of the Pahlavi regime were deliberated and concluded at the High Economic Council meetings, which were held weekly. This council consisted of the Shah, the prime minister, the minister of Finance, the minister of economy, the minister of industry and mines, the minister of commerce, the minister of agriculture, the director of the Plan Organization, and the Governor of the Central Bank. These meetings, held between 1973 and 1977, can be accessed

in Farsi at the National Library and Archives of the Islamic Republic of Iran. These documents are organized according to the topics of the meetings. These minutes provide a comprehensive record of the remarks made by Shah and officials about economic policies, thereby illuminating the influence of each actor in the policymaking process.

Chamber of Commerce Bulletins were published by the Chamber of Commerce from 1955 until 1967. This chamber served as the main advocacy group for merchants and industrialists during that period. Its bulletins provide a record of the elections held within the Chamber, as well as the meetings conducted with policymakers and international counterparts. In addition, these bulletins contain interviews conducted with prominent industrialists and speeches delivered by policymakers or foreign delegates at the chamber. These bulletins also provide information on joint country chambers. This particular source, which can be accessed online in Farsi, offers insight into the relationship between the state and business in Iran.

This research used two collections of oral history: the Iranian Oral History Collection at Harvard University and its Persian website for transcription. The Harvard collection was compiled by Dr. Habib Lajevardi during the 1980s, receiving financial support from the Harvard Middle East Center. It is noteworthy that Dr. Lajevardi's father founded the successful private conglomerate Behshahr Industrial Group during the Pahlavi era. This collection encompasses interviews with more than sixty individuals, including members of the royal family, army generals, ministers, deputy ministers, technocrats, businessmen, foreign ambassadors, embassy staff, leaders of the opposition, and intellectuals. This research was based specifically on interviews conducted with the following individuals.

- **Alinaghi Alikhani:** Minister of Economy (1963-1969)
- **Dr. Khodadad Farmanfarmaian:** Head of the Economic Bureau in the Plan Organization (1958-1962), Deputy Governor of the Central Bank of Iran (1962-1968), Governor of the Central Bank (1968-1970), and Director of the Plan Organization (1970-1973)
- **Mohammad-Mehdi Samiee:** Governor of the Central Bank (1962-68), Director of the Plan Organisation (1968-70), Governor of the Central Bank (1970-73).
- **Abolghasem Kheradjou:** Managing Director of the Industrial and Mining Bank of Iran during the 1960s and 1970s.
- **Mahmoud Lajevardi:** Founder and Chairman of Behshahr Industrial Group, Head of the Chamber of Commerce and Industries (1963-1977).
- **Abdolmadjid Majidi:** Director of the Budget Bureau in the Plan Organization (1962-1967), Minister of Agriculture Products, Consumer Affairs (1967-68), Minister of Labor, Social Affairs (1968-73), Director of the Plan Organization (1973-77).

- **Fereidoun Mahdavi:** Deputy Managing Director of the Industrial and Mining Development Bank during the 1960s.
- **Gholamreza Moghadam:** Deputy Governor of the Central Bank of Iran (1961-63), Deputy Director of the Plan Organization (1969-73).
- **Mohamad Yeganeh:** Vice Minister of Economy (1963-1969), Minister of Development and Housing (1969-1970), and Governor of the Central Bank (1973-1975).
- **Reza Niazmand:** Executive Director of the Industrial Management Institute (1962-1969); President of the Industrial Development and Renovation Organization and Deputy Minister of Economy for Industrial Affairs (1969-1971).

Furthermore, this research frequently referenced the analyses of Iran's state-driven industrialization found in the works of Karshenas (2015); Karshenas and Tabatabai (2019); Karshenas and Malik (2011) and Alizadeh (1984).

This research used a wide range of sources that represent various perspectives. This diversity of sources enables me to fully depict the evolution of policies and institutions in Iran. In essence, through these sources, this research reconstructs how the internal power dynamics and distribution of rent and the different social classes within the Pahlavi regime and after the revolution evolved and how these changes influenced the formulation of macroeconomic policies and distribution of rents. This historical reconstruction is achieved by cross-referencing the aforementioned historical sources. For the econometric chapter, the data was collected from the Central Bank of Iran, national accounts, and World Bank development indicators.

1.6 Chapter Outline

1.6.1 Theories of Economic Rent and Introducing Conceptual Framework

Chapter 1 delves into the concept of rent in economic and political contexts, aiming to fill a gap in analytical frameworks. It begins by acknowledging the prevalence of excessive rent in contemporary economies and the lack of a comprehensive framework to understand its nuances. Tracing the historical origins of rent, it navigates through the classical political economy to neoclassical perspectives, highlighting its evolution from land-focused to encompassing technology and corporate control. The chapter discusses rent across sectors, emphasizing its role in impeding long-term economic growth by curbing competition. Central to the discussion is the introduction of an analytical framework rooted in New Institutional Economics, focusing on elite bargains and personalized institutional arrangements in shaping rent distribution. In conclusion, the chapter offers insights

into the multifaceted nature of rent and lays the groundwork for understanding its implications in economic growth and power dynamics.

1.6.2 Critical Literature Review

Chapter 2 provides a critical review of the literature on the curse of resources, political settlements, and Iranian economic studies. It discusses contrasting perspectives on natural resource abundance, from optimistic views to skepticism regarding its long-term impacts, rooted in phenomena like the Dutch disease. Transitioning to the political settlement framework, it explores how power distribution shapes policy outcomes in developing countries. In Iranian studies, the chapter examines the impact of government policies on economic, social, and political outcomes, focusing on topics such as monetary policy, industrialization, and the effects of oil revenues. It also discusses the theoretical frameworks used to analyze development in Iran, including modernization theories and rentier state arguments. In general, the chapter offers insight into the complexities of economic development in resource-dependent countries such as Iran, synthesizing key findings from the existing literature.

1.6.3 A Historical Trajectory of Political Settlement, Rent and Deal Space Before the Revolution(1901–1979)

This chapter provides a historical overview of political settlements, rent space, and deal space in Iran from 1901 to 1979, encompassing significant periods such as the First and Second Pahlavi eras. Following picture gives an overview of economic growth rate (Figure:1.1)

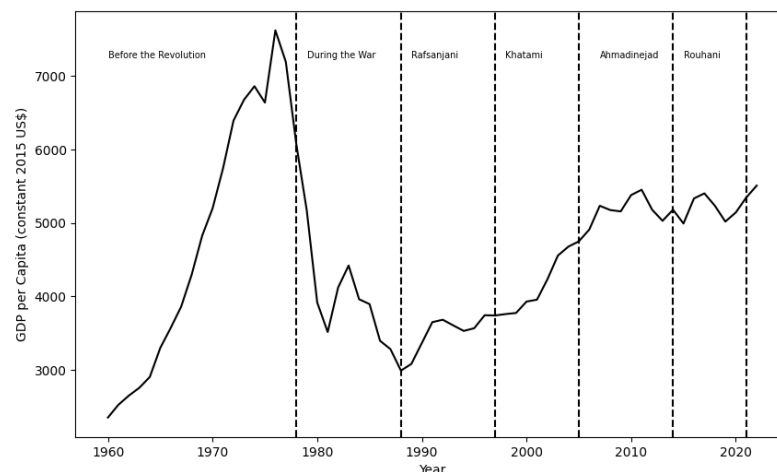


Figure 1.1: Iran's Economic Growth and Episodes. Source: Data from Central Bank of Iran

After a brief review of economic growth, Figure (1.2) illustrates an overview of Iran's political settlement, which will be explained in more detail in this chapter.

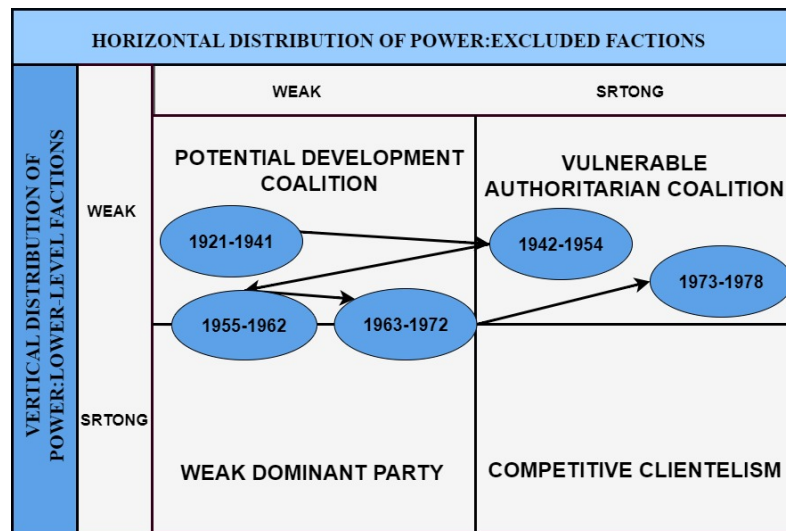


Figure 1.2: *Political Settlement During Pahlavi Era (1921-1979)*

It begins by contextualizing Iran's trajectory within the broader global era, marked by the rule of Reza Shah; the political settlement was characterized by centralized authority and repression of opposition, laying the groundwork for a limited access order. The state exercised control over key sectors, particularly oil, and foreign concessions played a significant role in shaping economic policy. The chapter then delves into the political settlements and economic policies of successive periods, such as the occupation era (1941-1954) and the subsequent attempts at economic development. It discusses the nationalization of the oil industry under Prime Minister Mossadegh and the challenges posed by political instability and external pressures. Throughout these periods, the interplay between political settlements, rent extraction, and deal space is analyzed, demonstrating how shifts in power dynamics and economic strategies influenced Iran's economic trajectory. From the implementation of development plans to the management of oil revenues, each phase is examined for its impact on economic growth, industrialization, and social dynamics. In general, the chapter provides a comprehensive overview of Iran's economic history, highlighting the complex interplay between politics, economics, and external factors in shaping the country's development path up to the revolution in 1979.

1.6.4 Political Settlement and Rent and Deal Space in Post-revolutionary Iran(1979-2020)

Beginning after the 1979 Iranian Revolution, the chapter delves into political settlement, rent space, and deal space during subsequent presidencies, focusing on the terms of Rafsanjani, Khatami, Ahmadinejad, and Rouhani, spanning from 1997 to 2021. Figure (1.3) illustrates an overview of Iran's political settlement, which will be explained in more detail in this chapter. After the revolution, Iran witnessed a complex political landscape shaped by various factions, including lib-

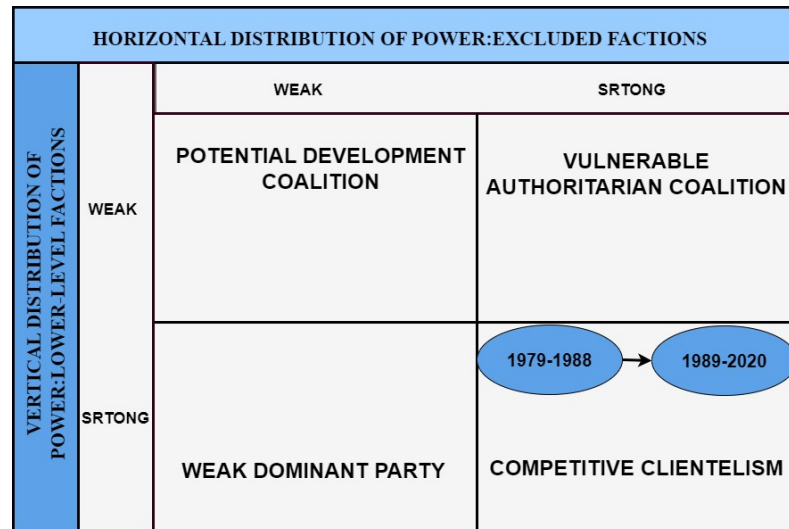


Figure 1.3: *Political Settlement after the Revolution (1979-2020)*

erals, Islamists, and socialists. The initial years following the revolution saw a degree of openness and potential for political transformation, but the devastating Iran-Iraq War from 1980 to 1988 diverted attention and resources, leading to a consolidation of power by the Islamic Republic Party (IRP). With the passing of Ayatollah Khomeini in 1989, Ali Khamenei succeeded him as the Supreme Leader, with Hashemi Rafsanjani assuming the presidency. Rafsanjani pursued pragmatic economic policies, seeking to rebuild the war-torn economy through technocratic approaches. His administration marked the beginning of a shift towards economic liberalization, albeit within the framework of the Islamic Republic.

Khatami's presidency, from 1997 to 2005, introduced a period of reform and moderation. He advocated for political openness and improved relations with the West, although his efforts faced resistance from conservative factions. Despite limitations, Khatami's tenure witnessed increased political participation and social activism, challenging the established power structures. Ahmadinejad's presidency, spanning from 2005 to 2013, represented a departure from moderation towards populism and confrontation. He appealed to lower-income segments with promises of economic redistribution and took a defiant stance against Western powers. Ahmadinejad's administration saw a consolidation of power among conservative factions and an expansion of the Revolutionary Guard's economic influence. Rouhani's presidency, which began in 2013 and ended in 2021, marked a return to moderation and pragmatism. He prioritized improving Iran's relations with the international community, particularly with respect to the nuclear deal negotiations. Rouhani pursued economic reforms aimed at revitalizing the economy, facing challenges from hard-line factions opposed to rapprochement with the West.

Throughout these presidencies, Iran's political settlement remained characterized by a complex interplay of power dynamics between reformist and conservative factions, with the Supreme Leader exerting ultimate authority. The rent

space continued to be dominated by entities such as the Revolutionary Guard and various foundations, while the deal space fluctuated depending on prevailing political climates. Overall, the chapter illustrates the ongoing tension between reform and conservatism within the Islamic Republic, shaping Iran's domestic and foreign policies in the post-revolutionary era.

1.6.5 The Expanding Economic Role of the IRGC in Post-Revolutionary Iran

Shortly after the Islamic Republic's formal establishment, Ayatollah Khomeini, on May 5, 1979, directed the Revolutionary Council to create the Islamic Revolutionary Guard Corps (IRGC)—or Sepah-e Pasdaran-e Enghelab-e Islami—as a key arm of Political Islam. As mandated by the 1979 Constitution, the IRGC was to "guard the revolution and its achievements." In practice, it emerged as a paramilitary force overseeing the Shah's dismantled army, suppressing domestic opposition, and managing unrest to stabilize the regime.

Given Khomeini's deep mistrust of the Artesh (regular army), the IRGC quickly became the regime's main coercive and ideological tool (Keddie, 2006). It played a central role in crushing internal revolts—particularly among Sunni Arabs in Khuzestan, and insurgent groups in Kurdistan, Azarbaijan, and Torkamansahra (Maloney, 2015). Over time, the IRGC has deeply embedded itself in both Iran's political system and economic landscape (see Figure ??).

1.6.6 Economic Resilience in a Sanctioned State: Structural Change Through the Resistance Economy

The growing use of sanctions by the U.S. and its allies has intensified global interest in economic resilience, broadly defined as "the ability to recover from or adapt to external economic shocks" (Briguglio et al., 2005). Initially used in ecology (Zhu and Ruth, 2013) and supply chain studies (Gligor et al., 2019), the concept now extends to macroeconomic systems, emphasizing the role of institutional capacity and policymaking in shock response (Martin et al., 2016; Bakhtiari and Sajjadih, 2018).

Wang (2019) reinterprets economic resilience as "developmental persistence under geopolitical adversity," linking it to Developmental State Theory (DST), which highlights state intervention in correcting market failures and directing industrial policy (Amsden, 2001). In Iran, Ayatollah Khamenei formally introduced the concept of the resistance economy in 2012, codified further in a 2014 fatwa, as a state-driven strategy for withstanding sanctions and sustaining economic growth.

The resistance economy overlaps with Iran's Vision 2025, advocating for engagement with global markets while enhancing domestic production, technological self-reliance, and economic stability.

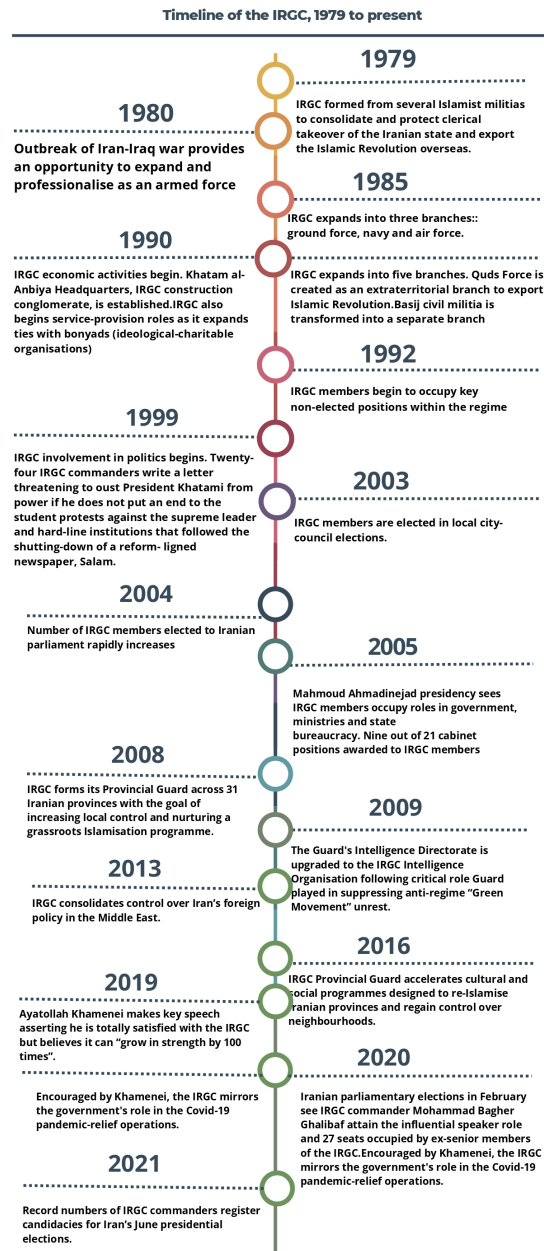


Figure 1.4: *Timeline of IRGC role in Iran, 1979 to present*

Iran's trade strategy has shifted toward less sanctions-sensitive partners, particularly China, illustrating adaptive economic resilience.

Structural Change and Export Diversification Sanctions accelerated Iran's shift toward non-oil exports, especially in resource-based sectors less reliant on foreign inputs. Between 2008 and 2018, export growth centered on chemicals, metals, and fertilizers—industries aligned with domestic resource availability and regional demand (e.g., Iraq, China).

Table 1.1: *Iran's Trade Partners by Sanctions Sensitivity*

Insensitive	Somewhat Sensitive	Highly Sensitive
Afganistan	Argentina	EU28
Armenia	Brazil	Japan
Azerbaijan	China	South Korea
Iraq	India	Switzerland
Oman	Malaysia	
	Russia	
	Turkey	
	UAE	

Source: Author's elaboration of UN COMTRADE data

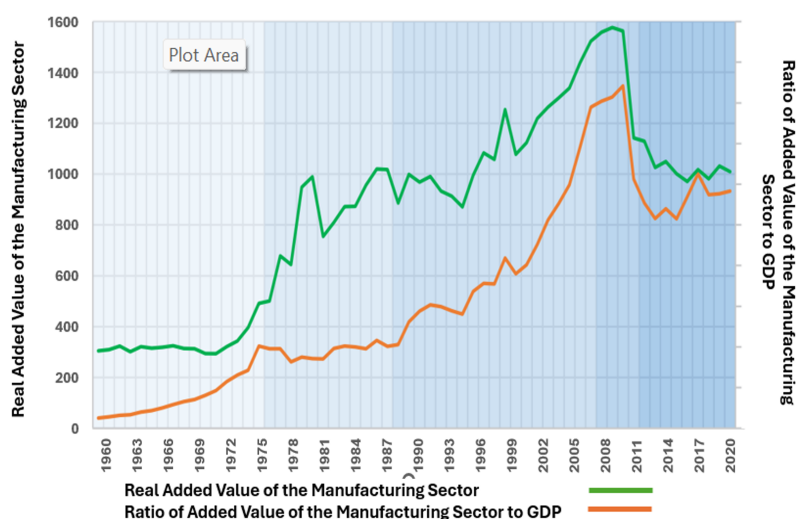
Table 1.2: *Top 15 Iranian Export Products by Average Value, 2008–2018 (UN COMTRADE data)*

Product Category	Product Code (HS)	Average Value (USD thousands)
Polymers of ethylene, in primary forms	3901	1,169,598
Acyclic alcohols and their halogenated, sulphurated, nitrated or nitrosated derivatives	2905	913,040
Iron ores and concentrates, including roasted iron pyrites	2601	816,184
Tin and articles thereof	802	629,142
Cyclic hydrocarbons	2902	477,366
Mineral or chemical fertilizers, nitrogenous	3102	300,636
Semi-finished products of iron or non-alloy steel	7207	268,885
Refined copper and copper alloys, unwrought	7403	280,573
Copper ores and concentrates	2603	215,720
Ammonia, anhydrous or in aqueous solution	2814	199,502

Source: Author's elaboration of UN COMTRADE data

These shifts represent a partial structural transformation away from oil dependence, though the broader economy remains rentier in nature. Export diversification reflects Iran's strategy to bypass sanctions while deepening regional economic ties.

Sectoral trends in GDP share from 1979–2021 illustrate these shifts:

**Figure 1.5:** *Share of manufacturing sector in GDP*

Agriculture remained relatively stable (10–20%), while oil’s contribution fluctuated with sanctions and global prices. Industry held a 20–30% share, but suffered from Dutch disease. Services grew steadily, now dominating GDP.

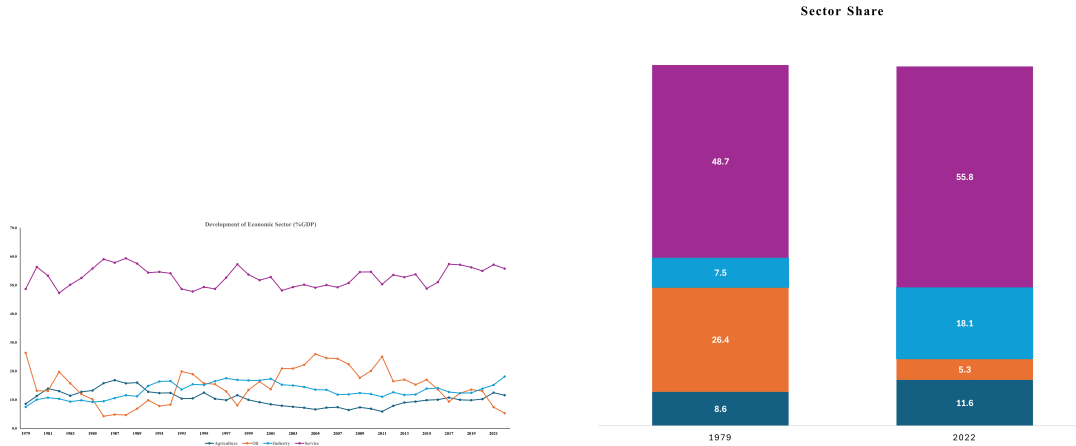


Figure 1.6: *Sectoral Development and GDP Share. Source: Author’s calculation*

Political Settlement, Rent Space, and Deal Space According to Khan’s framework, Iran’s multi-dominant political settlement has limited structural transformation. Power is distributed across the IRGC, religious foundations, and political elites who control rent flows and dominate sectors with low economic complexity (e.g., car manufacturing, construction).

1.6.7 The Case Study of Automotive Industry in Iran

Chapter 5, the automotive industry in Iran serves as a microcosm of the broader dynamics of the political settlement at play in the country, making it an important case study to understand the role of political settlements, rent spaces, and deal spaces in shaping economic growth, the effectiveness of industrial policies, and structural transformation. Salihu (2023) and Heinen (2023), take into account different industries such as cement, textiles, iron and steel in Nigeria and coffee, tourism, food crops, and manufacturing in Rwanda.

1.6.8 Econometric Section: A Nonlinear Auto-Regressive Distributed Lag

Chapter 6, an econometric approach used in the analysis of Iran’s sectoral growth within the frameworks outlined in the previous chapters to enhance the rigor, robustness, and reliability of research findings, thereby contributing to a deeper understanding of the country’s economic challenges and opportunities.

This study contributes uniquely to the literature by integrating Mushtaq Khan’s political settlement framework and North et al.’s insights with Pritchett et al.’s rent space and deal space concepts. By empirically investigating Iran’s historical

Table 1.3: Nonlinear ARDL estimation results

Gross Value Added	Manufacturing	Agriculture	Construction	Wholesale&Trade	Transportation&Storage	Other service activities
NARDL with LR&SR	NARDL with LR&SR	NARDL with LR&SR	NARDL with LR&SR	NARDL with LR&SR	NARDL with LR&SR	NARDL with LR&SR
Asymmetry	Asymmetry	Asymmetry	Asymmetry	Asymmetry	Asymmetry	Asymmetry
OR _{t-1} ⁺ -0.24 (0.00)	OR _{t-1} ⁺ -0.01 (0.83)	OR _{t-1} ⁺ -0.44 (0.00)	OR _{t-1} ⁺ 1.02 (0.00)	OR _{t-1} ⁺ -0.07 (0.14)	OR _{t-1} ⁺ 0.01 (0.83)	OR _{t-1} ⁺ -0.53 (0.01)
OR _{t-1} ⁻ -0.29 (0.00)	OR _{t-1} ⁻ -0.23 (0.04)	OR _{t-1} ⁻ -0.57 (0.00)	OR _{t-1} ⁻ 1.10 (0.00)	OR _{t-1} ⁻ -0.15 (0.00)	OR _{t-1} ⁻ -0.09 (0.18)	OR _{t-1} ⁻ -0.51 (0.00)
GCF 0.27 (0.00)	GCF 0.76 (0.00)	GCF 0 (0.99)	GCF 0.05 (0.00)	GCF 0.55 (0.00)	GCF 0.00 (0.92)	GCF 0.36 (0.00)
TO 0.35 (0.06)	TO -0.35 (0.00)	TO 0.48 (0.00)	TO -0.62 (0.00)	TO -0.23 (0.02)	TO 0.01 (0.55)	TO 0.46 (0.00)
REER -0.04 (0.00)	REER -0.26 (0.00)	REER -0.05 (0.31)	REER -0.23 (0.00)	REER -0.10 (0.00)	REER -0.11 (0.00)	REER -0.03 (0.48)
ΔOR_t^+ -0.04 (0.08)	ΔOR_t^+ 0.01 (0.61)	ΔOR_t^+ -0.09 (0.03)	ΔOR_t^+ 0.17 (0.15)	ΔOR_t^+ -0.03 (0.26)	ΔOR_t^+ 0.03 (0.43)	ΔOR_t^+ -0.15 (0.00)
ΔOR_{t-1}^+ 0.06 (0.02)	ΔOR_{t-1}^+ 0.04 (0.30)	ΔOR_{t-1}^+ 0.20 (0.00)	ΔOR_{t-1}^+ -0.69 (0.00)	ΔOR_{t-1}^+ -0.02 (0.58)	ΔOR_{t-1}^+ -0.11 (0.04)	ΔOR_{t-1}^+ 0.25 (0.01)
ΔOR_t^- -0.11 (0.00)	ΔOR_t^- -0.08 (0.07)	ΔOR_t^- -0.16 (0.00)	ΔOR_t^- 0.08 (0.60)	ΔOR_t^- -0.08 (0.04)	ΔOR_t^- 0.02 (0.61)	ΔOR_t^- -0.05 (0.20)
ΔOR_{t-1}^- 0.03 (0.52)	ΔOR_{t-1}^- -0.30 (0.00)	ΔOR_{t-1}^- 0.40 (0.00)	ΔOR_{t-1}^- -0.53 (0.03)	ΔOR_{t-1}^- -0.28 (0.00)	ΔOR_{t-1}^- -0.03 (0.72)	ΔOR_{t-1}^- 0.43 (0.00)
ΔGCF 0.16 (0.00)	ΔGCF 0.35 (0.00)	ΔGCF -0.02 (0.66)	ΔGCF 0.44 (0.00)	ΔGCF 0.19 (0.00)	ΔGCF 0.12 (0.03)	ΔGCF 0.10 (0.06)
ΔTO 0.09 (0.04)	ΔTO -0.20 (0.00)	ΔTO 0.24 (0.01)	ΔTO -0.02 (0.91)	ΔTO -0.09 (0.09)	ΔTO 0.00 (0.95)	ΔTO 0.13 (0.03)
$\Delta REER$ -0.00 (0.73)	$\Delta REER$ -0.01 (0.24)	$\Delta REER$ -0.04 (0.06)	$\Delta REER$ -0.02 (0.75)	$\Delta REER$ -0.03 (0.01)	$\Delta REER$ 0.00 (0.77)	$\Delta REER$ 0.03 (0.13)
Cons 7.83 (0.00)	Cons 10.71 (0.00)	Cons 7.68 (0.031)	Cons 28.51 (0.00)	Cons 13.03 (0.00)	Cons 4.32 (0.07)	Cons -10.52 (0.00)
Long Run						
LOR+ -0.21 (0.00)	LOR+ -0.02 (0.83)	LOR+ -0.55 (0.00)	LOR+ 1.35 (0.01)	LOR+ -0.13 (0.18)	LOR+ 0.03 (0.83)	LOR+ -1.09 (0.00)
LOR- -0.38 (0.00)	LOR- -0.34 (0.00)	LOR- -0.72 (0.00)	LOR- 1.46 (0.01)	LOR- -0.31 (0.00)	LOR- 0.20 (0.06)	LOR- -1.07 (0.00)
Diagnostic Test						
R2 0.96	0.98	0.67	0.90	0.98	0.94	0.95
AdjR2 0.93	0.96	0.53	0.76	0.95	0.88	0.90
DW Stats 2.39	2.31	2.22	1.75	2.38	2.35	2.70
F-Stats 14.54	17.58	5.51	5.37	29.24	5.65	6.38
Bound test -11.73	-14.03	-6.94	-7.62	-17.52	-7.44	-8.18

Note: *, ** and *** mirror 10%, 5% and 1% significance level, respectively. Source: Authors calculation

trajectory and contemporary conditions, this thesis extends beyond traditional resource-curse explanations by explicitly addressing the influence of sanctions and elite interactions on economic growth and structural transformation

Chapter 2

Concluding Remarks and Policy Recommendations

2.1 Summary of Key Findings

This concluding chapter synthesizes the key findings of this dissertation and presents a set of policy recommendations grounded in the integrated analysis of Iran's political settlements, rent and deal space dynamics, and sectoral economic performance. Drawing on a comprehensive historical-institutionalist framework, political settlement theory, and econometric modeling, this study has provided a multi-dimensional understanding of how political configurations, rent distribution mechanisms, and institutional arrangements have shaped Iran's development trajectory from 1901 to 2020. It has also shown how these dynamics are reflected in the evolution of the automotive industry and the broader structural transformation of the Iranian economy.

The Iranian state has undergone three major political settlement phases: the rentier-authoritarian coalition of the Pahlavi era (1925–1979), the foundational revolutionary settlement under Khomeini (1979–1989), and the evolving competitive clientelist arrangements post-1989. Each phase displayed a distinct rent and deal space configuration:

Under the Pahlavi monarchy, the political settlement was relatively centralized and authoritarian. Rents from oil were centrally managed and selectively allocated to industrial elites through bureaucratic channels. Development was heavily state-led, with industrialization advancing through import-substitution strategies and organizations such as IDRO.

After the 1979 revolution, the political settlement was restructured around a broad coalition of clerical, ideological, and populist forces. Revolutionary bonyads and military-economic organizations like the IRGC emerged as dominant rent-allocating actors. The deal space narrowed, with political loyalty and ideological alignment determining access to rents.

From the Rafsanjani presidency onward, the settlement evolved into a fragmented, factionalized competitive clientelism. Rent distribution became more

contested, with formal and informal coalitions engaging in intense struggles over access to state-controlled resources. Industrial policy and structural transformation were frequently disrupted by political turnover and elite rivalries.

Throughout the post-revolutionary period, rent space has remained large but highly politicized. Oil rents continue to be the dominant source of state revenue, and their distribution shapes the configuration of the deal space. In periods of high oil rents (e.g., 2000s), the deal space expanded, allowing reformists and technocrats to pursue industrial policies, albeit inconsistently. In periods of rent contraction (e.g., post-2011 sanctions), deals became more limited and survivalist, privileging regime insiders and rent-seeking coalitions.

These dynamics have prevented the emergence of a rule-bound, productivity-enhancing deal space. Instead, what prevails is a hybrid system where informal lobbying networks, state-linked conglomerates, and politically connected firms shape industrial outcomes more than market forces or technological competitiveness.

The Iranian auto industry exemplifies how political settlements, rent distribution, and institutional weaknesses shape sectoral development. Initially built under the Pahlavi monarchy with ambitions of national industrialization, it later became a vehicle for job creation, social stabilization, and rent distribution after the revolution.

Persistent low capability and quality issues despite decades of protection. Political appointments and short-term horizons undermine long-term planning. Tariff rents and monopolistic practices insulate the industry from global competition.

Lobbying networks entrenching inefficiency while resisting reform and privatization. Pockets of competence and innovation emerging, particularly in parts manufacturing, yet held back by wider institutional weaknesses. The auto industry became both a rent sink and a site of contestation among rival coalitions, reflecting the broader dysfunctions in the rent-deal space configuration.

The econometric chapter employed a NARDL framework to analyze the impact of oil rent shocks on sectoral value-added in Iran. It revealed. Strong asymmetric effects: positive oil rent shocks harmed manufacturing and agriculture while boosting construction.

Appreciation of the real exchange rate following oil booms eroded competitiveness in tradable sectors. Volatility in oil rents contributed to macroeconomic instability, hindering long-term planning and investment. Rent allocation favored non-tradable, politically connected sectors over productive, competitive industries. These results quantitatively reinforce the historical and institutional findings of the previous chapters.

In light of these findings, a new developmental strategy for Iran must confront the core constraints imposed by its political settlement and rent space. Policy reform must be not only technocratic but also politically aware.

2.2 Policy Recommendations

Oil Revenue Stabilization: Establish a sovereign wealth fund or stabilization mechanism that cushions the economy from oil price volatility. This would require transparency, institutional independence, and legal protections.

De-link Rent Allocation from Political Loyalty: Introduce performance-based criteria for accessing state support, especially in industrial sectors. Gradually shift from discretionary allocation toward rule-based systems.

Encourage Competitive Deals: Design industrial policies that foster competitive entry, technological upgrading, and learning. Reduce barriers to market access for firms outside the political elite.

Regulate Informal Networks: Increase transparency and accountability in public procurement, state contracts, and tariff allocation to weaken rent-seeking lobbies.

Promote Independent Institutions: Strengthen institutions like IDRO and the Ministry of Industry to function professionally, insulated from factional politics.

Gradual Liberalization: Reduce tariffs progressively while providing targeted support for capability development in parts manufacturing.

Technology Partnerships: Facilitate joint ventures with global firms focused on knowledge transfer and innovation, particularly in electric vehicles.

Decentralization and Employment: Incentivize auto manufacturers to locate production in underdeveloped provinces, aligning industrial policy with spatial equity goals.

Exchange Rate Flexibility: Adopt a managed float system that buffers against oil shocks while maintaining competitiveness.

Investment in Traded Sectors: Channel public investment into agriculture and manufacturing to reverse the Dutch disease pattern.

Strategic economic diplomacy: Rather than isolation or unconditional globalization, Iran should pursue strategic integration—leveraging regional markets, engaging in value-added trade with Asia and Africa, and de-risking its exposure to Western financial hegemony.

Diversify trade and production: Sanctions have exposed Iran's vulnerability to oil dependency. A focus on petrochemicals, metals, agriculture, and food processing—combined with knowledge-based industry—can broaden the export base and enhance resilience.

Engage with international norms: While full normalization may remain politically difficult, selective engagement with institutions like FATF, WTO, and regional investment frameworks can expand policy space and reduce uncertainty for private actors.

Reform must be tailored to Iran's political reality. Abrupt liberalization is likely to be resisted by entrenched actors. A sequenced approach that builds coalitions around industrial upgrading, transparency, and inclusion is more viable. Targeting areas of mutual interest (e.g., job creation, national pride in automotive exports, reducing sanctions vulnerability) can help shift elite incentives.

This dissertation has argued that understanding Iran's developmental trajectory requires going beyond narrow economic explanations. Political settlements, rent space, and deal space form the institutional terrain upon which development policies are conceived, distorted, or implemented. Iran's political economy is not static; it evolves through contestation, adaptation, and crisis. Yet the persistent structural constraints require bold and intelligent policy design that combines economic logic with political strategy.

The path forward is neither simple nor guaranteed. But the evidence suggests that if Iran is to achieve sustainable structural transformation, it must move from a rentier economy to a production-centered one, from clientelism to rule-based governance, and from protection to competitiveness. This shift is not only economic but profoundly political.

The challenge for future policymakers, researchers, and reform-minded coalitions is to imagine and enact that transformation.

Chapter 3

3.1 Publication List

3.1.1 Journal

- Sedighi S., Niftiyev I. Economic Growth through Rent Streams, Financial Development and Institutional Quality in Mena. Finance: Theory and Practice. <https://doi.org/10.26794/2587-5671-2026-30-4-1706-01>
- Sedighi, Somayeh; Shaghaghi, Samaneh Raiss; Woldu, Gabriel Temesgen; Macroeconomic effects of fiscal policy shocks: Panel VAR evidence from MENA countries; Macroeconomics and Finance in Emerging Market Economies; 2024 Routledge
- Sedighi, Somayeh; Rents, financial development, and economic growth in MENA countries, 2000–2020 Regional Statistics; 2024 Központi Statisztikai Hivatal

3.1.2 Chapter Book

- Miklós Szanyi, Somayeh Sedighi; Rent Streams and Institutional Development in the (Semi-)periphery: Iran and Hungary; International Political Economy Series. Palgrave Macmillan, Cham

3.1.3 Conferences

- Saleh Mothana Obadi, Somayeh Sedighi; Resource Rent Fluctuation and Inclusive Economic Growth in Iran and Libya; 2024 Asia-Pacific Conference on Economics and Finance (2024)
- Sedighi, Somayeh; Rent, Financial Development and Economic Growth in Iran (best paper with 4 more credit awards); 12th ASECU Youth International Conference and Summer School; University of Aegean, Island of Chios, Greece (August 6-13, 2023)

- Sedighi, Somayeh; Natural Resource rent and Political Economy in Iran; EAEPE Summer school and International Conference; Roma Tre University, School of Economics and Business Studies, Rome, Italy (3-6 July 2023).
- Sedighi, Somayeh ; Rent Streams, Financial Resource Curse, and Economic Development in MENA Countries; University of Pecs, Faculty of Business and Economics (10th September 2021)
- Sedighi, Somayeh; Impact of natural resource rents on income inequality, The European Union's contention in the reshaping global economy, (2021)
- Miklos Szanyi, Somayeh Sedighi; Good governance: does it improve manufacturing export in resource-rich countries? The Challenges of Analyzing Social and Economic Processes in the 21 st Century; (2021)

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