

A Realistic Roadmap To Rebuild Iran's Economy

By Saeed Ghasseminejad, PhD and Mohammad R. Jahan-Parvar, PhD

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After four decades of incompetence, domestic repression, regional aggression, and systemic corruption, the Islamic Republic has alienated numerous stakeholders and demographics, both domestically and internationally. The regime is feeble, precarious, and susceptible. Its downfall appears increasingly plausible and attainable.

The future transition in Iran is a topic of interest for key stakeholders including the Iranian people, the diaspora, the global business community, and the international political elite. Their perception of the post-regime transition influences their level of preparedness and engagement in the regime change process. This group of the Iran Prosperity Project aims to address critical economic and financial queries to provide clarity on the potential transition.

The Iran Prosperity Project (IPP) delves into potential post-regime collapse transition planning. The papers included in this group look at short-term, medium-term, and long-term problems and provide practical solutions for all of them. The objective is to provide a comprehensive framework to guide the country through potential disruptions, leading to fast and sustainable reconstruction and development to facilitate a smooth transition to democracy.

THE POSSIBILITY OF REGIME CHANGE IN IRAN

A combination of political repression, economic stagnation, social unrest, and regional conflicts characterizes the Islamic Republic's current situation. The Islamic Republic lacks transparency and tramples basic political freedoms. Supreme Leader Ali Khamenei has remained in power for more than three decades. Over this period, he has concentrated control of all aspects of governance in his own hands and in his office. This has resulted in significant discontent among both the general population and those within the regime. While there was once optimism regarding the possibility of reform within the regime, there is now a widely held belief that meaningful reform is unattainable.

Iran is currently grappling with severe and chronic economic challenges, including high inflation, widespread corruption, low growth, stagnant productivity, limited access to global markets and foreign investment, significant capital and brain drain, and a heavy reliance on volatile oil revenue, further exacerbated by international sanctions. After close to five decades of the Islamic Republic's rule, Iran's real GDP per capita remains below pre-1979 levels. Annual inflation has averaged over 22 percent since 1979, compared to around 6 percent from 1960 to 1978. Economic growth continues to trail regional peers and remains well below pre-1979 rates. There is a growing recognition among the Iranian populace and business community that achieving economic development under the current regime is simply infeasible.

Since the Islamic Revolution, there has been a notable shift in Iran's social landscape, from a society with a high degree of social freedom to one where the strictest interpretation of Sharia is enforced. The regime's stringent control over personal aspects of people's

lives, such as their clothing and reading material, both in public and on social media, has led to ongoing tension and potential conflicts between the populace and the government. The Mahsa Uprising in September 2022 serves as a significant example of this, sparked by the tragic death of Mahsa Amini following her arrest and fatal beating by the "morality" police, which shed light on the brutal enforcement of hijab laws related to public morality.

The Islamic Republic's policy stances, both regionally and globally, have not only exacerbated its economic challenges but also resulted in the perception that it is a disruptive influence. The list of these align policy stances include, but are not limited to, the regime's pursuit of nuclear weapons, its professed and actively pursued policy to destroy Israel, its efforts to overthrow moderate Arab monarchies, its schemes to expel the United States from the Persian Gulf and wider Middle East region, its support for terrorist groups (that extend beyond the Middle East), and its active participation in the conflict in Ukraine. Taken together, some observers advocate for regime change as the preferred policy responses.

After October 7, 2023, Israel launched a campaign to dismantle the regime's "Axis of Resistance." To date, Israel has significantly diminished Hamas and Hezbollah's operational capacities. A side effect of Israel's campaign against the so-called Axis of Resistance was the demise of the Assad regime in Syria. The Assad family had been close allies of the Islamic Republic since the 1980s. Thus, the Islamic Republic's decades-long investment in Shia militia groups across the region has suffered severe setbacks in Gaza, Lebanon, and Syria. These defeats pave the way for further regional losses, shatter its image of invincibility at home and abroad, and appear to have pitted various factions of core radical supporters and top officials who blame each other and question the overall strategy of the regime.

Since 2017, the dominant political discourse among Islamic Republic's domestic critics has switched from "reform" to "revolution". The significance of this structural break must not go unnoticed. Since then, there have been three widespread waves of protests—in 2017, 2019, and 2022—each encompassing more than 150 cities and towns. Each time, the regime used extensive violence to quash the uprisings, resulting in the killing, maiming, and imprisonment of tens of thousands of protestors. Connecting these large waves of protests, the frequency of smaller-scale strikes and demonstrations—which were already common—have picked up notably across the country.

These factors unequivocally foster an environment ripe for radical change, including the possibility of regime change through a popular revolution.

THE NECESSITY OF THE PROJECT

One recurring question for Iranians and the international community is: What political and economic order will replace the Islamic Republic?

By mapping a clear path to reconstruction and creating consensus, the Iran Prosperity Project aims to reassure the Iranian people and the international community that experts are actively addressing post-collapse challenges and proposing tangible, fact-based, and peer-reviewed solutions to minimize their impact. These solutions emphasize that in a post-Islamic Republic era, there will be a focus on improving human rights, expanding political freedoms, and implementing economic policies aimed at reconstruction and development that would result in tangible alleviation of poverty and rising living standards.

Anticipating these challenges and planning for a better future brings hope to a long-oppressed population under a totalitarian rule, fosters greater involvement and support for the revolutionary movement.

Furthermore, a stable and democratic Iran can contribute to regional stability, open new avenues for international trade, and reduce the global threat of nuclear proliferation. Our proposals provide a framework for the international community to engage constructively with

the Iranians' desire for a free and responsible political order, grounded in shared interests that will reasonably emerge from the adoption of these policies.

KEY ASSUMPTIONS

The Iran Prosperity Project bases its strategic economic planning on certain assumptions regarding the political context prior to and following the regime's fall.

It assumes that international isolation of the regime, along with the regime's own incompetence, will lead to a large-scale uprising. In turn, elements within the regime's security and military establishment would defect, ultimately leading to the regime's collapse. The model does not account for a widespread civil war or a major foreign conflict. However, it allows for limited border tensions with neighboring countries or localized violent clashes with separatist or Islamist forces.

It assumes that, during the process of collapse, the transitional government will enjoy broad acceptance in society. It assumes that the transitional government will manage to work with the rank and file of the bureaucracy, and security and military establishment, similar to what happened in the 1979 Islamic Revolution. Such cooperation is essential to our model; without it, the country would be thrown into chaos and be unable to initiate economic reform. In other words, our plan's starting point is when the transitional government establishes a minimum level of control over the bureaucracy and the military and security apparatuses.

The foreign policy of a transitional government should prioritize rebuilding relationships with the international community, addressing security concerns, and promoting regional stability. It should focus on diplomacy, de-escalation of military conflicts, and active participation in international organizations to rebuild trust and secure economic and humanitarian support.

The plan assumes the transitional government will engage in a foreign policy whose goal is to rebuild the country's relations with key foreign countries such as the United States, the European Union, and Israel, while not actively antagonizing the regime's current key partners such as China and Russia. This will allow the transitional government to export oil and petrochemical products, provide access to Iran's accumulated foreign reserves, and reconnect the country to the global financial network.

The relationship with China and the United States is vital to the transitional government's ability to govern the country effectively in its initial months. China is Iran's largest trade partner both in terms of exports and imports. The regime has fostered a dependency on China that cannot be quickly resolved. Furthermore, China's position as Iran's largest—if not sole—customer of oil has also led to the accumulation of Iranian reserves in China. To maintain economic stability, the transitional government must ensure the continuation of trade with China and access to these reserves.

The United States has managed to impose a comprehensive sanctions regime on the Islamic Republic of Iran, restricting Tehran's access to global financial markets, Western markets, technology, goods, and capital. It would be vital to the success of the transitional government to reach an agreement with the United States that allows temporary suspension of US sanctions, or at minimum, a lifting of secondary sanctions that ban non-American companies from trading with Iran. Such a suspension will allow the transitional government to find new markets for Iran's key exports, reconnect to the global financial network—significantly reducing transaction cost, receive financial assistance from international organizations such as IMF and World Bank, and access Iran's global frozen assets.

THREE STAGES OF IPP

These papers outline a grouped approach to the transition, divided into three stages: short-term, medium-term, and long-term. Stage one, lasting from the first four to six months, is the emergency group, during which the new regime works to establish its footing. This is

the most critical phase of transition, as it carries the highest risks, including the return of the old regime, civil war, foreign invasion, widespread shortages, financial collapse, or the fall of the new government. Economic planning in this group focuses on preventing these catastrophic outcomes.

The second stage, or establishment group, can potentially occur between 18 months to two years after the collapse of the old regime. This stage focuses on establishing the new government's legal, political, and economic infrastructure. At the end of this group, the country will have a newly adopted constitution and its first democratically elected executive and legislative branches.

The third stage, or stabilization group, covers the era of the first democratically elected government. At this stage, the focus of the papers shift to the implementation of long-term reforms aimed at establishing and stabilizing a market-based economic system.

At each stage, the authors anticipate the problems the new regime will face and offer practical solutions to resolve or mitigate them and lay the foundation for fundamental reforms.

Economic and Social Stabilization

This first group of IPP focuses on the nation's economic institutions and immediate stabilization, specifically the financial and welfare systems, through six papers. These papers examine the budget during the transition phase and beyond, the banking and monetary systems, financial markets, the healthcare system, and the welfare system. Additionally, they discuss the privatization of assets owned or controlled by the state, the Islamic Revolutionary Guards Corps (IRGC), and the Supreme Leader.

Each paper offers practical solutions within the framework of a market-based economy to address challenges that may arise during the emergency and establishment stages. They then propose long-term reforms for the stabilization group.

The **Budget** paper tackles the important question of financial resources and their allocation during the transition period, especially in the emergency group. It considers various scenarios regarding available financial resources and offers strategies to secure and allocate them, preventing a potential government collapse. Finally, it outlines reforms necessary to put the government's fiscal policy on a sustainable and pro-growth path.

The **Banking and Financial Markets** papers examine the state of the Iranian banking sector and financial markets, outlining the immediate problems that will arise after the regime's collapse. They then offer practical solutions to resolve these immediate crises, including the risks of bank runs and capital flight. Additionally, the papers recommend structural reforms to set the country on the track to economic development in the medium and long term.

The **Privatization** paper discusses the successes and failures of the privatization process in Iran and the world. It provides an overview of the country's massively concentrated wealth, which lies in a handful of foundations and charities controlled by the Supreme Leader, the Revolutionary Guards, and other insiders. Based on this analysis, the paper proposes a privatization plan for the future rooted in market economy principles, the protection of private property rights, and transitional justice.

The papers on the **Pension and Healthcare** systems discuss the reforms necessary to prevent the collapse of these severely stressed sectors. They offer market-based solutions to increase transparency, competition, and efficiency while improving outcomes for the majority of Iranian citizens, particularly vulnerable populations such as children, the elderly, and low-income households. The papers offer solutions for recapitalization and long-term sustainability of these sectors.

In its next two groups, the Iran Prosperity Project will continue its work by examining strategies to provide political and legal stabilization, as well as plans to revitalize various industries within the larger context of rebuilding Iran post-Islamic Republic.

Governance Transformation

In the second group, the Iran Prosperity Project will study legal, political, and social reforms that could facilitate the political and economic transitions. Key questions to be addressed include: what legal system and legislative process will govern the country during the transition period? What will the process of ratifying a new constitution entail? How will the transition government reform the education system? What legal and financial reforms are needed to attract foreign direct investment? How will the transitional government take over the security and military establishment and reform them?

Industrial Revitalization

In the final group, IPP will explore investment and reconstruction opportunities across specific industries. At the industry level, the project will assess each sector's role in reviving the country's economy, identify necessary reforms, and highlight investment opportunities for both international and domestic investors. These sectors include, but are naturally not limited to, energy, construction, petrochemicals, technology, defense, telecom, water management, agriculture, and tourism, among others.

It is important to emphasize that these papers are not final but are dynamic, living documents that will evolve and improve over time. Just as the current draft is the result of multiple rounds of discussions among experts, we hope that the publication of each paper will lead to constructive debates among experts regarding the proposals set forth, resulting in improvements, corrections, and the creation of better solutions for the problems that Iran faces.