

THE BIG SQUEEZE: ON U.S.-IRAN RELATIONSHIP

Relevant for: International Relations | Topic: Effect of policies and politics of developed countries on India's interests

Iran is reeling under the impact of reimposed sanctions after the [U.S. walked out of the nuclear deal in May](#). But the crisis is exposing the strains between the moderate and hardline sections within the Islamic Republic's leadership. Masoud Karbasian, who was removed as Finance Minister on Sunday, is the latest high-profile political casualty in Iran's attempts to counter the effects of a weakening currency and crippling U.S. sanctions. The rial has lost over 50% of its value this year, pushing up prices and compelling consumers to convert their savings into gold and other assets. With mounting public anger over high inflation and alleged corruption, any additional squeeze could worsen domestic tensions. In a prelude to Mr. Karbasian's sacking, through impeachment by parliament, President Hassan Rouhani had in July dropped Valiollah Seif as the central bank governor, for incompetence in handling the fallout from the currency crisis. Thanks to the relief from punitive sanctions after the nuclear deal had taken effect, Tehran managed to double its oil exports, climb out of a deep recession and contain inflation. With the return of economic sanctions, Iran has been prohibited from using the U.S. currency, and faces a bar on trade in cars, metals and minerals. In an effort to mitigate their impact, Abdolnaser Hemmati, the new central bank chief, has announced a relaxation of foreign exchange rules, creating access to subsidised hard money for purchase of essential commodities. He also declared the reopening of currency markets. But more difficult times loom, with the next round of sanctions that kick in by November aimed at impeding Iran's energy exports and financial dealings with its central bank.

The global community must weigh in to ease U.S.-Iran tensions. There is little appetite in the U.S. for a direct military confrontation; Iran too is under no illusion about its military capability. But there remains the risk of an Iranian blockade on the Strait of Hormuz, the passage for about a third of global seaborne oil shipments. It would disrupt supplies and cause panic in global markets. Despite the hawkish tone adopted by his National Security Adviser John Bolton, U.S. President Donald Trump has offered to hold unconditional talks. Rather than prejudge any possible outcome that could result from engaging an unpredictable Mr. Trump, the Iranian leadership should respond favourably to the idea. With much to lose from Iran's international isolation, the European Union should exert diplomatic pressure to renew talks. A fresh nuclear agreement appears to be a remote possibility at this stage. Conversely, even small relief from economic sanctions would bring some leverage at home for the beleaguered Mr. Rouhani. Recent protests have reflected a yearning for progress and greater freedom among ordinary Iranians. The centrist President should help advance such an agenda.

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