Beyond Oil: Strategic Tax and Investment Reforms for Iran's Economic Resilience and Diversification

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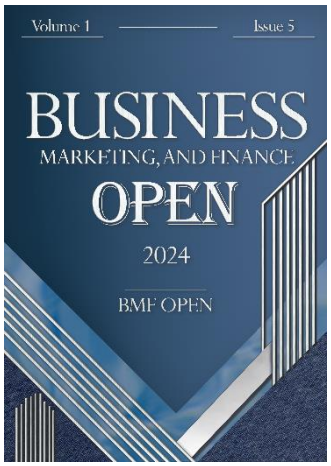

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Abstract: This study rigorously analyses Iran's economic reliance on oil, highlighting the consequent weaknesses such as fiscal instability, constrained economic productivity, and inadequate workforce investment. Historically, oil earnings have supported Iran's budgetary policies; nevertheless, this reliance has rendered the government vulnerable to global oil market volatility, international sanctions, and a limited economic foundation. The essay presents a bifurcated solution architecture to tackle these difficulties, highlighting targeted tax reforms and smart sectoral investments as critical measures for economic diversification and resilience. Proposed key tax measures encompass progressive income tiers, corporation taxes on monopolies, value-added tax on luxury items, and a stamp fee on high-value assets. These initiatives seek to stabilise and diversify Iran's financial streams, promoting a more egalitarian fiscal framework that is less dependent on oil money. The essay supports these reforms by advocating for investment in renewable energy, technology, tourism, and car manufacturing—sectors selected for their growth potential and ability to diminish oil dependency, generate employment, and draw foreign investment. This strategy aims to shift Iran's economy towards sustainable growth by utilising public-private partnerships, foreign direct investment, and the National Development Fund of Iran. Collectively, these initiatives provide a framework for Iran to transcend its dependence on oil, fostering a diverse and robust economic model that is less susceptible to external influences and more congruent with its long-term developmental objectives.

Keywords: Iran, economic dependency, oil revenue, sanctions impact, economic diversification, fiscal policy, Public-Private Partnerships (PPPs), Foreign Direct Investment (FDI).

1. Introduction

Since the discovery of oil in 1908, Iran's economy has been intricately linked to its oil sector. The original extraction, overseen by the British-owned Anglo-Persian Oil Company, established a precedent of dependency that has persisted for more than a century. Notwithstanding fleeting efforts at autonomy, exemplified by the nationalisation of oil under Prime Minister Mohammad Mossadegh in the 1950s, Iran's dependence on oil has consistently been a pivotal factor in influencing its economy and political posture. This reliance, albeit lucrative, has rendered Iran susceptible to the unpredictable dynamics of global oil prices, economic sanctions, and regional unrest. Moreover, it has restricted Iran's fiscal flexibility, curtailed its labour potential, and diminished the prospects for a diverse economy capable of sustainable growth.

Iran's situation illustrates a phenomenon termed Primary Product Dependency (PPD), characterised by economies that depend on the export of raw commodities, such as oil, as their principal source of income. Comparable trends are seen in nations such as Venezuela, Iraq, and Saudi Arabia, where significant reliance on natural resources cultivates an economic landscape vulnerable to foreign disruptions. In contrast to other oil-rich nations in the Persian Gulf that have leveraged their riches to expand into technology, banking, and tourism, Iran's advancement has been hindered by political isolation and enduring economic sanctions. This discrepancy emphasises the significance of governance and policy in the management of resource wealth and exposes Iran's unexploited potential.

This essay examines the economic ramifications of Iran's dependence on oil, highlighting concerns such as fiscal instability, underutilised human capital, and sluggish productivity. A comprehensive solution framework is suggested, including targeted tax reforms and strategic investments to promote a diversified and resilient economy. The proposed tax reforms encompass progressive income bands, corporate taxes for monopolies, and value-added tax on luxury goods—strategies that can expand and stabilise Iran's revenue base while diminishing fiscal reliance on oil. Furthermore, investments in renewable energy, technology, tourism, and car manufacturing are examined as strategies to promote sustainable growth. These sectors, bolstered by public-private partnerships and foreign direct investment, signify high-potential businesses that can alleviate oil dependency and strengthen Iran's economic resilience.

This method demonstrates that a combination of fiscal changes and strategic investments can steer Iran towards a diverse, self-sustaining economy that is less susceptible to foreign influences. This emphasises the significance of policy, innovation, and adaptability in transforming resource-dependent economies into stable, diversified growth paths.

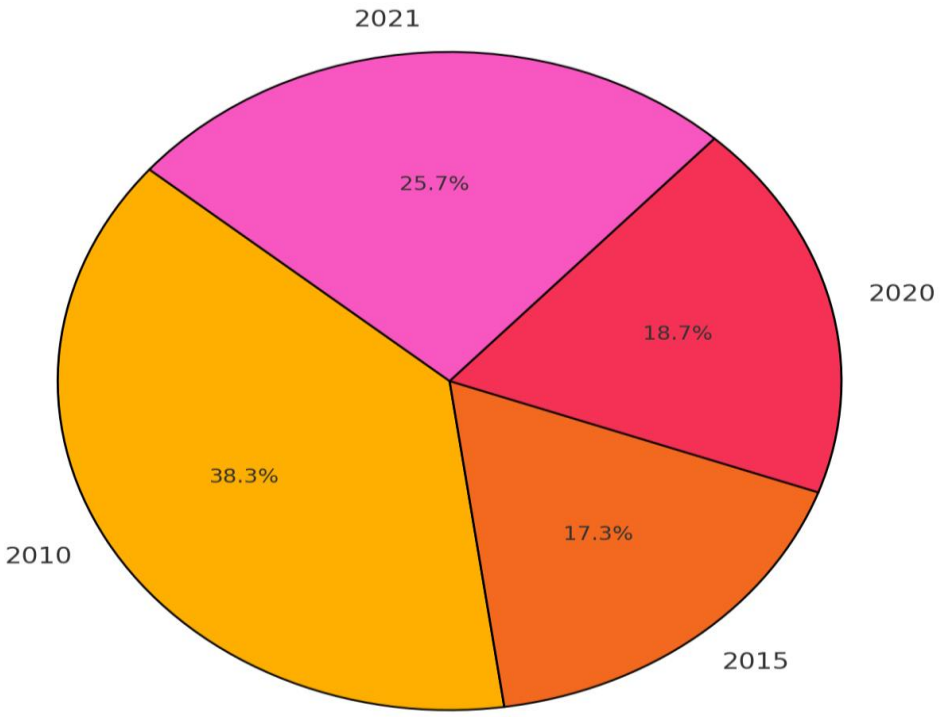

Figure 1. Iran's Oil Dependency as Percentage of GPD (Selected Years)

2. Literature Review

Studies exposing Iran's economic dependency on oil have been comprehensive, underscoring the various vulnerabilities this reliance creates, including fiscal instability and economic stagnation. Comprehensive evaluations have demonstrated that dependence on oil revenues undermines fiscal stability and obstructs economic diversification, especially when exacerbated by the effects of international sanctions. This collection of work continually demonstrates the cyclical "boom-bust" patterns inherent to oil-dependent economies, revealing how variations in global oil prices can destabilise government budgets, employment, and investment flows.

A prevalent subject in academic discussions is the considerable influence of external variables, such as geopolitical dynamics and international sanctions, on Iran's economic condition. The historical and political roots of Iran's oil dependency are associated with colonial exploitation and ensuing political isolation, illustrating a complex interplay of foreign effects on economic conditions. Despite the thorough analysis presented by these studies, they frequently fail to propose comprehensive, concrete measures for diminishing dependence on oil.

Furthermore, a significant study gap exists concerning sector-specific diversification techniques designed for Iran's distinct resources and geopolitical context. Although the basic advantages of economic diversification are extensively documented, the research is deficient in particular advice for Iran about the utilisation of sectors like renewable energy and technology to reduce oil dependency.

This essay offers a dual strategy of targeted tax reforms and sector-specific investments, considering Iran's unique context and resource endowment. The proposed tax reforms seek to stabilise revenue sources by instituting progressive income taxes, corporation taxes on monopolistic sectors, and value-added tax on luxury goods. The essay simultaneously endorses investments in sectors such as renewable energy, technology, tourism, and automotive manufacture, offering a comprehensive framework for diversification that fosters sustainable and growth-oriented economic development. This method presents an innovative and pragmatic addition to the discussion on Iran's economy, offering tangible ideas that go beyond simple diagnostic analysis to real tactics for attaining economic resilience.

3. Methodology

This study utilised a qualitative methodology to examine the strategic tax and investment reforms essential for enhancing Iran's economic resilience and diversifying its reliance on oil. Considering the intricacies of Iran's geopolitical and economic landscape, the study amalgamates material from several secondary sources to formulate a thorough comprehension of the fundamental concerns and prospective remedies.

3.1. Data Collection

The data for this study was obtained solely from secondary sources, including scholarly publications, reports from international economic organisations such as the World Bank and the International Monetary Fund, as well as energy-focused agencies like the International Energy Agency. These sources offered significant insights into Iran's economic framework, the effects of sanctions, and historical statistics regarding oil revenue reliance. Secondary data was chosen for its appropriateness in analysing historical trends and its reliability from reputable sources, which facilitate a comprehensive analysis.

3.2. Data Analysis

The analysis was predominantly qualitative, utilising thematic analysis to extract, compare, and synthesise the perspectives found in the literature to discern consensus and divergences concerning economic diversification plans. This study encompassed a comprehensive analysis of the literature to trace the development of economic policies in Iran and their results. The triangulation of data from several sources improved the credibility of findings, considering the limits of specific Iranian data. This retrospective method facilitated a critical evaluation of historical and contemporary initiatives, leading to the development of future-oriented suggestions based on empirical evidence and expert analysis.

3.3. Integrity

A rigorous approach was implemented in the selection and evaluation of all sources to verify their legitimacy and relevance, ensuring the integrity of this research. This research employed resources predominantly from reputable academic journals, esteemed publications, and credible reports from distinguished organisations. Meticulous citation standards were utilised throughout the research to ensure precise attribution of all data and theories, according to a uniform citation format to uphold academic integrity and enable source verification. Intellectual property rights were upheld by acknowledging any utilised secondary data, and permits were obtained for any substantial copyrighted content as necessary. The research exclusively utilised secondary sources; therefore, techniques for primary data collecting were inapplicable. The approaches were crafted to be clear and replicable, promoting academic examination and validation, while prioritising neutrality and minimising bias. The findings and recommendations were meticulously developed to positively influence economic policy discourse and reforms in Iran, demonstrating a dedication to the utmost standards of research integrity.

3.4. Limitations

This study acknowledges certain intrinsic limitations that may influence the interpretation and relevance of its findings. The dependence on available data imposes limitations, notably the risk of utilising old information that may not accurately represent the latest economic trends or developments. This is especially important considering the continuously evolving economic environment in Iran, where political developments and policy changes can swiftly impact economic indices.

A significant constraint is the probable absence of openness in data provided by Iranian governmental and non-governmental entities. Political and economic factors may result in selective data disclosure or biassed reporting, potentially obscuring the actual condition of economic affairs. In contrast, statistics from outside sources, although typically more credible, may possess intrinsic biases that influence the depiction of Iran's economic circumstances in alignment with broader geopolitical narratives or policy prejudices against Iran.

To address these difficulties, the study utilised a methodological approach of data triangulation, regularly cross-verifying findings with numerous reputable and authoritative sources. This technique involved analysing data points from various time periods and multiple foreign and domestic sources to detect consistencies and inconsistencies. This triangulation sought to improve the credibility of the conclusions by offering a more balanced perspective that considers potential biases and mistakes.

The study delineates these restrictions to establish a clear foundation for comprehending the scope and constraints of the research, guaranteeing that the outcomes are interpreted within the correct context.

4. Vulnerability to Political Economy: Dependency on International Relations and Sanctions

Iran's reliance on oil not only links its economic destiny to the global oil market but also renders the nation exceedingly susceptible to geopolitical dynamics and international relations. This section examines how sanctions and political isolation generate significant weaknesses in Iran's economy, hindering the nation's ability to attain steady, long-term growth.

4.1. The Geopolitical Context: Sanctions and Economic Isolation

Iran's reliance on oil significantly exposes it to international sanctions. In recent decades, Iran has faced numerous sanctions, chiefly imposed by Western nations such the United States and the European Union, along with multilateral bodies such as the United Nations. The sanctions have progressively escalated, isolating Iran from significant global markets and restricting its capacity to export oil and engage with the international banking system [1].

The sanctions specifically aim to impair Iran's ability to produce cash from oil exports, which constitute a significant percentage of its national income. Recent US sanctions not only ban the importation of Iranian oil but also impose secondary restrictions on nations and enterprises that engage in commerce with Iran. This indicates that non-US companies also face fines for participating in oil trading or investing in Iran's energy sector, further isolating Iran from international oil markets [2].

Sanctions also affect Iran's access to international financial institutions. The exclusion of Iran from the SWIFT system, which enables international banking transactions, obstructs the country from obtaining payments for its oil exports via conventional banking channels. This compels Iran to depend on informal, less efficient, and frequently more expensive financial methods, such as barter agreements, for trade execution. The lack of access to official financial channels significantly restricts Iran's ability to export oil and receive payments, undermining its potential to accumulate foreign currency reserves essential for economic stabilisation and funding public spending.

Moreover, sanctions impede international investment in Iran's oil and gas industries. International oil corporations, particularly those from Western nations, are prohibited from establishing new contracts or alliances with Iran. This limitation denies Iran access to advanced extraction methods, finance, and experience, all essential for sustaining oil production capacities. Iran's oil production capacity has stalled due to the absence of contemporary technologies and investment, hindering its ability to sustain or augment output. The absence of foreign investment has rendered a significant portion of Iran's oil infrastructure outdated and ineffective, hence diminishing the productivity of its oil resources [3].

Over time, these sanctions have hindered Iran’s oil sector, inhibiting the nation from fully using its substantial oil and gas reserves. Despite possessing the fourth-largest proven oil reserves and the second-largest natural gas reserves worldwide, Iran is hindered by sanctions that inhibit its ability to fully use these resources. The resultant constraints have significant implications for the overall economy, as the oil and gas industry serves as the primary driver of growth and revenue for the Iranian government [4].

The fiscal imbalances stemming from Iran's reliance on oil earnings are exacerbated by the nation's failure to obtain financial assistance from international institutions, notably the International Monetary Fund (IMF). As a result of enduring sanctions, Iran has been largely excluded from the international financial system, and the IMF has not provided substantial loans since prior to the 1979 Revolution. Access to IMF finance may have offered Iran

essential financial assistance at times of low oil prices or economic turmoil; but, sanctions and deteriorated international relations have precluded the nation from utilising these resources [4].

In the absence of sanctions, Iran might qualify for IMF financing via mechanisms like Quota Subscription and Special Drawing Rights (SDRs). Considering Iran's population and economic capacity, it may feasibly obtain loans amounting to billions of dollars to stabilise its fiscal situation. In 2020, the IMF disbursed emergency funds to various countries globally in reaction to the economic disruptions caused by the epidemic. Given alternative geopolitical conditions, Iran might have been able to secure a comparable emergency loan arrangement, potentially ranging from $5 to $10 billion. This investment could serve as a safeguard against economic recessions and declines in oil prices, diminishing dependence on domestic strategies such as monetary expansion, which frequently leads to inflation and currency devaluation [5].

In the absence of IMF funding, Iran must address fiscal deficits internally. In the event of declining oil revenues, the government often opts to grow the monetary base instead of borrowing from international markets or institutions. This method generates heightened inflationary pressure, resulting in the depreciation of the rial and a diminishment of purchasing power throughout the economy. This method engenders a boom-bust cycle: elevated oil prices result in income surges, prompting heightened government expenditure. Conversely, a decline in oil prices exacerbates fiscal deficits, necessitating substantial expenditure reductions or increased monetary expansion—both of which contribute to economic instability and may precipitate recessions [5].

The absence of access to international funding limits Iran's capacity to implement countercyclical policy tools often utilised to regulate boom-bust cycles. In economies receiving international financial assistance, governments can enhance demand during recessions and reduce expenditure during expansions. Nonetheless, Iran's fiscal policy is markedly procyclical, intensifying economic volatility instead of alleviating it [6-9].

The Iranian economy is ensnared in a feedback loop where fiscal imbalances exacerbate the boom-bust cycle, eventually constraining Iran's economic potential. In the absence of tools such as IMF support to mitigate these oscillations, the government encounters escalating hurdles in creating a stable economic environment, exacerbating the difficulties associated with its dependence on oil earnings [6-9].

4.2. The Economic Impact of Sanctions

The most direct and palpable consequence of sanctions on the Iranian economy is the decline in oil revenue, which markedly diminishes the government's capacity to fund public services, infrastructure initiatives, and social programs. The Iranian government, constrained by significantly reduced oil sales, confronts ongoing fiscal deficits, compelling it to depend on temporary solutions such as currency printing and heightened borrowing. Expansionary fiscal policies, although offering immediate comfort, frequently result in elevated inflation and augmented debt, so engendering long-term economic instability [4].

Between 2010 and 2013, amid severe sanctions, Iran's economy saw substantial inflation, with prices increasing by over 40% each year. The inflationary pressure diminished the real income of Iranian households, significantly decreasing their purchasing power and increasing poverty levels [10]. The situation deteriorated with each successive round of sanctions, as oil shipments continued to decline, resulting in shortages of vital commodities and increased prices universally. The inflationary spiral hindered corporate efficiency due to escalating input costs, supply chain interruptions, and decreasing customer demand resulting from drastically reduced real earnings.

Sanctions also impede governmental expenditure. Due to diminishing oil income, the government is compelled to reduce essential public services, including healthcare, education, and infrastructure. This not only impedes long-

term economic growth but also intensifies social inequality, as the economically disadvantaged are the most reliant on government services and subsidies. The diminishment of fuel subsidies—traditionally a vital component of Iran's social welfare policy—provoked extensive protests in 2019, as escalating fuel costs disproportionately impacted low-income families. The necessity to diminish subsidies arises directly from the fiscal deficits induced by sanctions, illustrating the profound interconnection between oil dependency and foreign relations in Iran's economic difficulties.

Furthermore, sanctions constrain the government's capacity to finance infrastructure initiatives essential for sustained growth. Initiatives to modernise Iran's transport networks, energy infrastructure, and communication systems have been postponed or terminated due to insufficient funding. This establishes a detrimental loop, wherein the lack of contemporary infrastructure dissuades foreign investment, consequently constraining the advancement of non-oil sectors that could diversify the economy and diminish reliance on oil [11].

The international isolation resulting from sanctions significantly restricts Iran's access to foreign direct investment (FDI), hence exerting a broader economic impact. International corporations, apprehensive about the risks linked to sanctions, are hesitant to invest in Iran, especially in sectors not connected to oil. The absence of foreign direct investment results in Iran forgoing the capital, technology, and skills that international companies may provide to its economy. This is especially detrimental to sectors such as manufacturing, technology, and agriculture, which are essential for economic diversification but remain underdeveloped due to insufficient investment [12].

Moreover, sanctions create currency volatility. In the absence of a consistent influx of foreign cash from oil exports, the rial is susceptible to significant depreciation. The government has attempted to stabilise the currency through different methods, including currency restrictions; nevertheless, these efforts frequently fail to tackle the fundamental causes of devaluation. As the rial declines, import costs increase, exacerbating inflation and diminishing consumer purchasing power. The interplay of inflation, currency devaluation, and escalating costs of imported goods engenders a cost-push inflation situation, wherein firms transfer increased expenses to consumers, intensifying the economic difficulties encountered by average Iranians.

5. Vulnerability to External Market Shocks: Oil Price Volatility and Economic Impacts

Besides the political issues linked to oil dependency, Iran's economy is significantly susceptible to variations in the global oil market. The fluctuations in oil prices, influenced by global demand variations, supply interruptions, and geopolitical occurrences, significantly impact Iran's economic stability. This section examines the influence of oil price volatility on Iran's fiscal policy, economic growth potential, and overall economic stability, demonstrating how foreign market shocks—apart from political factors—significantly alter the nation's economic trajectory.

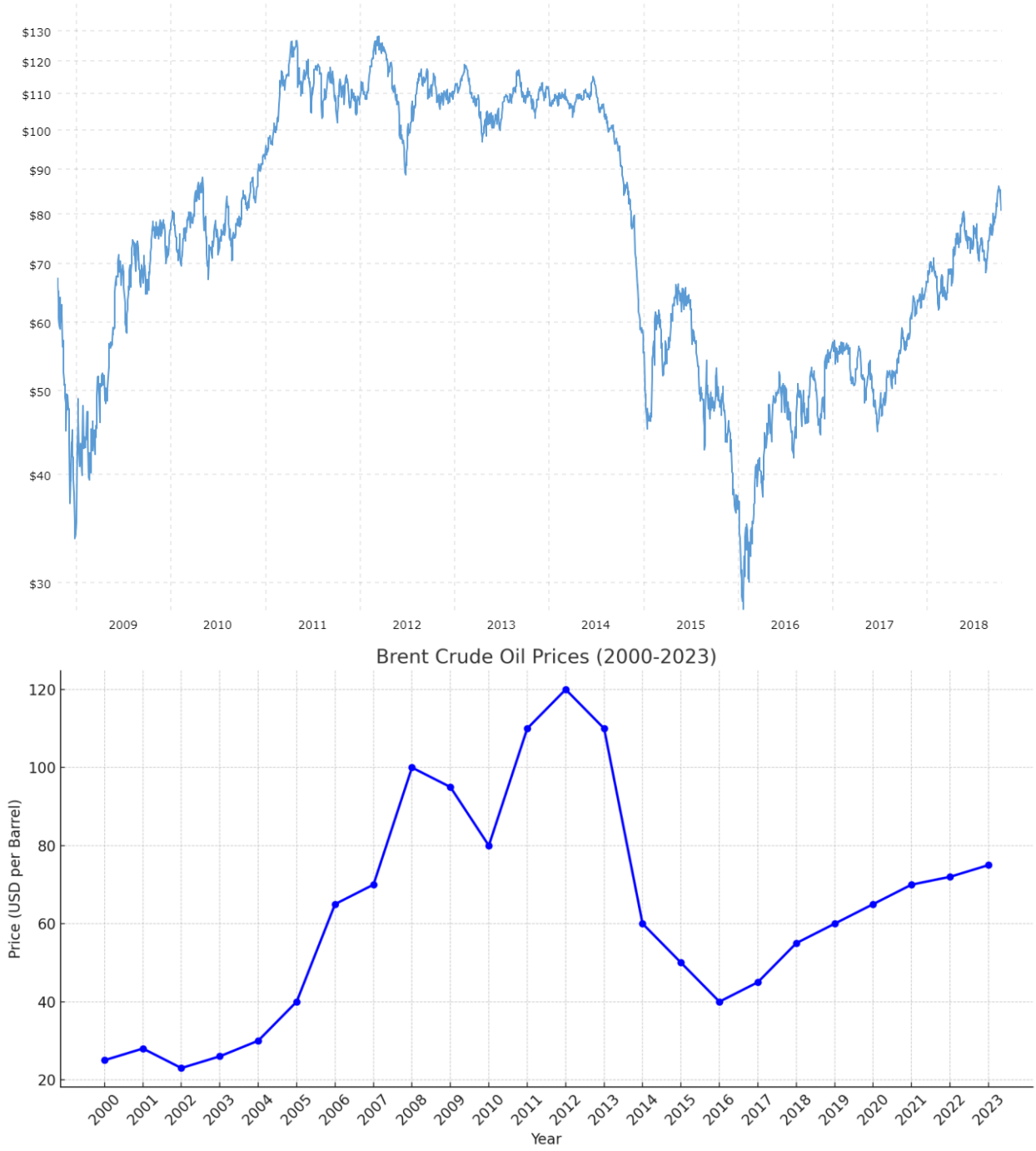

Figure 2. Brent Oil Prices (2000-2023)

5.1. The Nature of Oil Price Volatility: Boom and Bust Cycles

Oil prices are highly variable, influenced by various factors such as natural disasters, fluctuations in global demand, OPEC production decisions, and advancements in oil extraction technology. In a nation such as Iran, where oil comprises a significant share of governmental revenue, this volatility immediately results in economic instability. Historically, elevated oil prices, as seen in the early 2000s and post-Arab Spring in 2011, have yielded substantial profits for oil-exporting nations such as Iran. During these booms, Iran has had transient economic

expansion, enabling the government to augment expenditures on infrastructure initiatives, public services, and social welfare programs. Nevertheless, these phases of affluence are frequently transient, as the global oil market ultimately reverts to intervals of diminished pricing. The 2014 oil price collapse, which resulted in a decline from over $100 per barrel to around $50, significantly affected Iran's government budget, necessitating the implementation of austerity measures and reductions in critical public services (International Energy Agency, 2015).

The cyclical dynamics of oil prices engender a boom-and-bust cycle for Iran's economy. In times of elevated oil prices, the government frequently escalates expenditure swiftly, occasionally on unsustainable initiatives or ineffective public programs. These economic booms foster a misleading sense of security, promoting excessive dependence on oil earnings and hindering the advancement of alternative industries that could offer more reliable income streams. When oil prices decline, the government is compelled to significantly reduce expenditures, resulting in economic contractions, increased unemployment, and diminished investment in essential infrastructure. This procyclical fiscal strategy, characterised by increased government expenditure during economic booms and reduced spending during downturns, exacerbates the economic instability induced by oil price fluctuations [6-9].

Furthermore, the global oil market is affected by geopolitical developments that frequently lie outside the control of oil-producing countries. Conflicts in significant oil-producing regions, such as the Middle East or North Africa, can result in abrupt supply disruptions that trigger fluctuations in oil prices. Moreover, global economic fluctuations—such as the 2008 financial crisis or the economic downturn induced by the COVID-19 pandemic—can significantly impact oil demand, resulting in erratic price variations. Iran's substantial dependence on oil renders it vulnerable to foreign influences, leaving its economy exposed to the volatility of global oil markets [13].

5.2. Fiscal Imbalances and the Boom-Bust Cycle

The dependence on oil earnings for government financing renders Iran's fiscal strategy acutely responsive to fluctuations in oil prices. In times of elevated oil prices, the Iranian government typically amplifies public expenditure, especially on infrastructure and social initiatives, resulting in fiscal surpluses that stimulate short-term economic development. This increase in expenditure is frequently unsustainable as it lacks reliable, diverse revenue streams. When oil prices decline, government revenue significantly diminishes, resulting in substantial fiscal deficits [5].

The consequences of these fiscal imbalances are especially significant given Iran has restricted access to external borrowing owing to international sanctions and its tenuous connections with global financial institutions. This indicates that as oil earnings diminish, the government faces challenges in borrowing funds to compensate for the deficit. The government is frequently compelled to either reduce expenditures or engage in money creation, both of which yield substantial economic repercussions [6-9].

Reducing expenditure during times of low oil prices results in diminished investment in essential sectors such as education, healthcare, and infrastructure, hence obstructing long-term economic progress. The reductions also impair the government's capacity to offer subsidies for essential products and services, resulting in escalating living expenses for average Iranians and heightened social discontent. The 2019 protests around fuel price increases exemplify how fiscal imbalances resulting from declining oil revenues can incite extensive public discontent and unrest.

Conversely, the government's implementation of monetary expansion—creating currency to address budget deficits—results in inflation. Iran encounters cost-push inflation due to the injection of additional capital into the economy without a proportional rise in goods and services, resulting in increased production costs being transferred to consumers as elevated prices. This inflation diminishes the purchasing power of households, especially those in lower-income groups, resulting in a reduction in living standards and an escalation in poverty.

The government's failure to execute countercyclical fiscal policies—where expenditure is augmented during recessions to invigorate the economy—intensifies the economic repercussions of oil price fluctuations. Governments should ideally accumulate revenue during prosperous periods and increase expenditure during downturns to mitigate economic volatility. Nonetheless, Iran's reliance on oil earnings and its fiscal mismanagement hinder the accumulation of adequate financial reserves during periods of economic prosperity. Consequently, when oil prices decline, the government has few alternatives aside from implementing austerity measures, which exacerbate economic contractions and elevate unemployment [5].

5.3. Impact on Long-Term Growth and Development

The fluctuation of oil prices influences not just immediate budgetary policy but also has enduring consequences for Iran's economic development. The volatility of oil revenues hinders the government's capacity to undertake consistent, long-term planning. Extensive infrastructure initiatives, for instance, may necessitate consistent financing over multiple years. The boom-bust cycle induced by oil price volatility frequently results in the cessation of funding for major projects midway, causing delays, cost overruns, and incomplete undertakings. This results in inefficiencies in public resource utilisation and obstructs the advancement of vital infrastructure, such transport networks, electricity grids, and telecommunications systems, which are crucial for economic growth [14].

Moreover, the instability induced by oil price fluctuations deters private investment. Domestic and international investors are hesitant to engage in Iran’s non-oil sectors due to the unpredictability of future economic situations. The fluctuations in oil prices generate uncertainty regarding the government's capacity to provide subsidies, deliver public services, or control inflation, all of which are essential considerations for investors when determining their investment locations. In the absence of a stable and predictable economic climate, investors are disinclined to undertake risks associated with long-term initiatives in sectors such as manufacturing, technology, or services, which are crucial for diversifying the economy and diminishing oil dependency [5].

The deficiency in investment, coupled with fiscal discrepancies, results in insufficient funding for essential sectors, especially those capable of fostering economic diversification. Sectors such as agriculture, industry, and technology, which possess the capacity to generate employment and export earnings, are frequently overlooked in favour of the oil sector, which offers quick benefits but constrained long-term growth potential. The outcome is a concentration of resources within the oil industry, resulting in the underdevelopment of other sectors, which are thus incapable of making significant contributions to economic growth [12].

5.4. The Role of Oil Price Volatility in Inflation and Currency Depreciation

The fluctuation of oil prices directly influences inflation and currency depreciation in Iran. When oil prices decrease, the government's foreign currency revenues diminish, leading to a reduction in the supply of foreign exchange within the economy. This results in a devaluation of the rial, as the government cannot sustain the

exchange rate due to inadequate foreign reserves. A depreciated rial increases the cost of imports, especially for vital commodities such as food, medicine, and industrial inputs, on which Iran is significantly dependent [5].

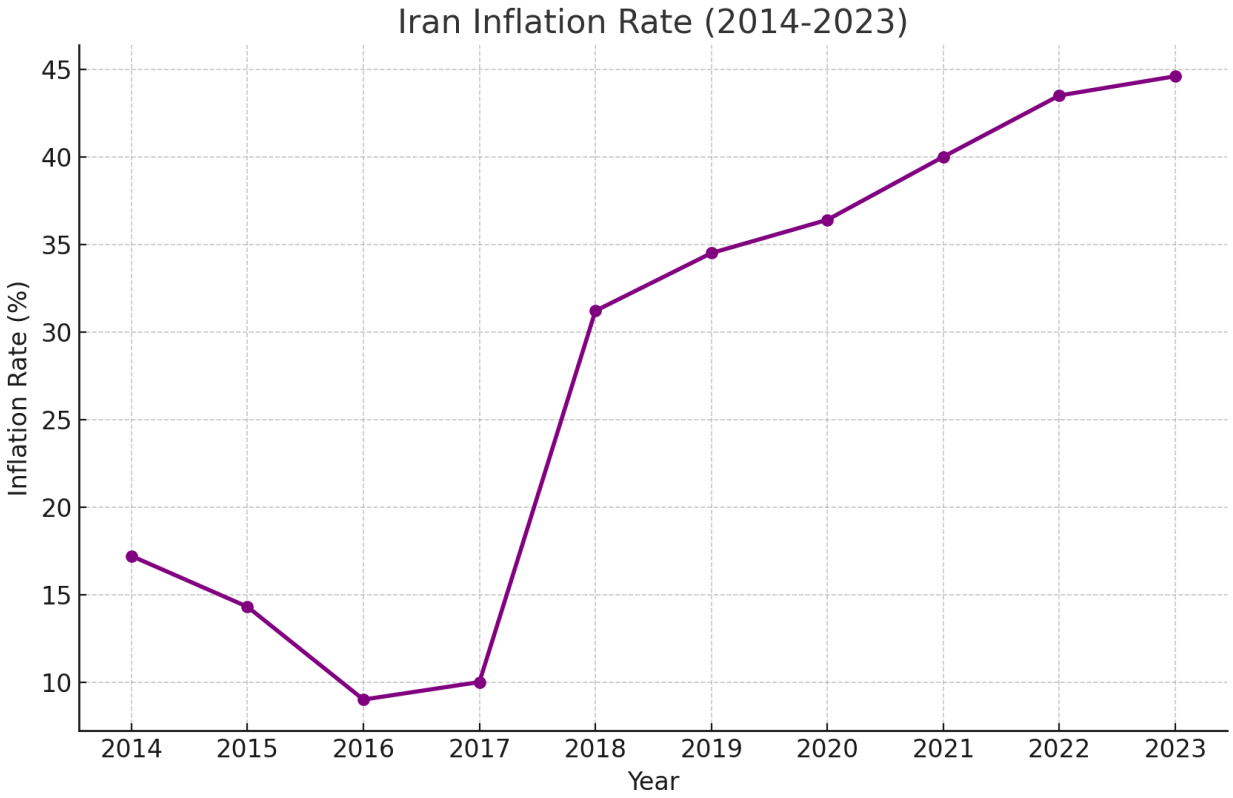

Figure 3. Iran Inflation Rate

The devaluation of the currency results in imported inflation, causing an increase in the prices of imported items, which then elevates overall prices in the economy. This engenders a detrimental cycle: as inflation escalates, the purchasing power of Iranian households diminishes, resulting in less consumption and diminished demand for domestic products. Businesses, confronted with escalating input costs from increased prices of imported products, transfer these expenses to consumers, hence exacerbating inflation.

Furthermore, the depreciation of the rial complicates the government's ability to fulfil its external debt, especially those denominated in foreign currencies. As the rial depreciates, the expense of servicing foreign-denominated debt escalates, augmenting the government's debt load and constraining its capacity to invest in public services or infrastructure initiatives. This exacerbates budgetary imbalances resulting from oil price volatility and further hinders long-term economic growth [15].

The currency instability resulting from oil price variations also deters investment in Iran's non-oil sectors. Companies hesitate to engage in new initiatives or expand current businesses when they are unable to forecast the future value of the Rial. This ambiguity complicates long-term planning for enterprises, as they are unable to reliably predict their expenses or revenues in a volatile currency landscape. Consequently, foreign direct investment (FDI) in Iran's non-oil sectors remains minimal, thereby inhibiting economic diversification and growth.

6. How Oil Dependency Impacts Iran's Economy

Iran's profound dependence on oil money has engendered substantial long-term structural issues that hinder the prospects for sustainable growth and development. The synergistic impact of Dutch Disease, inadequate investment in human capital and infrastructure, low productivity, and volatile government budgets engenders a cycle that is challenging to disrupt. The interrelated variables significantly constrain Iran's economic competitiveness and impede diversification initiatives, rendering the economy susceptible to foreign shocks and political instability [16].

6.1. Restricted Development and Underinvestment in Human Capital

Iran's reliance on oil has resulted in significant underinvestment in human capital and infrastructure, both essential for sustained economic growth and development [17]. The nation's excessive dependence on oil earnings has established a rentier state, wherein the government derives significant cash from natural resources without necessitating taxation of its populace. This reduces the necessity for the government to cultivate a productive, diverse economy capable of generating revenue through taxation instead of resource extraction [18].

In a rentier economy, there is minimal motivation to invest in education, vocational training, or innovation. The government frequently prioritises immediate consumption and subsidies to sustain popular approval, rather than investing in the creation of a trained workforce or fostering research and development (R&D) [19, 20]. This underinvestment has considerable long-term ramifications. Iran lacks robust educational institutions and vocational training programs, hindering the development of a workforce capable of fostering growth in high-value industries such as technology, pharmaceuticals, and advanced manufacturing [10].

The lack of substantial investment in human capital constrains Iran's ability to innovate and compete in the global economy. While other emerging economies cultivate knowledge-based industries and engage in global markets, Iran remains entrenched in low-productivity sectors, highly dependent on oil. The absence of a diversified, competent workforce results in the underdevelopment of businesses such as biotechnology, aerospace, and information technology (IT), which are essential for economic growth in the contemporary global economy, in Iran. Inadequate investment in these sectors will result in Iran's continued decline in global competitiveness.

This disregard for human capital further intensifies unemployment and underemployment, especially among Iran's educated youth. A significant number of young Iranians, particularly those possessing university degrees, are unable to secure employment commensurate with their qualifications. The disparity between the competencies generated by Iran's educational system and the requirements of the domestic economy engenders a cycle of discontent and economic stagnation. The elevated unemployment rate among educated youth signifies a substantial loss of potential productivity and innovation, as the nation neglects to harness the creative and intellectual capabilities of its populace. Consequently, this results in brain drain, as skilled workers and professionals pursue superior possibilities outside, further diminishing Iran's human capital.

6.2. Low Total Factor Productivity (TFP) and Competitiveness

The influence of oil dependency on Total Factor Productivity (TFP) in Iran is substantial. Total Factor Productivity (TFP) quantifies the efficiency of labour and capital utilisation in production, and in Iran, TFP growth has persistently been low owing to the predominance of the oil sector [21]. The oil sector, although profitable in revenue, is not labour-intensive and does not necessitate a substantial workforce. The majority of Iran's labour and capital resources are underutilised, resulting in stagnation across other sectors [22].

Low total factor productivity signifies inefficiencies throughout the economy. In Iran, these inefficiencies are exacerbated by the government's emphasis on immediate oil profits instead of long-term changes that could improve productivity in non-oil sectors [18]. For instance, sectors such as agriculture and industry, capable of employing substantial numbers of workers and generating value-added products, remain underdeveloped owing to insufficient investment and contemporary technology [6-9]. The outcome is an economy that falters in global competition in sectors beyond oil, rendering Iran isolated from international markets and incapable of fully engaging in global supply networks.

This deficiency in productivity also diminishes foreign direct investment (FDI) in Iran's non-oil sectors. International investors are reluctant to invest in a nation characterised by poor productivity levels and inadequate legal and regulatory frameworks that hinder efficient corporate operations. Furthermore, the volatility induced by oil price variations and political instability deters long-term investments. Investors like stable, diversified economies that distribute risks across various sectors, rather than those too dependent on a single commodity [23]. The deficiency of foreign direct investment hinders growth and prevents Iran from securing the cash necessary for the advancement of its non-oil sectors [24].

The lacklustre competitiveness of Iran's economy is evident in its subpar performance in non-oil exports. Iran has had challenges in establishing a robust presence in global markets for manufactured goods, technology, or services, mostly due to insufficient investment in these sectors [10]. This incapacity to compete internationally further constrains the nation's economic growth potential and its capacity to diminish its reliance on oil. Absent a coordinated initiative to enhance productivity and competitiveness in non-oil sectors, Iran would stay ensnared in a cycle of sluggish growth and instability.

6.3. Unstable Government Budgets, Deficits, and Inflation

Reliance on oil results in volatile governmental budgets and ongoing deficits, exacerbating Iran's economic difficulties. The government's dependence on oil income to finance public services and infrastructure means that any variation in oil prices immediately affects its capacity to implement budgetary plans. During periods of elevated oil prices, government expenditure typically surges, often financing ephemeral or unsustainable initiatives. When oil prices decline sharply, the government is compelled to substantially reduce expenditures, particularly in essential sectors such as education, healthcare, and infrastructure. This unpredictable expenditure pattern generates a systemic weakness that exacerbates Iran's economic volatility.

This inclination leads to procyclical fiscal policies: expenditures increase during economic booms and decrease during downturns. The lack of countercyclical policies prevents the government from mitigating the economy during recessions [16]. For instance, during times of diminished oil prices, the government has insufficient budgetary capacity to invigorate economic activity via public expenditure on social initiatives for infrastructure projects, which may otherwise stabilise growth and avert surges in unemployment. Austerity measures are frequently enacted, which further diminishes economic activity and intensifies social unrest.

Deficits are exacerbated by Iran's substantial dependence on subsidies for critical commodities such as petroleum, power, and food. While politically advantageous, these subsidies are fiscally onerous and become financially untenable at times of low oil prices. When the government reduces subsidies to alleviate budgetary constraints, inflationary pressures escalate, resulting in increased costs of necessities. The inflation, combined with deficit-financed expenditure, diminishes purchasing power, adversely affecting lower-income households. The government, compelled by public dissatisfaction with elevated prices, frequently reacts by either re-establishing

subsidies or augmenting public expenditure, notwithstanding inadequate resources. This reaction results in an increased budget deficit, which, if financed through money creation, exacerbates inflationary pressure [25].

As deficits accumulate and inflation escalates, the government confronts a challenging trade-off between stabilising the economy and responding to immediate social demands. This budgetary instability obstructs long-term investments crucial for economic diversification and enhancements in productivity. In the absence of a steady budget or diverse revenue streams, the administration continues to concentrate on short-term solutions instead of transformative changes, perpetuating Iran's reliance on oil and postponing essential economic transitions towards resilience and diversification.

7. Comprehensive Strategies for Reducing Oil Dependency: Targeted Tax Reforms and Sectoral Investments

Shifting Iran from oil dependency necessitates a comprehensive approach that combines specific tax reforms with strategic investments in high-potential sectors. By establishing a modernised tax structure that includes progressive income taxes, corporate levies on monopolies, VAT on luxury goods, and digital service taxes, Iran can develop a stable and robust revenue base while fostering social fairness. In conjunction with these tax reforms, targeted investments in industries such as renewable energy, technology, and tourism are expected to diversify revenue sources, provide employment opportunities, and mitigate fiscal risk.

A comprehensive strategy utilising Public-Private Partnerships (PPPs), the National Development Fund of Iran (NDFI), and Foreign Direct Investment (FDI) can create a solid basis for enduring economic stability. By concentrating on income augmentation and sectoral expansion, Iran may establish a sustainable economic future that is less vulnerable to oil price fluctuations and more congruent with global economic trends.

7.1. Alternative Revenue Generation through Targeted Tax Reforms in Iran

To diminish reliance on oil, Iran may implement a comprehensive alternative revenue strategy centred on specific tax measures [26]. This strategy includes modifications to income tax bands, elevated corporate tax on monopolistic corporations, a Value-Added Tax (VAT) on luxury items, taxation on digital services and e-commerce, and a progressive stamp duty on high-value assets. By implementing these targeted measures, the government may create a stable revenue stream, enhance economic resilience, and mitigate susceptibility to oil price volatility. [27]

Adjusting income tax brackets is one of the most successful methods for generating additional money. Currently, Iran's tax framework initiates with a 10% rate for the lowest income tier, which will remain unaltered to safeguard low-income families from further financial burden [28]. Nonetheless, for individuals in elevated groups, a little increase would engender a significant change. The second tax rate would increase from 20% to 25%, and the highest bracket from 30% to 40%, so assuring that those with greater financial means contribute a larger amount [29]. This modification aligns Iran's tax policy with international progressive taxation principles and fosters equity in income production. Countries such as the UK and Sweden have historically adopted progressive tax systems to finance public goods and redistribute income, establishing a model for Iran to emulate [30].

The restructure is projected to enhance income tax receipts by approximately 15-20%, potentially contributing an additional $1-1.5 billion yearly to the national budget. For a nation such as Iran, which is significantly dependent on oil, these supplementary funds provide a more steady revenue foundation that mitigates susceptibility to fluctuations in the oil market [31]. The program targets tax increases at higher-income households, preserving the

purchasing power of the middle class and mitigating any substantial effects on domestic consumption. Implementation issues, including possible tax evasion, may be alleviated by strengthening enforcement procedures. Digital tax filing, collaborative data-sharing initiatives with financial institutions, and incentivised compliance programs could markedly enhance tax compliance. Such methods will enhance revenue through income tax adjustments while maintaining social equality, safeguarding lower-income households and utilising the resources of affluent persons.

Increased corporate taxes aimed at monopolies represent a viable source of revenue. Major firms that dominate industries such as steel, telephones, and petrochemicals—exemplified by Foolad in the steel sector—reap advantages from restricted competition and significant profits [32]. By implementing an additional corporation tax rate of 5-10% exclusively for monopolistic organisations, Iran can generate income from their substantial profits without affecting smaller, competitive enterprises. This tax framework not only focuses on sectors with inherent profitability but also corresponds with Iran's objective to harmonise public welfare with private sector expansion. Should monopolistic firms incur an extra 20% in corporate tax, the government may potentially obtain approximately $800 million each year [26, 30].

To mitigate the adverse effects on these firms' development potential, the government might offset the heightened tax burden with incentives for domestic reinvestment, including workforce training and technological progress initiatives. This strategy would incentivise corporations to reinvest in Iran, promoting innovation and economic vitality while ensuring that monopolistic sectors benefit the public interest [27]. A selective tax on monopolies effectively extracts earnings from Iran's leading firms while establishing a dual incentive framework that promotes public revenue and corporate accountability.

In addition to income and corporation taxes, the introduction of a VAT on luxury goods and services could significantly enhance government revenue. In Iran, there exists a substantial but unregulated market for high-value commodities, including personalised vehicle registration plates and premium telephone numbers, which frequently transact for considerable amounts. Legalising and taxing the trade of automobile plates and premium phone lines at a 15% VAT would enable the government to regulate these high-value transactions and generate public income [27]. A VAT on these luxury transactions might generate an estimated $300-500 million per year, contingent upon market activity. This tax focusses on discretionary, non-essential things, thereby exempting essential goods or services, which maintains affordability for the general populace while imposing the tax burden on affluent persons involved in luxury expenditures.

The legalisation and taxation of luxury markets would include previously untaxed economic activities into the official economy, enabling the government to monitor these transactions, enhance transparency, and bolster compliance. Additionally, a VAT on luxury goods can function as a progressive fiscal instrument by targeting the tax obligation towards those with greater financial means [26]. This strategy diversifies revenue and fosters social fairness by ensuring the affordability of critical products and services for the broader population (UNDP, 2021).

A progressive stamp duty on high-value assets, including real estate and vehicles, constitutes a vital element of Iran's targeted tax changes. This responsibility would concentrate on multiple property ownership and luxury acquisitions, establishing a tiered framework that imposes a greater tax rate on supplementary assets. A 5% stamp tax is applicable to second residences, 7% to third homes, and 10% to any additional property acquisitions [30]. This framework discourages speculative investments in real estate and expensive automobiles, guaranteeing that individuals with greater assets contribute proportionately to the state's revenue [27].

Significant real estate transactions in Iran account for billions in annual expenditure, and an enhanced stamp duty might generate over $200 million annually. Revenue generated by this levy might be designated for affordable housing efforts or urban development projects, thus directing luxury expenditures towards public welfare [32]. This approach discourages excessive asset accumulation, hence promoting a balanced property market and limiting inflation in real estate prices that could render housing unaffordable for the general populace. Countries such as the UK have effectively instituted progressive stamp duties, serving both as revenue generators and mechanisms for fostering equitable wealth distribution, presenting a persuasive example for Iran to replicate (Fuest et al., 2018; Jensen, 2022).

Collectively, these specific tax reforms—increased income tax for upper brackets, corporate taxes on monopolies, VAT on luxury items, and a progressive stamp fee on high-value assets—provide Iran with a holistic approach to creating a sustainable, non-oil revenue foundation. Targeting high-income earners, luxury transactions, and monopolistic entities might yield an estimated yearly revenue of $2-3 billion. This money stream would bolster public expenditure, diminish reliance on oil, and enhance economic resilience [26]. By implementing these reforms, Iran can establish a more balanced and equitable fiscal framework, facilitating long-term economic stability [27].

7.2. Technological Integration in Tax Reform: Enhancing Revenue Stability through Reduced Tax Evasion

In pursuit of economic diversification and fiscal stability, Iran could greatly benefit from integrating new technologies into its tax system [26]. The fluctuations in global oil prices and Iran's significant dependence on oil earnings highlight the necessity for a stable, reliable revenue source, attainable through the enhancement of tax infrastructure. Technological improvements, like automated tax reporting and collection, improved auditing and monitoring via artificial intelligence (AI), and blockchain-based tax systems, possess transformative potential for reducing tax avoidance and enhancing revenue collection [33]. Through the implementation of these technologies, Iran can cultivate a dependable, technology-driven tax base that enhances budgetary stability and diminishes reliance on oil revenues [30].

The use of automated tax reporting and collection is a fundamental reform for modernising Iran's tax system [27]. Through process automation, the tax authority may efficiently handle substantial data volumes, decreasing human error and minimising delays commonly associated with manual procedures. Automated solutions allow taxpayers immediate access to their tax responsibilities, notifications, and payment records, thereby ensuring openness and accountability during the tax cycle [25]. Automated collection optimises the payment process, minimising the potential for tax evasion while alleviating the responsibilities of both taxpayers and administrators. These systems provide real-time monitoring of tax obligations, instantly flagging late payments or inconsistencies, so significantly reducing the risk of underreporting. Countries employing automated tax systems have shown significant improvements in compliance rates globally, since real-time monitoring mitigates the prevalent evasion strategies associated with manual systems [27].

In conjunction with automation, improved auditing and monitoring using AI-driven systems would strengthen Iran’s tax regime by adding an analytical dimension that detects irregularities and fraudulent activities [26]. Conventional auditing, although somewhat successful, is insufficient to manage extensive financial data and intricate corporate tax frameworks. AI, however, excels at analysing large datasets to identify anomalous patterns, abrupt income increases, or irregular deductions that may indicate fraud or evasion. In countries utilising AI-driven tax surveillance, tax officials have effectively found and reclaimed millions in unpaid taxes. By utilising AI, Iran might implement a proactive, data-driven auditing system that identifies inconsistencies prior to their escalation

into significant revenue losses. The disincentive effect of AI monitoring is significant; when taxpayers recognise increased oversight, compliance rates typically rise. The overall effect on government revenue is both direct, from recovered taxes, and indirect, as the awareness of effective oversight promotes compliance [29].

One of the most revolutionary technologies is blockchain-based tax collection, which offers unparalleled transparency and security in tax transactions [27]. Blockchain technology establishes a decentralised, immutable ledger of all transactions, from point of sale to final tax payment, rendering it nearly hard for users to modify records. This openness has two advantages: it establishes a clear and accessible tax history for taxpayers and furnishes the tax authority with an immutable record of transactions [30]. Smart contracts, a characteristic of blockchain technology, can be utilised to automate tax payments upon the fulfilment of specific criteria, guaranteeing precise and prompt payments without manual intervention. Furthermore, blockchain technology enhances public trust in the tax system; as all parties can access transaction histories without alteration, taxpayers develop faith in the equity and transparency of tax collection. In Iran, where underreporting and informal transactions pose significant fiscal difficulties, blockchain-based tax collection would substantially improve the government's capacity to oversee high-value transactions, ensure revenue security, and foster public confidence in the tax system [25].

The incorporation of these sophisticated technologies—automated reporting, AI-augmented audits, and blockchain collection—would signify a crucial transformation in Iran's revenue strategy. Each policy immediately confronts and alleviates the inefficiencies and weaknesses presently undermining the tax system, culminating in a modernised, robust framework that significantly diminishes prospects for tax evasion. By implementing these mechanisms, Iran might reclaim billions of dollars in previously forfeited revenue, thereby creating a stable tax base that underpins fiscal policy irrespective of oil market volatility. Oil-dependent economies are encountering escalating worldwide challenges; a technology-driven tax system presents Iran with a viable fiscal strategy, advancing the nation towards financial autonomy and bolstering its economic stability [26].

8. Strategic Investment Methods for Reducing Iran's Oil Dependency

Mitigating Iran's reliance on oil necessitates a meticulously formulated array of strategic investment approaches aimed at stabilising revenue streams and fostering sustained, diversified economic development. Iran can utilise Public-Private Partnerships (PPPs), private sector incentive programs, the National Development Fund of Iran (NDFI), and Foreign Direct Investment (FDI) to accomplish this. Each of these techniques provides distinct advantages and, when executed proficiently, has the potential to alter Iran’s economic framework, enhance employment opportunities, and foster resilience against market fluctuations [27]. By implementing these techniques, Iran may cultivate a more balanced, self-sufficient economy, poised for expansion in an increasingly competitive global marketplace.

8.1. Public-Private Partnerships (PPPs)

Public-Private Partnerships (PPPs) serve as an effective mechanism for Iran to expedite the advancement of critical infrastructure by using private sector funding, resources, and expertise. Through collaboration with private organisations, the Iranian government can mitigate financial risk, enhance efficiency, and accelerate the execution of significant projects. This cooperative strategy is especially beneficial in industries where swift expansion is crucial, including renewable energy, transportation, and technology, all of which are fundamental to a diverse

economy [6-9]. state-private partnerships alleviate pressure on state finances, as private investors provide a significant share of project money while the government maintains oversight.

A primary advantage of PPPs is their capacity to maximise resources and foster innovation. In transport, private sector participation in road, railway, and airport projects could enable Iran to construct or enhance essential networks more effectively, thereby bolstering both local industry and foreign trade. Likewise, with renewable energy, public-private partnerships can draw private investors to finance solar and wind initiatives. By providing government-backed guarantees, such as regulated power purchase rates, Iran might draw significant private investment to this high-potential industry, therefore diminishing reliance on oil-based energy generation.

Countries with analogous economic profiles have reaped substantial advantages from public-private partnerships (PPPs). Brazil's dependence on public-private partnerships for infrastructure has enabled the completion of large-scale projects without excessively straining public resources, resulting in the creation of thousands of jobs and stimulating economic activity. If Iran were to adopt analogous techniques, public-private partnerships might draw billions in private investment, establishing a robust basis for diversified growth and diminished dependence on oil [27]. Moreover, the operational efficiency derived from private sector participation generally reduces project durations and expenses, rendering public-private partnerships essential to Iran's transition towards a more robust economy.

8.2. Incentive Programs for Private Sector Growth

Enhancing the private sector is essential for economic diversification, and focused incentive programs offer crucial support for small and medium-sized firms (SMEs), which foster innovation, employment generation, and resilience. Small and medium-sized enterprises (SMEs) are essential for establishing a balanced economy; therefore, by instituting targeted incentives, Iran can facilitate their development, promoting a more dynamic and resilient economic framework. Incentives for the private sector emphasise tax alleviation, the minimisation of administrative obstacles, and enhanced access to finance, thus motivating entrepreneurs to engage in high-potential, non-oil industries [34].

Granting tax incentives, especially for startups and SMEs in industries like technology, renewable energy, and manufacturing, alleviates their financial strain and allows for reinvestment of savings into expansion. Tax reductions have been demonstrated to stimulate business growth; research indicates that tax incentives can enhance SME profitability by as much as 25%, facilitating accelerated scaling and contributing to job creation. Iran might emulate successful frameworks such as South Korea's SME assistance initiatives, which were important in its economic turnaround. Creating a national SME development fund will enhance access to low-interest loans and grants, providing enterprises with the necessary resources for expansion, equipment acquisition, and research and development.

Moreover, optimising administrative procedures, such as establishing one-stop registration facilities, would mitigate bureaucratic impediments that discourage numerous entrepreneurs from formalising their enterprises. These centralised contact centres could enable entrepreneurs to manage business registration, licensing, and regulatory compliance in a single location, thereby conserving time and minimising expenses. Streamlined procedures can enhance the rate of business formalisation, attracting more entrepreneurs into the regulated sector and augmenting tax revenue. By promoting the expansion of SMEs, Iran would see a cascading impact on employment and innovation, resulting in a diversified economic foundation that enhances long-term resilience and stability.

8.3. National Development Fund of Iran (NDFI)

The National Development Fund of Iran (NDFI), created to allocate oil profits for sustainable development, is an essential tool in Iran's diversification policy. The NDFI's principal role is to serve as a financial safeguard, transforming fluctuating oil revenues into secure, long-term investments that bolster non-oil sectors. When managed efficiently, the NDFI can furnish essential funds for high-growth industries and stimulate private and international investment, enhancing the efficacy of its resources [27].

Transparency and effective allocation are crucial for the NDFI to accomplish its function as a fundamental element of Iran's diversification initiatives. Investment priorities have to focus on industries exhibiting significant growth potential, chances for job creation, and robust returns. NDFI money could be designated for the establishment of large-scale renewable energy projects, financing infrastructure development, or fostering technological innovation—domains that provide substantial returns and enhance economic stability. Furthermore, by strategic co-investment with private and international partners, the NDFI can enhance the value of its funds, facilitating larger and more significant initiatives. Co-investments with international enterprises might augment industry capital by 20-30%, utilising global skills to enhance home resources.

The NDFI is designed based on the successful framework of sovereign wealth funds like Norway's Government Pension Fund, which has greatly enhanced Norway's economic diversification and resilience. By implementing optimal governance and management methods, Iran may enhance the NDFI's efficacy, converting oil money into a stable financial foundation that fosters enduring, sustainable growth. Through judicious administration, the NDFI can yield billions in returns, establishing a financial base that mitigates Iran's vulnerability to oil market volatility and enhances fiscal stability.

8.4. Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is crucial for diversifying Iran's economy and acquiring the cash, technology, and global networks required for sustainable development. Foreign Direct Investment (FDI) not only promotes the exchange of knowledge and innovation but also links domestic industries to worldwide markets, allowing them to expand and compete on a global scale. To attract foreign direct investment, Iran must foster a conducive investment environment, supported by regulatory reforms that enhance the nation's accessibility and attractiveness to international investors.

Optimising the investment process, minimising bureaucratic obstacles, and instituting legal safeguards for investor rights are essential measures to augment Iran's attractiveness as an investment locale [34]. A comprehensive investment portal will consolidate access to all requisite permits, tax data, and regulatory directives, thereby substantially minimising administrative delays and enhancing transparency. In nations such as Singapore and the United Arab Emirates, efficient investment procedures have facilitated significant foreign direct investment inflows, leading to the emergence of new industries, technical progress, and enhanced employment opportunities. If Iran implemented a comparable strategy, foreign direct investment might significantly enhance the economy, fostering the development of high-growth sectors and diminishing reliance on oil revenue.

Alongside regulatory improvements, the creation of a commercial court dedicated to investment-related disputes will enhance investor trust by guaranteeing the prompt and equitable resolution of legal matters. This dedicated court could offer an unbiased venue for resolving business disputes, thereby strengthening Iran's dedication to safeguarding investor rights. In economies with comparable legislative protections, foreign direct

investment has significantly increased, as foreign investors perceive the business risk as manageable. Consequently, foreign direct investment might provide billions of dollars in capital, facilitating the advancement of sectors outside oil and generating employment opportunities.

Targeted incentives may enhance the attraction of foreign direct investment, especially in critical sectors that coincide with Iran's economic objectives, including renewable energy, technology, and advanced manufacturing. Tax incentives, low-interest loans, and grants for projects in certain regions would not only stimulate foreign investment but also align with Iran's diversification objectives. Increased foreign direct investment (FDI) could expedite the advancement of certain industries in Iran, thereby improving its global competitiveness and diminishing economic vulnerability. The influx of foreign capital, along with the expertise and technology provided by foreign direct investment, might enhance Iran's GDP growth by 2-3% per year, establishing a steady and diversified revenue stream that reduces the fiscal risks linked to oil dependency [27].

9. Targeted Investment Strategies for Iran’s Economic Diversification and Oil Dependency Reduction

Iran's historical dependence on oil money has imposed considerable limitations on economic development, resulting in stagnation in human capital, productivity, and fiscal stability. Mitigating this dependency necessitates a comprehensive strategy centred on strategic investments in high-potential areas, including renewable energy, technology, tourism, and the automobile industry. Through the use of Public-Private Partnerships (PPPs), Foreign Direct Investment (FDI), the National Development Fund of Iran (NDFI), and incentives for the private sector, Iran can establish a balanced and resilient economy that is less susceptible to oil price volatility. This transition will not only broaden revenue sources but also create a basis for enduring, long-term expansion.

9.1. Renewable Energy: Establishing a Sustainable and Independent Energy Sector

Renewable energy, especially solar electricity, possesses significant potential for Iran because of the nation's high solar irradiance and extensive, untapped terrains appropriate for solar farms (World Bank, 2022). Transitioning to solar energy offers Iran a viable revenue source that separates the nation’s domestic energy needs from oil dependency. By diminishing its dependence on oil for energy production, Iran might enhance oil exports, thereby stabilising government finances and promoting economic security. The establishment of solar power infrastructure provides Iran with an opportunity to conform to international environmental norms, augmenting its regional influence and fostering a reputation for sustainability.

The execution of public-private partnerships in the solar energy sector is essential for attracting private funding and expertise necessary for accelerating project completion and dispersing financial risk (IFC, 2019). Iran can secure stable rates for power produced by solar projects through long-term government-supported purchase agreements, thereby enhancing the appeal of investments for both domestic and international stakeholders. Such public-private partnerships might position Iran as a significant contender in solar energy production, expediting the development of extensive solar farms, storage systems, and the enhancement of the national infrastructure to integrate renewable resources.

The NDFI might moreover bolster the renewable energy sector by subsidising the preliminary phases of these projects, encompassing expenses associated with solar farm building, energy storage systems, and grid enhancements. With adequate investment, Iran might achieve energy self-sufficiency by generating power locally through renewable sources, thereby reserving oil resources for export. This method will mitigate susceptibility to

oil price fluctuations, stabilise national revenue, and promote employment in a sector requiring qualified professionals, such as engineers, project managers, and technicians. Furthermore, by promoting international partnerships via foreign direct investment, Iran might enable the transfer of state-of-the-art renewable technologies, like solar panels and sophisticated energy storage systems, from nations at the forefront of clean energy.

Ultimately, these collaborations will augment the nation's technological proficiency and production while aiding Iran in establishing itself as a regional leader in solar energy. Through the advancement of renewable energy, Iran enhances its total factor productivity and economic competitiveness, creating a stable income source that is less vulnerable to the cyclical fluctuations characteristic of oil markets.

9.2. Technology and Innovation: Building a Competitive and Knowledge-Based Economy

Investing in technology and innovation is essential for converting Iran's economy into a knowledge-based system that improves productivity and fosters high-value sectors. Creating technology parks in prominent cities including Tehran, Isfahan, and Mashhad will generate innovation hubs that draw tech companies, research centres, and educational institutions, promoting a collaborative environment for technological progress. This strategy will enable Iran to shift from low-productivity businesses dependent on resource extraction to high-productivity sectors propelled by information and experience.

Through public-private partnerships, Iran may obtain the funding and skills required to establish the infrastructure for technology parks, encompassing high-speed internet, collaborative workspaces, research facilities, and innovation incubators. The NDFI's contribution to financing the initial infrastructure for these parks is crucial, as it will establish the groundwork for an innovation ecosystem that enhances Iran's overall efficiency and productivity [34]. Moreover, competitive government grants targeting technology startups would stimulate entrepreneurship in nascent sectors such as artificial intelligence, biotechnology, cybersecurity, and data analytics, fostering growth in industries with substantial returns and promoting sustainable economic development (IFC, 2019).

Attracting foreign direct investment in the technology sector is essential for acquiring foreign capital and experience, especially via joint ventures between international corporations and Iranian enterprises. Tax incentives, streamlined laws, and clear procedures for international investors would render Iran an appealing locale for technology-oriented foreign direct investment. These collaborations provide essential skills, expertise, and resources, fostering the cultivation of a highly proficient workforce and advancing human capital development. As time progresses, the demand for technological proficiency will necessitate educational changes, enhancing the academic and training programs essential for cultivating a qualified workforce capable of propelling the growth of the technology industry. The development of a strong technology industry will allow Iran to produce export money from tech products and services, establishing a non-oil revenue source that stabilises government budgets and mitigates inflationary pressures resulting from oil price fluctuations.

By cultivating a robust technology and innovation sector, Iran may restructure its economy to rely less on natural resources and more on human capital and innovation. A robust technology sector would alleviate inflationary pressures associated with oil dependency, fostering a balanced economy where sustainable growth is propelled by knowledge and technology. Moreover, the international collaborations and investments drawn by a strong technology sector would bolster Iran’s global competitiveness, facilitating the nation’s shift from an oil-dependent economy to one sustained by high-value businesses that promote long-term resilience.

9.3. Tourism: Leveraging Cultural and Natural Assets for Economic Growth

Iran's abundant cultural legacy, historical landmarks, and varied landscapes establish a robust basis for a flourishing tourism sector, presenting a sustainable alternative to oil money. The tourism sector may substantially enhance Iran's GDP, considering the nation's abundance of tourist attractions, including ancient architecture, UNESCO heritage sites, and varied natural beauties. Enhancing tourism infrastructure to cater to both domestic and foreign travellers might position Iran as a premier destination in the Middle East, generating employment and invigorating local economies.

To fully realise the tourism sector's potential, the government might utilise public-private partnerships to finance critical infrastructure, including as transportation systems, lodging facilities, cultural centres, and public amenities (World Bank, 2022). Tax incentives and subsidies for environmentally sustainable tourism initiatives, such as eco-lodges and nature trails, would foster sustainable tourism that conserves Iran's natural resources. The NDFI could finance large-scale infrastructure projects, including airport expansions, road enhancements to tourist destinations, and the establishment of public amenities in critical areas, thereby facilitating visitor access to Iran's attractions and fostering consistent tourism growth.

Attracting foreign direct investment in hotel and travel services would introduce international experience, enhancing service quality for tourists and matching Iran's tourism standards with worldwide benchmarks. Collaborations with global hotel chains and tour operators will elevate service standards, rendering Iran more competitive in the tourism sector and augmenting its attractiveness to international travellers. Moreover, tourism is intrinsically labour-intensive, generating direct employment in hotel, retail, transportation, and food services, while concurrently fostering indirect employment in local crafts, food production, and other associated industries. Tourism development in rural and underdeveloped areas would be revolutionary, invigorating local economies and mitigating income distribution issues.

A flourishing tourism sector generates consistent tax revenue, diversifying governmental income and safeguarding the national budget from oil price volatility. The tourist sector fosters human capital development by fostering a competent service workforce, generating employment opportunities that necessitate proficiency in languages, cultural awareness, and hospitality management. By cultivating tourism as a dependable revenue stream, Iran may diminish its dependence on oil, thereby establishing a stable economy that capitalises on constant tourist expenditure and tax revenues. Moreover, a well managed tourist sector may promote cross-cultural interchange, improve Iran's international reputation, and position the country as a culturally and historically important destination.

9.4. Automotive Industry: Transforming Iran into a Hub for Sustainable Vehicle Manufacturing

The global automobile industry is transitioning to electric and hybrid vehicles, presenting Iran with a distinct potential to establish itself as a regional leader in sustainable vehicle production. Establishing a local market for electric cars (EVs) corresponds with Iran's economic and environmental objectives, enabling the nation to decrease domestic oil consumption and allocate additional oil resources for exports. This transformation may be accomplished via joint ventures with international automakers, bolstered by tax incentives and benefits for firms eager to partner with domestic manufacturers. By utilising global expertise, Iran may develop the technical and manufacturing capabilities required for domestic EV production, thereby establishing a resilient automotive industry that fosters diversification and innovation.

The NDFI may finance research and development (R&D) projects in electric vehicle technology, facilitating the design and manufacture of automobiles tailored to the requirements of Iranian consumers. Such research and development initiatives would enable Iran to exploit the increasing demand for sustainable automobiles both within its borders and in the surrounding area. By advancing vocational training programs in automotive technology, Iran might develop a proficient workforce capable of bolstering the expansion of the EV industry, so generating high-quality employment opportunities and enhancing technical competencies within the labour force. Furthermore, a growing automobile industry will enhance demand for other sectors, including electronics, steel, and plastics, fostering overall economic advancement through heightened industrial activity [27].

The significant multiplier impact of the automotive industry can stimulate growth in other industries, enhancing productivity and economic efficiency. Establishing a robust automotive industry centred on electric vehicles will not only produce non-oil revenue via exports but also diminish Iran's internal dependence on oil, thereby stabilising government funding sources. By cultivating a reliable revenue stream inside the automobile sector, Iran might alleviate the fiscal shortfalls linked to oil price volatility. In the long run, a robust automotive sector would position Iran as a regional leader in sustainable manufacturing, characterised by a diversified industrial base that fosters enduring economic resilience and global competitiveness.

10. Conclusion

This essay laid out the significant issues Iran encounters due to its reliance on oil, examining how this dependency has engendered a cycle of economic fragility characterised by fiscal instability, underutilised human capital, low productivity, and susceptibility to global oil market volatility. The essay begins with a historical framework, outlining Iran's progression from initial oil discoveries through periods of nationalisation, economic sanctions, and ongoing dependence on an unstable resource, highlighting the structural vulnerabilities this reliance has inflicted on the country.

The analysis afterward focusses on potential solutions via two primary channels: tax reform and strategic investment. Significant tax measures, such as the establishment of progressive income brackets, corporation taxes on monopolies, VAT on luxury items, and a stamp duty on high-value assets, provide avenues to establish a more equal and stable fiscal framework. These initiatives aim to stabilise Iran's revenue while mitigating the excessive influence of oil dependency on government budgets, thereby aligning the tax system with overarching social fairness objectives.

The essay promotes tax reforms and strategic investments in high-growth sectors—renewable energy, technology, tourism, and automobile manufacturing—selected for their capacity to enhance long-term economic stability, generate employment, and cultivate resilience. By prioritising renewable energy, Iran may leverage its geographical advantages to establish a sustainable energy foundation, hence diminishing dependence on oil for domestic energy requirements. Investments in technology parks, especially in artificial intelligence and biotechnology, provide a method for diversifying economic outputs and tackling poor total factor productivity. The tourism and automobile sectors offer considerable revenue and employment opportunities, as well as huge prospects for both local and international collaboration, hence facilitating Iran's integration into global markets.

The essay highlights the significance of employing public-private partnerships (PPPs), foreign direct investment (FDI), and the National Development Fund of Iran (NDFI) to achieve development objectives, asserting that diversified, targeted investments alongside structural fiscal reforms are crucial for sustained stability.

In summary, the proposed policies offer a framework for diminishing Iran's reliance on oil and cultivating an economy that is competitive, resilient, and able to sustain growth through varied revenue streams. This strategic transition, prioritising immediate fiscal reform alongside long-term investment, presents a comprehensive method for tackling Iran's economic difficulties, paving the way for sustainable prosperity that is less susceptible to external disruptions and more congruent with Iran's developmental goals.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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