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**Italian Products Journey in Iranian Market
After Sanctions**

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Abstract:

Purpose – The purpose of this research is to demonstrate the limitations on trading Italian products in Iran as a result of sanctions.

Findings – The results indicate that trading in Iran is possible with the "third country" element, but that several variables, such as "price," "trust," "social status," and "luxury meaning," are impacted.

Research limitations/implications – As the present research was carried out in 2021-2022 and there is not accurate data released about using the third country, there is a lack of trustworthy resources which have written the exact journey of the Italian products in Iran.

Practical implications – The identified factors could contribute to analyzing consumer behaviour changes as the result of sanctions and the ways by which sanctions lose their value.

Originality/value – The originality of this paper lies in identifying a comprehensive set of the factors affecting purchase intention of foreign and especially Italian products and developing the theoretical literature in the field of present research.

Keywords: Italian products in Iran, Iran sanctions, Iranian consumer behaviour, third country trading

Introduction

Problem Statement

Financial markets in a closed economy like Iran experience different conditions compared to the world's major financial markets. Iran has been under constant economic pressure since 1980 due to various economic sanctions, and since then has experienced constant changes in economic policies, especially in the area of financial market policies. All these factors lead to a shallow capital market and as a result, financial markets, especially stock markets, do not have a logical relationship with other sectors of the economy and other world financial markets. Iran's economy has experienced unprecedented challenges and pressures in recent years due to severe economic sanctions by the United States and other international organizations. The Iranian government has also faced a significant budget deficit due to limited access to oil revenues following the imposition of severe sanctions, especially those imposed during Donald Trump's presidency, rising costs due to the sanctions recession, and the recent Covid-19 epidemic.

High inflation, rampant unemployment, the intensification of the recession, and the growing devaluation of the national currency clearly show the fragile state of the economy. The increasing and intense devaluation of Iran's national currency and the lack of a coherent policy to preserve the value of people's assets have led people to unproductive activities such as buying and selling currency, gold, and land.

Importance and necessity of research

Iran is a leading country among developing countries for various reasons, including the need for energy development programs, access to advanced technologies, energy diversity, and security. The development of nuclear power plants was considered a necessity in the long-term energy supply plan, but the US government did not accept developments in Iran's nuclear program. The US Congress imposed sanctions on Iran following the capture of the US Embassy in Tehran, and since then the scope of multilateral sanctions by the US, the European Union, and the UN Security Council has gradually expanded. Sanctions imposed on Iran include international sanctions on assets, trade, knowledge, oil, finance, and the individual.

Increasing restrictions, such as preventing the transfer of funds to Iran through the international banking system (Swift), have jeopardized international trade with Iran. In 2015, an international agreement lifted sanctions for three years until May 2018, when the Trump administration rescinded the agreement and re-imposed economic sanctions. Since 2012, sanctions have reduced GDP growth by 11.8 percent compared to 2011, 3.1 percent in 2011, and 7.7 percent in 2012, with about 40 percent inflation and more than 200 percent devaluation of the Iranian currency. Eventually, it led to rising living costs and unemployment.

These sanctions were strengthened due to Iran's nuclear program in the period 2012 to 2015. In fact, the decline in Iran's GDP has shown that these sanctions are the most severe punishment imposed on a country. The sanctions restricted Iran's exports of petroleum and petrochemical products, which account for about 13 percent of Iran's gross domestic product and about 80 percent of its total exports, as well as foreign investment in Iran's oil and energy industries.

As a result of the maximum US sanctions in 2018, almost all Western brand stores in Iran were closed at once, and Iranians faced the problem of buying original Western products. This shows the impact of sanctions on the purchase and sale of Western products, but despite all these issues, Western products are still sold in Iran. The question that arises here is how these products can still be imported and sold in Iran if these brands are not allowed to export and sell their products to Iran due to sanctions.

The next interesting issue is why, despite the current severe economic crisis in Iran, which has put the majority of people in very difficult conditions, Western products in Iran still have significant sales compared to the current situation.

This study aims to investigate Iran's economic situation and the effects of sanctions on the Italian products and especially the Italian furniture market in the Iranian market. Because Italian products such as clothing, accessories, jewelry, leather, home furniture, and kitchen appliances are very famous and popular as luxury products among Iranians. The reason for emphasizing furniture is actually due to the special interest of Iranians in home furniture and the importance of using luxury items in its arrangement.

Research Method

There is much less information about sanctioned countries than other countries. On the other hand, in a closed country like Iran, where information and statistics are severely

censored, it is very difficult to find accurate statistics. Because there are many contradictions between the statistics published by the Iranian government and Iranian researchers living abroad and the statistics published by international institutions. Therefore, in this research, it has been attempted to cite statistics on each investigated subject, which, regardless of the publishing organization, are more in line with the reality in Iran.

On the other hand, because the subject has not been studied in depth before, it was very difficult to find sources about it and in some cases, it was practically impossible. Because no one gives accurate information to others about how to circumvent the sanctions. For this purpose, as much as possible, it has been used resources that are better consistent with the current situation in Iran. Additionally, it was tried to gather information by asking importers about the process of importing Western products into Iran, which is actually done by circumventing sanctions, but this was much more difficult because naturally, no one is willing to disclose information that can endanger their job security. Finally, after finding several introducers, the necessary information was collected through telephone interviews with three Iranian importers who did not want to be named.

Temporal and Spatial Realm

The time-domain of this research has been done from November 2021 to May 2022 and the Iranian market has been selected as its spatial territory.

1) The Economic Crisis in Iran as a Result of Sanctions

1.1. What is The Sanction?

The majority of public, policy, and academic debates of sanctions begin with the assumption that sanctions are primarily designed to induce a change in the targeted party's behavior. Sanctions can increase the cost of the target's activities or require it to make costly changes in strategy and supply procurement that are essential to the target's activities or economic survival. (Biersteker & van Bergeijk, 2015) Sanctions have been more popular as an alternative to armed confrontation in recent decades. (Kokabisaghi, et al., 2019)

Sanctions can be applied against who or what:

Sanctions and trade embargoes are political trade tactics used primarily by the United Nations (UN) and the European Union (EU). Their primary goal is to influence the behavior of the target country's regimes, individuals, or groups in a way that will improve the country's status. (Sanctions, embargoes and restrictions, 2016)

Sanctions can be aimed at a number of different targets in order to affect the actions of a specific state, regime, or group of people. Among the possible targets are:

Individuals: different measures, such as asset freezes and/or travel bans, can be used to target specific individuals or groups of individuals.

Enterprises and other entities: Asset freezes or more targeted limitations, such as the current EU bans on shipments of dual-use items to specific identified Russian companies, can be imposed on companies and other entities (such as terrorist organizations).

Industries: limitations might be imposed on industries that are tied to a specific state. For example, certain Russian banking and credit institutions, deep ocean oil exploration and production, Arctic oil exploration and production, and shale oil projects are all targeted by EU sanctions against Russia.

Vessels or airplanes: these properties may be placed on a blacklist.

State-wide sanctions: a state's entire population may be subjected to sanctions. Sanctions imposed by the United States, for example, ban Americans from doing nearly any business with Iranians or in Iran. (Sanction FAQs, 2015)

1.2. History of Sanctions in Iran

Since 1979, when the US Embassy in Tehran was seized, the US has put restrictions on activities with Iran under several legal authorities. (Iran Sanctions, n.d.) An embargo on Iranian oil imports was one of the first steps taken by the US president.

(Van de Graaf, 2013)

Since then, there have been several sanctions with different restrictions. (Kumar Sen, 2018) Sanctions against Iran started a new phase in late 2011 and early 2012, when the United States and the European Union (EU) imposed a fresh set of oil sanctions on the world's third-largest oil producer. (Van de Graaf, 2013)

In 2015, Iran and a group of world powers including the USA, UK, France, Russia, Germany and China (so called P5 +1) agreed on a nuclear deal framework in the Joint Comprehensive Plan of Action. (Joint Plan of Action (JPOA) Archive and Joint Comprehensive Plan of Action (JCPOA) Archive, n.d.) Iran was obliged to considerably limit its nuclear activities and facilities in order for economic sanctions to be withdrawn under this agreement. Despite initial progress, the US government declared in May 2018 that it will withdraw from the accord and reimpose sanctions targeted at undermining Iran's nuclear and military industries. (Mulligan, 2018)

President Trump canceled the United States' participation in the JCPOA on May 8, 2018, and reimposed all secondary sanctions by November 6, 2018. The reimposed sanctions, as well as later measures, were at the heart of Trump Administration policy to apply "maximum pressure" on Iran, with the declared goal of forcing Iran to negotiate a revised JCPOA that addresses US concerns beyond Iran's nuclear program. Iran's economy suffered a substantial downturn as a result of the program, which included lower oil sales and isolation from the international banking system. (Katzman, 2021)

The Trump administration withdrew sanctions waivers that had allowed Iran to continue supplying oil to a limited number of nations in May 2019. Crude exports fell to 290,000 barrels per day in January 2017, according to Bloomberg data, from nearly 2.6 million in January 2017, when Trump became president. (Motevalli, 2021)

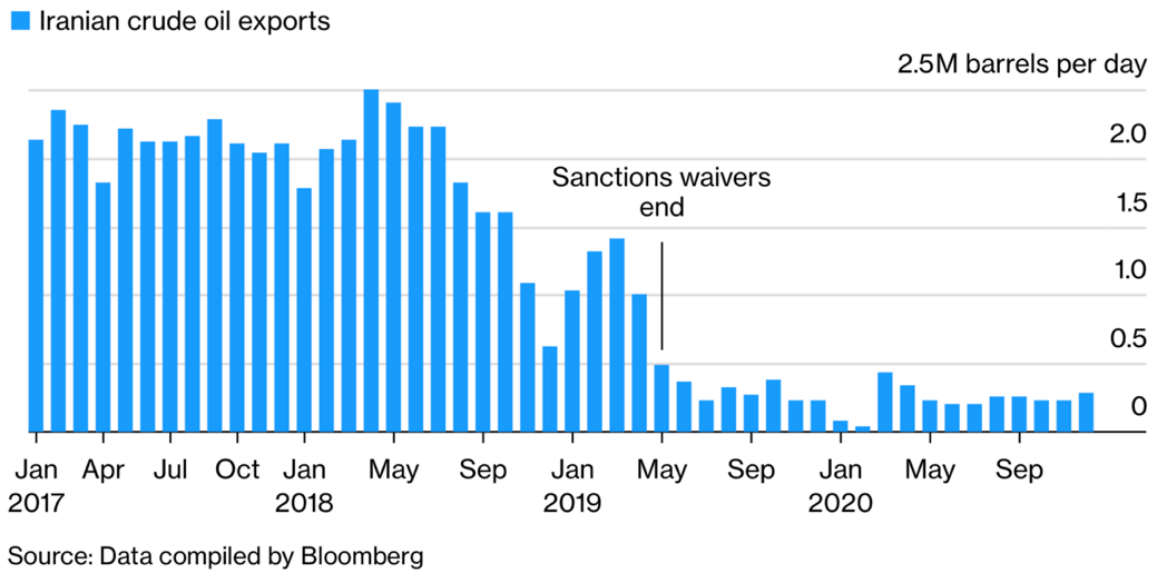


Exhibit 1-1: Oil Exports Plunge

1.3. Current Sanctions in Iran

On January 10, 2020, the United States issued a new Executive Order imposing sanctions on anyone (including non-US citizens) involved in owning, operating, trading with, or assisting sectors of the Iranian economy such as construction, manufacturing, textiles, and mining, or any other sector of the Iranian economy as determined by US authorities. As a result, practically all trade with Iran is now prohibited, with the exception of medicine/medical items, food, and agricultural commodities. Sanctions against foreign financial institutions for transactions involving the listed industries are also authorized by the Executive Order. (INSIGHT: Iran Sanctions, Latest changes & additions, 2020)

1.3.1. Current Economic Crisis in Iran

The reintroduction of economic sanctions against Iran in 2018 exacerbated the country's already precarious economic status. A number of economic indicators point to the severity of the economic crisis, most notably the budget deficit caused by an unprecedented reduction in Iranian oil exports, rising inflation, and negative economic growth. (Zimmt & Fadlon, 2019)

During Trump's presidency, Iran's economy shrank dramatically. (Motevalli, 2021)

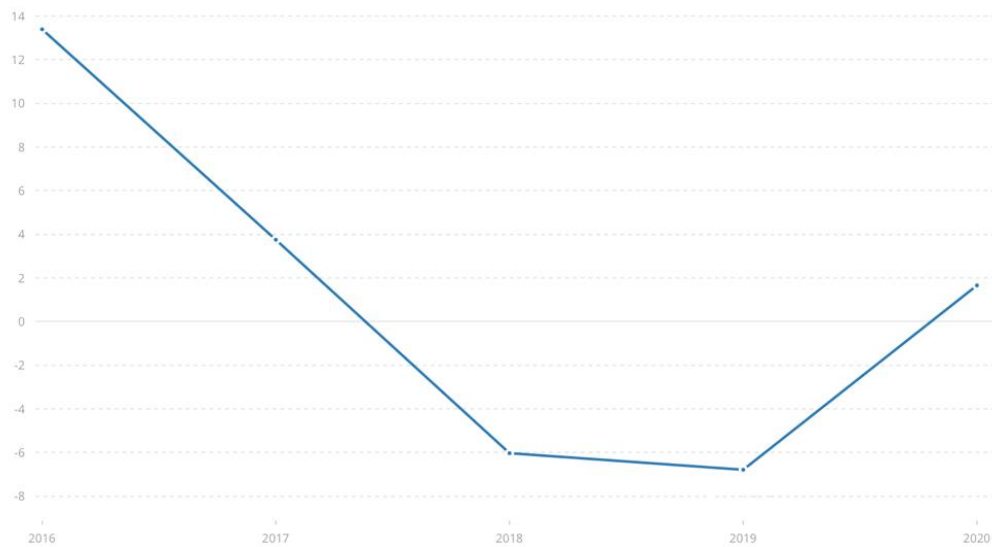
Iran's oil exports have been destroyed by the US "maximum pressure" campaign, which has reduced output from 2.6 million barrels per day (bpd) in May 2018 to between 600,000 and 700,000 bpd for much of this year. Despite a recent boost in hydrocarbon

exports, Iran's hard-currency revenues remain severely limited due to ongoing issues with repatriation. To finance its own imports, Iran has increasingly exported products and industries to neighboring countries. Iran, on the other hand, is largely reliant on imports, ranging from basic animal feed and food to technologically complex commodities such as raw and bulk medication, electrical appliances, ICT equipment, machineries and capital goods, and pharmaceuticals. (Ghodsi & Fathollah-Nejad, 2020)

Here are four factors of how the Iranian economy altered during Trump's presidency:

a. GDP

After 2017, the economy shrank dramatically. Because it was unable to export most of its oil due to the new restrictions, its government shifted its focus to other exports, focusing heavily on domestic production and expanding trade with its immediate neighbors. This helps to mitigate some of the negative effects. It also meant that by the moment Covid-19 hit global oil demand last year, Iran was better prepared than its fellow petroleum exporters to withstand the impact. (Motevalli, 2021)



Source: The World Bank

Exhibit 1-2: Iran GDP Growth (annual percentage)

Even if sanctions are eventually lifted, Iran's road to recovery may be more difficult this time. (Motevalli, 2021)

b. The Slump in EU Trade

Since 2017, Iran's trade with Europe has decreased by 85 percent.

Before the European Union implemented oil sanctions in 2012 over Iran's nuclear program, the EU was Iran's largest trading partner. Since then, China has surpassed the United States as Iran's main energy export destination and largest source of imports. Since Trump's sanctions took effect in 2018, it has been the sole buyer of Iranian crude. While Europe fought to keep the nuclear accord alive, it struggled to retain commercial links despite US sanctions. (Motevalli, 2021)

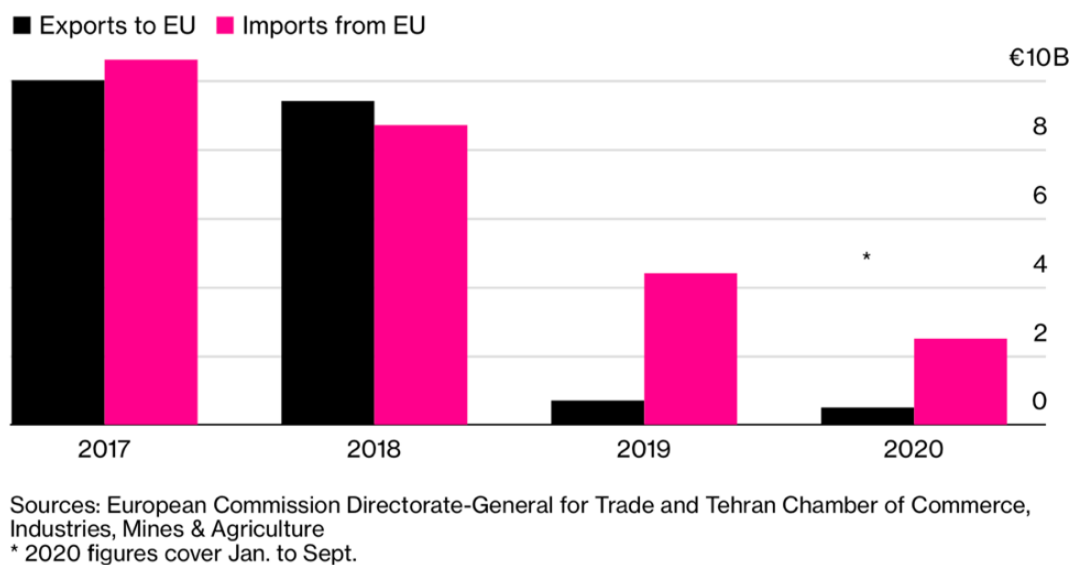
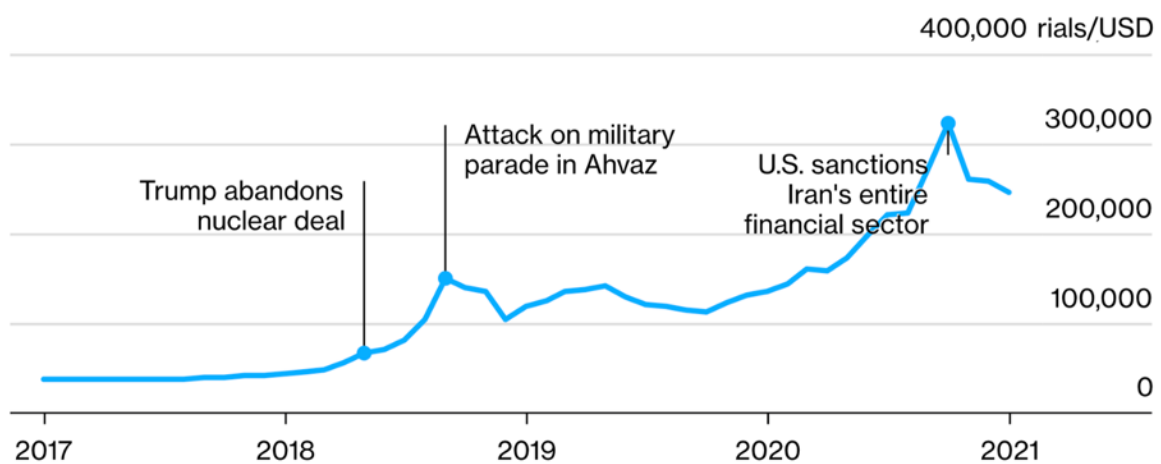


Exhibit 1-3: EU Trade Slump

c. Rial Devaluation

The exchange rate of a country is a reflection of its economic performance and terms of commerce with the rest of the world. As a result of better trade terms, a country can export more sophisticated products and follow the road of sustainable growth that many (re)emerging and industrial economies have followed. The significant fluctuation of a country's currency rate frequently leads to trade insecurity. During the last three years, Iran's exchange rate has been declining with high volatility. Due to the rial's continued devaluation, this has resulted in a so-called asymmetric adjustment shock on the trade balance, as well as shortages and high prices in the supply of goods to Iran's market. (Ghodsi & Fathollah-Nejad, 2020)

The rial's massive depreciation against other currencies during the last decade reveals Iran's deteriorating terms of commerce with the rest of the globe. The nominal depreciation of a currency should improve Iran's trade balance by making exported items cheaper and increasing overall exports. However, as the rial depreciates, imported items become more expensive in Iran, resulting in a drop in imports. Nonetheless, Iran relies on the importation of numerous complex products, such as pharmaceuticals, medical gadgets, and machinery, and a currency devaluation makes these products more expensive to obtain. Iran's currency rate system is two-tiered. The difference between these rates has generally been approximately 15% throughout the last decade. (Khajehpour, 2018) Iran's national currency, the rial, has devalued by 450 percent against the US dollar since January 2018, falling from 42,880 rials to one dollar to 318,560 rials on October 18, 2020. While this is the market rate, significant imports are funded by the official rate, which began in March 2019 at 42,000 rials per USD. (Ghodsi & Fathollah-Nejad, 2020)



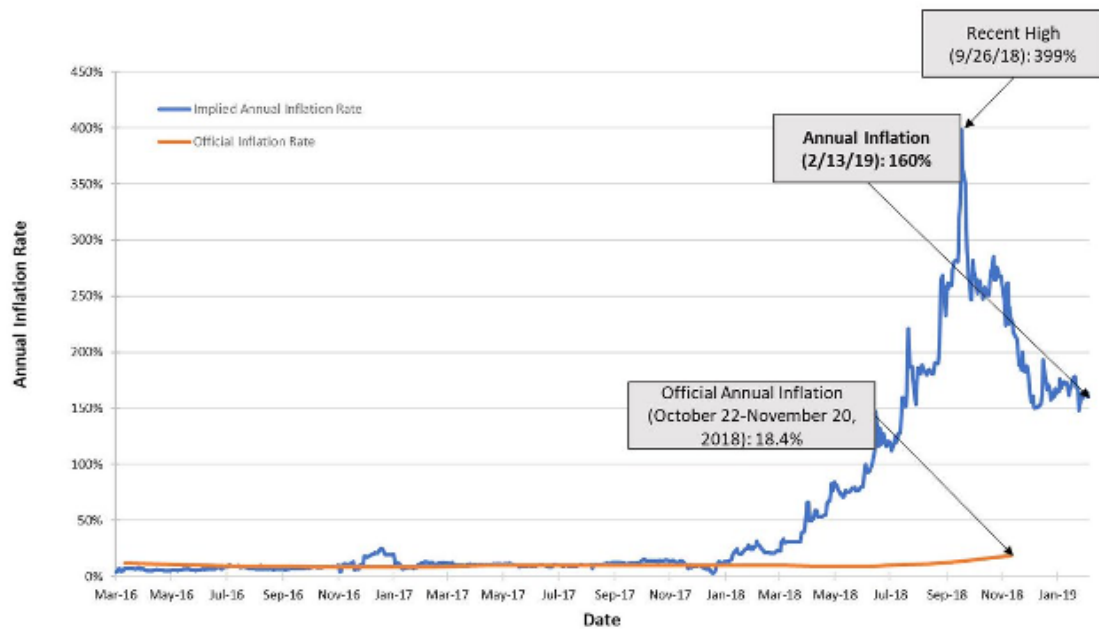
Source: Bloomberg

Exhibit 1-4: Exchange Rate Between The U.S. Dollar and Iranian Rial

d. Inflation

Since President Donald Trump's withdrawal from the 2015 nuclear deal, technically known as the Joint Comprehensive Plan of Action, Iran's inflation has been steadily rising (JCPOA). Due to the large pandemic-related slowdown, deflationary forces dominated the global economy in 2020, and inflation fell in relative terms. However, global deflationary

influences began to fade in 2021, and inflation in Iran has now surpassed that of 2019. In August 2021, Iran's inflation rate reached 45.2 percent, the highest in 26 years. (Ghasseminejad, 2021)



Sources: Bonbast.com, Central Bank of the Islamic Republic of Iran, U.S Bureau of Labor Statistics
 Calculations by Professor Steve H. Hanke, The Johns Hopkins University
 Note: These inflation rates are implied from the black-market IRR/USD exchange rate using PPP; values under 25% should be considered unreliable

Exhibit 1-5: Iran's Annual Inflation Rate

According to the most recent quarterly data, the GDP increased by 6.8% in winter 2021. (Ghasseminejad, 2021)

Inflation has reached 45 percent, its highest level since 1994, while food costs have risen by over 60 percent. As a result, a large number of Iranians have fallen into poverty. According to the government's own estimates, the number of residents living below the official poverty line — earning less than the equivalent of \$46 per month — has climbed by about 40% in the last year. Many Iranians claim to be purchasing less than they have in the past. (Nasiri, 2021)

2) Iranian Market Analysis

2.1. Economic Diplomacy

One of the effective and strategic policies for having an economic development as well as securing the interests of countries in the political, security, and cultural fields of countries at bilateral, regional, and international levels, is achieved by having two categories of economy and foreign policy called "diplomacy". In other words, economic diplomacy is an interdisciplinary field with international economics, international political economy, and the literature on international relations. This creates a significant partnership between the interests of each country at the global level to create a suitable political and economic environment to strengthen the growth and development of the national economy. (Moons & Bergeijk, 2013)

The application of this concept in the post-World War II period, and especially with the end of the Cold War, appeared dramatically and unprecedentedly in theoretical and practical terms; To the extent that nowadays it is considered as one of the new, innovative, and effective tools in the international arena against traditional diplomacy and in some countries, it is considered as the ruling spirit of foreign policy regulation and transnational economic strategies.

It is obvious that in such countries political affairs are the beginner of economic affairs; as the economic achieved goals in foreign relations are considered to be the guarantors of bilateral, political and security ties, regionally and internationally. In a theoretical explanation of this issue, it should be said that the basis of the "economic diplomacy" concept is the word "diplomacy" which means the art, tools or peaceful tactics of the administration of international relations and a tool to achieve the goals of the foreign policy of the countries. (Jönsson & Hall, 2005)

Accordingly, in describing economic diplomacy some have said that economic diplomacy is any official action by the country's diplomatic system which emphasizes on the development of exports, attracting foreign investment, and benefiting from membership in international economic regimes.

Others define economic diplomacy as the process by which countries connect to the outside world to maximize strategic goals in trade, investment, financial and technological exchange, at bilateral and multilateral levels.

In other definition, economic diplomacy means the application of diplomatic relations in countries' economic scenes. In fact, economic diplomacy develops the commercial and financial goals of governments in the external environment and in the international economy, thereby creating a link between power and prosperity. (Nasrollahzadeh, Khorramshad, & Habibollahzadeh, 2020)

The important point in the concept of economic diplomacy is to notice the dimensions and thematic areas which are related to it, which in one hand can form a unique structure of economic diplomacy in the country and on the other hand can be the basis for the outcomes of a set of actions which is called economic diplomacy.

The most important of these dimensions are facilitating the business environment, foreign investment, tourism, improving the national image, transferring technology, foreign trading and international marketing, labor migration, international aid, financial and banking exchanges, energy supply and demand, logistics and commercial infrastructure, regional and international economic organizations, and countering foreign economic threats with the aim of accessing global markets, maintaining the national economy, and international authority. (Bayne & Woolcock, 2011)

The most important distinguishing feature of economic diplomacy from similar concepts like business diplomacy and corporate diplomacy is the main factor of the government as a policymaker, and to a large extent, it is business diplomacy. In fact, economic diplomacy can be considered as part of the official diplomatic activities in the government, which emphasizes the identification and creation of economic and trading opportunities at regional and trans-regional levels for domestic production.

Nowadays, the official involvement of governments in short-term, medium-term, and long-term planning for implementation of economic diplomacy is common; whereas in assessing the success of the diplomatic system of countries, the effectiveness of role-playing in pursuit of economic goals and interests has been defined as the most important indicator and has officially transferred the economic diplomacy to policy centers in the field of foreign relations (Sadeghi Shahdani, Tavakoli, & Arabpour, 2022).

2.2. Analysis of Iran's Economic Growth in The Contemporary Era

To get a comprehensive picture of economic growth in Iran, we keep the focus on the country's annual GDP from 1950 to 2018. As the chart below demonstrates, annual GDP has sharply fluctuated over time, especially after Islamic Revolution 1979.

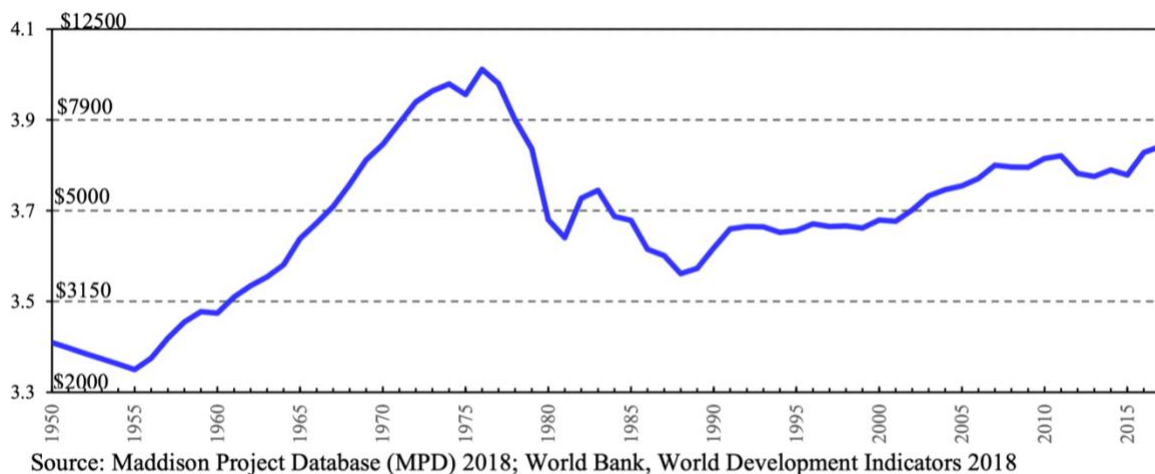


Exhibit 2-1: GDP Per Person in Iran

The maximum amount of annual GDP has been \$ 10,266 in 1976 (three years after the 1973 oil crisis and three years before the Islamic Revolution) and the minimum is \$ 2,238, which was reported in 1955 (six years before the industrialization period).

Although the average annual GDP growth rate is about 2%, the index has widely fluctuated during this period. Knowing the reason for these changes, we're going to divide the contemporary period of Iran into several important periods and specifically define the related economic and political situations in each period:

a) First Era: 1925-1941

Before 1950, especially from 1925 to 1941, Reza Shah Pahlavi, the first leader of the modern government in Iran, improved the country's infrastructure profoundly. During this period, many roads, hospitals and schools were built so it made the impact of this period on the Iranian economy inevitable. (Pesaran, 1997)

b) Second Era: 1961-1972

This period is known as the golden age of Iran's economy, as Iran had experienced a strong and sustainable long-term economic growth only through these years. During this period, annual GDP grew by an average of 9 percent per year, with an annual population growth rate of about 3 percent and an average annual inflation rate of about 2 percent. As mentioned earlier, the infrastructure has improved significantly in recent years. In addition, due to rising oil revenues, the government has vastly invested in oil and non-oil

industries development and the promotion of production. In fact, the role of professional economists in improving economic policies is undeniable. (Salehi Esfahani & Pesaran, 2009)

c) Third Era: 1972-1978

During this period, oil revenues reached their highest level in 1973, but the main challenge of the government was the proper management. The government's efforts for handling inflation led to an increase in economic instability and a sharp decline in investment and GDP. Meanwhile, public dissatisfaction with economic and non-economic policies caused a revolutionary movement which led to the establishment of the Islamic Republic. (Liu & Adedeji, 2000)

d) Fourth Era: 1978-1988

The Islamic Revolution and the war between Iran and Iraq are two very important events in the contemporary history of Iran which took place during this period, in which the annual GDP growth rate and inflation rate were 8- and 19 percent respectively.

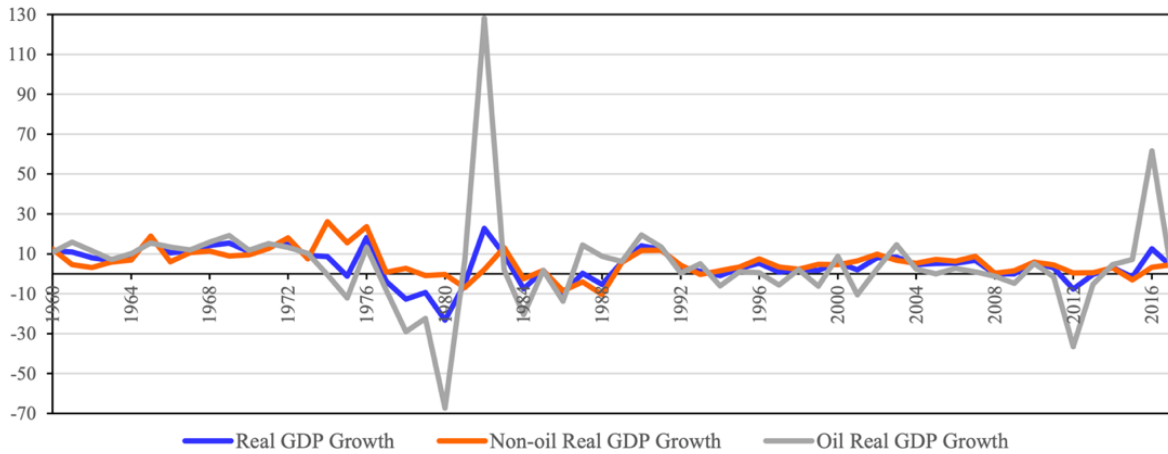
The annual population also increased by 4%. These events were a turning point and slowed down the positive process of the previous period. They also had a negative impact on the Iranian economy until now. (Mahmoudi, 2021)

2.3. The Relationship Between Oil Revenues and Economic Growth

Oil has been the foundation of Iran's economic development for many years, and its revenues have provided a major part of government revenue. In fact, it is the main source of domestic investment.

In 1973, due to the Israeli and Arabs war, oil prices and government revenues have raised. Moreover, after the Islamic Revolution, oil prices and government revenues continued raising, but as a result of US sanctions and the Iran-Iraq war, government revenues declined.

As shown in the figure below, the value-added of the oil industry has fluctuated significantly over time, especially from 1979 to 1984, while the growth of non-oil GDP has been slow.



Source: Central Bank of Iran

Exhibit 2-2: Oil and Non-Oil Real GDP Growth in Iran

The maximum value-added of the oil growth rate is 128%, which was reported in 1982 (three years after the Islamic Revolution) and the minimum is -67%, which was reported in 1980, and Oil prices have raised sharply, as in 1973, 1979 and 2010 the value-added of the oil sector have sharply decreased. (Salehi Esfahani & Pesaran, 2009)

In addition, as shown in the figure below, GDP growth rates and the value-added of the oil sector are highly correlated, reported in 1982. The maximum factual GDP growth rate was 23% the year in which the highest oil value added was reported, and the minimum reported amount in the same year of 1980 was -23%. which was the minimum amount of oil value added in reports.

It should be noted that due to the Islamic Revolution, the Iran-Iraq War, and UN sanctions the government's ability to sell oil and therefore oil revenues were severely reduced in several years, such as 1979, 1983, and 2010. Because of such events, we are witnessing the minimum growth rate of GDP through these years. In addition, in 2015, after the Joint Comprehensive Plan of Action (JCPOA), the government's ability to sell oil increased so that the oil value-added increased significantly. Therefore, it can be inferred from the data that Iran's economy has been highly dependent on the oil sector even in recent years. The oil market has also had a significant impact on the capital markets of oil-exporting countries such as Canada, Iran, Qatar, and the UAE.

Moreover, to reduce Iran's dependency on oil revenues, some researchers recommend the development of renewable energy sources such as wave energy, wind energy, solar energy (Mahmoudi, 2021).

2.4. The Impact of Sanctions on Iran's Economy

As mentioned before, sanctions are a form of compulsion aimed at increasing the cost of existing activities by a particular entity and thus creating change. Sanctions are an essential tool in international politics and a relatively inexpensive way of expressing dissatisfaction with the actions of the authorities of a particular country or organization. In particular, sanctions are essential measures taken by the United Nations Security Council in accordance with Chapter VII of the Charter of the United Nations.

EU sanctions against Iran are part of an integrated policy of pressure and incentives.

The UN Security Council also adopted several resolutions calling on Iran to suspend uranium enrichment because of non-proliferation, which has been exerting considerable diplomatic pressure since 2006.

However, the EU itself went a step further by not only enforcing UN sanctions, but also by imposing a wide range of independent economic and financial sanctions, including:

- Restrictions in the financial sector
- Actions for the transportation sector
- Travel restrictions and blocking the assets of individuals and institutions (European Council Decision, 2016)

Since January 2014, some of these sanctions have been lifted as a result of a temporary agreement called the "Joint Action Plan" signed in 2013 by Iran and the European Union. The council extended the suspension of sanctions until January 2016.

In early January 2016, the International Atomic Energy Agency (IAEA) confirmed that Iran had taken the necessary steps so that the Council could lift EU economic and financial sanctions against its nuclear program. However, some restrictions remained in effect. The sanctions significantly affected Iran's trading policy, both domestic and international, resulting in the increase in trading goods and services with Asian countries (mainly China and Turkey) and reduced imports from the European Union. Since the first imposed sanctions on the nuclear programs, The UAE has incomparably become more important to Iran as a major exporter. Its location enabled the re-export of products from other countries, which enabled some European countries, including Poland, to trade with Iranian partners through intermediaries. The main problem with sanctions on trades was paying settlements. In order to bypass the restrictions, most of the new institutions were established in the UAE. This allowed the liberal approach of this country's authorities to

accept financial exchanges between Iran and other global partners. A number of institutions used Chinese and Pakistani banks, as well as a traditional Islamic money transfer system called hawala to bypass money transfer restrictions. In addition, Iran traded with other countries in a creative way, which was used to replenish resources and financial payments. Moreover, various companies which trade with Iran used the old method of trading which is called barter. Sanctions that banned oil exports from Iran meant that the authorities had to take steps toward increasing exports of other products. Therefore, the Exports of iron ore, urea, methanol, tar, and cement have increased. (Flavius Caba, 2021)

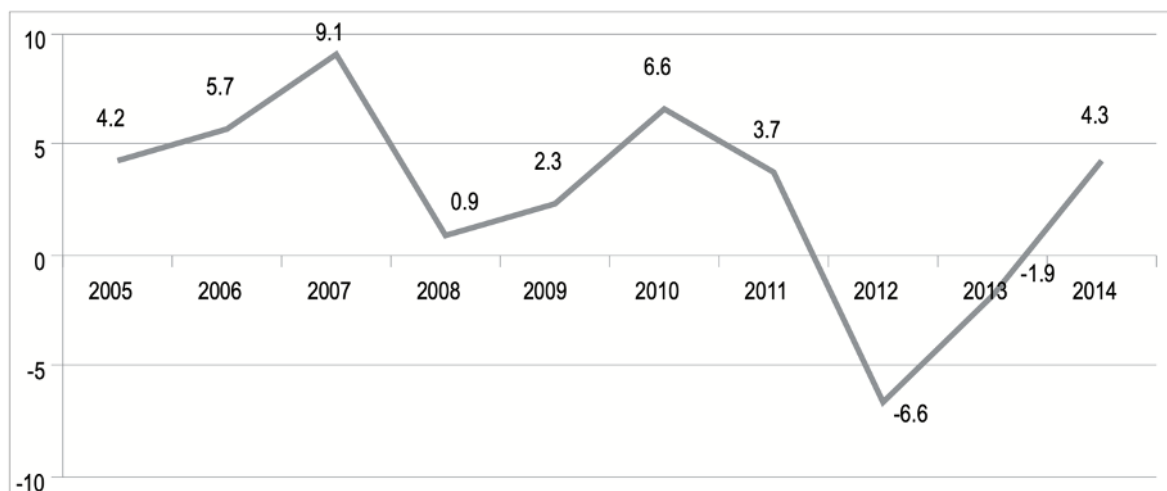
In the long term, diversity in sales can reduce the economy's dependency on oil sales. In recent years, due to a significant decline in oil sales revenues, Iran has been struggling with stagflation as well as decreasing real GDP due to high inflation.

Iran's economic problems also indicated the need to subsidize food and fuel for the poorest citizens, as a result of the expansion of bureaucracy and increased in mismanagement (Wilkin, 2015).

As a result, former President " Ahmadinejad " increased public sector debt to domestic banks and state-owned commercial banks, which caused them financial hardship.

Moreover, granting loans to consumers and businesses had weakened the entire banking system and led to rising inflation even before sanctions were imposed. (Macaluso, 2015)

As shown in the figure below, the decline in oil sales and the negative effects of government economic policy were reflected GDP growth.



Source: Trading Economics Database

Exhibit 2-3: Iran GDP Growth (in percentage)

Currently, the main concern about the Iranian economy is high inflation. An increase in the price of basic goods does not lead to an increase in wages. At the same time, the unemployment rate has risen. Therefore, from a macroeconomic point of view, such a situation could create many problems in the future and may be a threat to the stability of Iran's economy.

Another problem is the instability of the exchange rate of Iranian Rial (IRR) to US Dollars. The effect of the sanctions has radically reduced the value of the Rial. In July 2013, its value decreased from 12,200 Rials to 24,980 US dollars. At the same time, the market exchange rate reached 26,500 Rials per US dollar. Despite many government interventions, the value of the Rial is still declining. At the beginning of 2017, it dropped to around US \$ 32,000 / IRR (Kasprzak & Sterniński, 2017).

2.5. Iran's General Perception of Export Embargo

The Iranians perceived the 2008 export sanctions as the following negative effects. This perception was reflected in the media and in the speeches of parties in the public and private sectors. Iranian government officials have emphasized that the sanctions have had no effect on Iran's economy. For instance, President Mahmoud Ahmadinejad noted that international leaders who "still see sanctions as an effective tool will be politically attacked."

Speaker of parliament, Ali Larijani added that "sanctions will definitely be changed to an opportunity." He claimed that the sanctions, focusing on domestic production, had led to technological innovations in Iran's universities and industrial sectors.

Nematullah Postandouz, CEO of Saipa Automotive Company, noticed that the sanctions had not had any negative effect on Saipa, he also claimed that "Those who are imposing sanctions on Iran have in fact imposed restrictions on themselves,"

Non-oil exports to China increased by nearly 35 percent to \$ 5.9 billion after export sanctions were imposed, and China replaced the European Union as Iran's largest importer.

with 400,000 Iranians, 8,000 Iranian companies and 1,200 Iranian businesses operating in the UAE; Between 2008 and 2012, the UAE was an unofficial channel for Iranian exports to destinations where they imposed sanctions.

Esfandiar Ilashidech, who has set up a branch of the National Bank of Iran in Dubai, have mentioned that the pressure of sanctions does not change the regime's behavior, but it increases the cost of doing the things. (Ghannadpour & Moradimanesh, 2020)

2.6. Economic Damage and Political Impact

While the neoclassical business model provides a powerful tool for analyzing the damage of sanctions, which is very simple, sanctions may threaten the military power of the target country. The movement is beyond the general selection approach for economic sanctions, in which the competition between beneficiary groups and political parties is an important determiner of the outcome of sanctions.

It draws attention to the fact that sanctions harm supporters of the target government directly or jeopardize its ability to reward supporters or suppress dissenters. (Dizaji & van Bergeijk, Potential early phase success and ultimate failure of economic sanctions: A VAR approach with an application to Iran, 2013)

Marinov (2005) develops a theory that links economic activity to the probability of target leadership's surviving. Slowing growth is usually accompanied by more political turnover.

Sanctions may help to replace the targeted government or open the door to negotiation and make the targeted leadership willing to compromise because of the increased political costs of non-compliance (ie, the possibility of further government relocation). (Marinov, 2005)

The important point is that Marinov tests his theory experimentally and finds that it is the rate of economic growth rather than the level of economic wealth that determines the leader's survival.

2.7. Financial Markets in Iran

The three markets of exchange, gold, and the stock market are influenced by global events and domestic policies. However, the oil market is affected by a wide range of global events and follows a very different trend from other domestic Iranian financial markets. (Arfaoui & Rejeb, 2017)

From September 29, 2014, to June 14, 2020, there were significant fluctuations in this market. The biggest drop in oil prices occurred with the outbreak of Covid-19, which caused a global recession and consequently reduced oil demand. However, due to OPEC's

reduction in crude oil production, China's increase in crude oil imports, and promising preliminary results on the Covid-19 vaccine, this did not last long. (Karimi, Heidarian, & Dehghan Jabbarabadi, 2018)

For a more detailed analysis of co-movements between financial markets in Iran, the time period is divided into four sub-periods: pre-JCPOA period (before July 2015), post-JCPOA period (July 2015 to May 2018), US withdrawal from the Joint Comprehensive Plan Of Action, the return of sanctions (from May 2018 to June 2020) and the outbreak of Covid-19 (from February 2020 to June 2020).

The figure below shows the percentage of changes observed in the considered variables in this study during these four sub-periods:



Source: A.H. Samadi, S. Owjimehr and Z. Nezhad Halafi

Exhibit 2-4: Changes of Exchange Rate, Gold, Oil and Stock Price in Iran (2014-2020)

2.7.1. Pre-JCPOA Period

Economic sanctions against Iran began in 1980 after the Islamic Revolution and the occupation of the US embassy in Iran. The sanctions, imposed by the United Nations, the European Union, and the United States, entered a new phase as a result of Iran's

insistence on developing its nuclear program in 2006 and gradually expanded over the years.

From 2006 to 2012, during Ahmadinejad's presidency, financial market fluctuations increased due to the increase in tensions between Iran and the rest of the world, especially as conflicts over Iran's nuclear program intensified. The impact of sanctions on Iran's economy in this period, especially in 2012, was clearly evident. In 2012, due to a sharp decline in oil revenues as a result of trade and financial sanctions and the formation of high inflation expectations, foreign currency (mostly dollars) and gold markets fluctuated widely and prices increased sharply. With the increase in speculation activities, the value of dealings in the stock market increased by 70% compared to the previous year. (Shapouri, 2018)

From mid-2014, shortly before the JCPOA agreement, the entire Iranian economy, especially the financial markets, experienced relative stability. The reason for this period of relative stability can be attributed to the positive consequences of the initial nuclear agreement between Iran and the global powers and the higher level of optimistic expectations arising from the continuation of the nuclear negotiations. (Feiler, 2015)

2.7.2. Post-JCPOA Period

After JCPOA, some of Iran's blocked assets in foreign countries were released which allowed the Central Bank of Iran to intervene more actively in the foreign exchange market and be able to stabilize this market. In fact, Iran's foreign exchange policy has become a managed floating policy. Therefore, in normal economic conditions where the dollar reserves in the central bank are sufficient, the central bank of Iran intervenes in the market and creates stability if necessary. (Sajedi & Sajedi, 2019)

The price of gold in Iran is affected by two variables, the foreign exchange market and the world price of gold. More specifically, when the exchange rate is stable, the price of gold coins in Iran will be a direct function of the gold's world price. After JCPOA, the price of gold coins in Iran was relatively stable due to the stability of the dollar exchange rate to the Rial and the decrease in the gold's world price, and it only faced slight fluctuations.

The stock market was also affected by JCPOA. The total market index, investment in the banking sector, and the oil industry grew in the post-JCPOA period. But some other influential industries, such as the petrochemical and automotive industries, did not

change. Generally, stock market fluctuations in this period have been slight. (Samadi, Owjimehr, & Nezhad Halafi, 2021)

2.7.3. The US Withdrawal From JCPOA and Re-imposition of Sanctions

In late 2016, with Donald Trump winning the presidential election and increasing the possibility of the United States withdrawing from the JCPOA agreement, the relative stability that characterized the financial markets in the previous period disappeared, and the foreign exchange market began to follow a long path. The slight upward trend of this change in the foreign exchange market has gradually reflected the changes in the gold market either.

Since early 2018, both the foreign exchange and gold markets have experienced rapid growth, although in some periods they have declined slightly due to the suggested policies by the central bank. (Sajedi & Sajedi, 2019)

The stock market also benefited from this growth. Fluctuations in this market increased a month after the withdrawal of the United States from the JCPOA agreement, but in most cases, investing in the stock market had a positive return. In general, despite their ups and downs, all three markets, i.e., the foreign exchange market, the stock market and the gold market, went through a similar process. (Karimi, Heidarian, & Dehghan Jabbarabadi, 2018)

One of the reasons for the continued growth of these markets in Iran, especially at the time of the sanctions, was the influx of people into these markets to maintain the value of their assets, which led to increased demand for speculation in these three markets.

A more detailed look at Iran's financial markets, especially in times of crisis (for example, since May 2018), showed that financial markets have been affected not only by external shocks (economic sanctions and the outbreak of Covid-19) but they've also been affected by investor excitement. (Samadi, Owjimehr, & Nezhad Halafi, 2021)

In fact, the results of this analysis showed that the co-movement of financial markets in Iran was directly influenced by political and economic decisions made by Iranian policymakers. Any hasty and unconscious decision by policymakers led to sharp fluctuations in the market. The main policy of the Iranian government with the onset of the economic crisis (re-imposition of sanctions in 2018) was the implementation of a single exchange rate policy (Rouhani's government tried to stabilize the market at 42,000 Rials to one US dollar.) A policy that failed in practice for various reasons, including the

general rent-seeking structure of the Iranian economy. This policy led to huge rents, loss of foreign exchange reserves, the outflow of foreign exchange and, the formation of a parallel exchange market for foreign transactions.

Others include pre-selling gold coins and issuing the certificate of bonds for pre-selling gold coins, reduction of interest rates, increase in gasoline prices and launching free market operations, selling bonds to compensate for budget deficits and rising bond interest rates. (Samadi, Owjimehr, & Nezhad Halafi, 2021)

However, other policies, such as the crackdown on economic disruptors accused of exploiting the currency and gold markets, led to the temporary stabilization of financial markets. In general, the policies which were pursued during the crisis, were so unstable and simple, which led to sharp fluctuations in financial markets. The inability of policymakers to control the fluctuations has led to rising expectations that financial market prices will continue to rise. To summarize, it can be said that financial markets have experienced significant fluctuations during this period.

2.7.4. The Beginning of The Covid-19 Pandemic

With the outbreak of Covid-19 and the further increase in recession, the foreign exchange, gold, and stock markets experienced a slight decline initially but then followed an upward trend.

Although this situation was not very stable and the stock market has experienced lots of fluctuation, the fact that the stock market reached its peak during this period of global economic uncertainty is notable, because during this period due to declining oil demand, Iran was hardly able to sell oil below world prices, which led to a sharp drop in oil revenues.

In addition, government tax revenues decreased as many businesses closed as a result of the Covid-19 outbreak. Moreover, rising health care costs and livelihood assistance to those who were mostly affected by the outbreak have led to a more severe budget deficit. This sequence of events led to high inflation expectations among people.

Hence, the people who were encouraged to invest in the stock market by the government due to their protectionist policies, invested more enthusiastically than before, hoping to make a profit and maintain the value of their assets. The influx of micro-investors to the

stock market and the sharp increase in the overall market index created very fragile conditions. (Samadi, Owjimehr, & Nezhad Halafi, 2021)

3) Iranian Consumer Behavior Before and After Crisis

3.1. Population

Iran is a mountainous country in Western Asia that is situated between the Persian Gulf, the Caspian Sea, and the Gulf of Oman. It covers 636,372 square miles (1,648,195 square kilometers), yet much of it is unusable, resulting in Iran has a population density of 52 persons per square kilometer (134 people per mi²). (Worldometer, 2021)

Iran is one of the largest Islamic countries in the world, with a population of 85,453,487 people (December 2021) and is predicted to reach its peak population of 105.23 million by the end of 2061, according to latest forecasts. The population is expected to gradually decline after its peak, reaching 98.83 million people by the end of the century. Iran will exceed 100 million inhabitants by the end of 2043, according to these forecasts. (World Population Review, 2021)

The median age in Iran is 32.0 years, (Worldometer, 2021) which has significant consequences for consumption and marketing.

Iran's population is expanding at around 1.3 percent per year, a rate that has slowed in recent decades. (The World Bank, 2021)

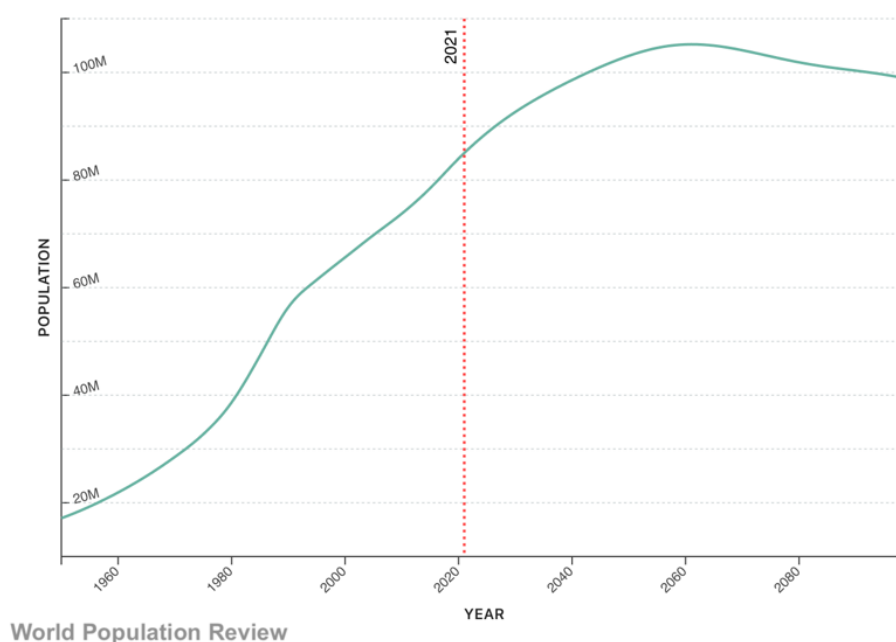


Exhibit 3-1: Iran Population Growth

3.2. Religion

Iran is one of the world's largest Islamic markets, with 99.6% Muslims (Shia about 90 percent, Sunni 10 percent). (Britannica, 2016)

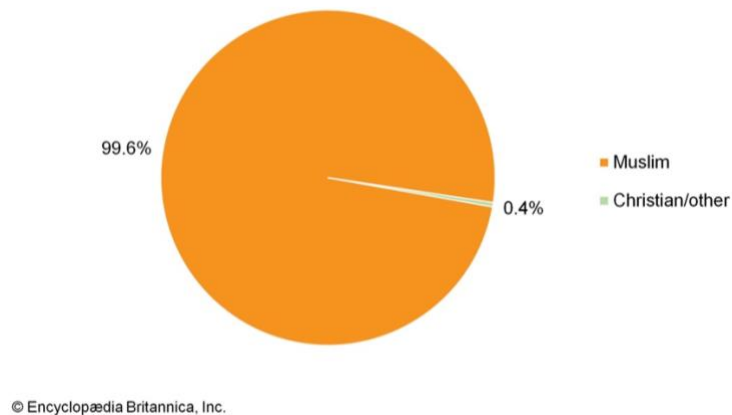


Exhibit 3-2: Iran Religious Affiliation (2016)

3.3. GDP

For the Iranian calendar year 2020/21, the Gross Domestic Product (GDP) has been estimated at US\$628 billion, based on the official exchange rate and a population of around 84 million people. In 2020/21, Iran's real GDP is expected to expand by 1.7 percent. COVID-19 caused less output loss in Iran than in other countries because the country's economy had already shrunk by 12% in the previous two years. Both the oil and non-oil sectors recovered faster than predicted in Q3 and Q4-2020, with manufacturing driving the non-oil sector's revival as exchange rate depreciation made domestic production more competitive.

The COVID-19 pandemic, on the other hand, has had a significant impact on jobs and income in a variety of labor-intensive industries, including high-contact services and the informal sector. Despite the fact that employment levels fell by almost 1 million YoY as a result of the pandemic, discouragement in the labor market, represented in decreased economic participation—41.4 percent in Q4-2020—dragged the unemployment rate down to 9.4 percent. Iran's fiscal deficit-to-GDP ratio has risen to its highest level in decades as a result of rising expenditure COVID-19 and falling oil earnings. From April to December 2020 (9M-2020/21) government revenues were just 55% of the budgeted budget for the entire year. Due to reduced oil export volumes and prices, only 14 percent of expected oil revenue realized. Meanwhile, the pandemic's higher health and social support costs pushed total spending up by 28% year over year. As a result, the country's

fiscal deficit is expected to rise to over 6% of GDP in 2020/21, with public debt exceeding 50%.

Inflationary pressures grew in 2020/21 as the Iranian rial devalued due to a lack of foreign money and rising economic uncertainty. In February 2021, inflation spiked to nearly 48 percent year over year. Because of US sanctions on accessing foreign reserves, the currency has lost half of its value since April 2020. The rial has regained around 15% of its value as a result of hopes that sanctions will be lifted after the November US elections. The stock market was negatively impacted by exchange rate volatility and government funding operations.

Recent economic trends have added stress to low-income households and slowed the decrease of poverty. From 2017/18 to 2018/19, poverty climbed by one percentage point, reaching 14% before the epidemic. The loss of household income owing to the pandemic, combined with the rising cost of living due to inflation, is expected to push poverty up by 20 percentage points. In response, a variety of social safety measures have been implemented, but while they partially compensate for lost revenues, their real value will diminish as long as inflation remains high.

3.4. The Theory of the Leisure Class

In *The Theory of the Leisure Class* (1899), Thorstein Veblen observed and hypothesized what he called "vicious consumerism"; in this work, he traced the evolution of the leisure class and its divergence from other classes. He worked with people whose job was vicarious leisure and who had taken on a new set of responsibilities, such as consuming products that had previously been enjoyed by others or consuming items that assist their masters spend. According to Veblen, a subsidiary or derivative leisure class emerges, whose job is to execute a vicarious leisure for the sake of the primary or legitimate leisure class's reputability. A defining aspect of this vicarious leisure class's normal manner of existence distinguishes it from the leisure class proper. The leisure of the master class is, at least ostensibly, an indulgence of a proclivity for avoiding labor, and is presumed to enhance the master's own well-being and fulness of life; however, the leisure of the servant class exempt from productive labor is in some ways a performance demanded of them, and is not normally or primarily directed to their own comfort. (Veblen, 1899)

Luxury has a social dimension to it. The consumption of luxury items with the goal of signaling success, elevating one's standing in the social hierarchy, and attaining social acceptability is referred to as perception. (Shukla, 2011)

Even middle-class consumers demand luxury products in order to elevate their social status and acquire others' respect. (Walley & Copely, 2013)

To be influential, some consumers need set themselves apart from others. It means that "social salience" and "social identification" are two of the most important factors in the buying and use of luxury goods. (Chattalas & Shukla, 2015)

3.5. Culture & Luxury

According to studies on luxury consumption, this idea has a crucial social purpose. The concept of social value refers to acquiring social approval through the use of luxury goods. (Truong & McColl, Intrinsic motivations, self-esteem, and luxury goods consumption, 2011) Veblen's theory of conspicuous consumption gave birth to the concept of social value. Because it improves one's self-image and communicates one's social status and prestige, noticeable value is a driver of luxury consumption. (Truong & McColl, Intrinsic motivations, self-esteem, and luxury goods consumption, 2011)

Cross-cultural differences in consumer behavior exist. Consumer behavior is influenced by a country's culture, and one of the most important aspects of culture is its values. (Hofstede, Hofstede, & Minkov, 2010) Some marketing scholars argued that when attempting to understand consumer behavior, particularly motivations, the cultural context must be examined. These scholars believe that culture is an essential component in consumer behavior and will continue to be a source of market distinction. Even though customers from several countries consume the same luxury item, this does not mean that their motivations for doing so are the same. (Antonides, 1989)

Consumer behavior has been found to be influenced by cultural values. (Mourali, Laroche, & Pons, 2005) Culture has long been seen to have a significant impact on human conduct, with the notion that a person's actions are usually indicative of their cultural value system. As individuals are socialized as members of a group, this value system is internalized through time. (Luna & Gupta, 2001). Culture is thought to influence individual preferences, how decisions are made, what actions are taken based on those decisions and how the world is perceived. Consumer cognition, affect, and behavior are

all influenced by culture, according to studies. Consumption motivation is also influenced by a consumer's cultural background. (Bonfield, 1978)

Asian middle-class residents of developing countries acquire luxury goods to gain status, because they are anxious about their social standing and others' judgments. Consumers in developed markets (such as the United States) buy luxury products for personal reasons and place a premium on practical characteristics. (Pino, Amatulli, Peluso, Natarajan, & Guido, 2019)

3.6. Luxury Consumption in Iran

Iran has its unique set of values due to its ancient cultural tradition. According to Hofstede et al. (2010), Iran has a society with high power distance and uncertainty avoidance, and is more feminine, collectivistic, pragmatic, and indulgent than other countries. (Hofstede, Hofstede, & Minkov, 2010)

The country has its own cultural characteristics as a Muslim country. The most noticeable cultural element of Iran is its religiosity, which pervades all aspects of life. Religion, as a subculture, has an impact on customers' perceptions of product values, motivations, and beliefs, including those related to luxury goods. In many ways, the Iranian people are deeply divided—and have been for much of the country's contemporary history. Iran has traditionally been split between a modern, primarily urban educated minority and a religious, conservative mix of rural and urban poor. (Cordesman, *The Crisis in Iran: What Now?*, 2018) Although religion has influenced many aspects of the Iranian population, it has had a greater impact on the rural and poor. The urban educated group, on the other hand, is less affected.

One might think that in a country where the main ideology opposes consumerism and views it as a sin, and where economic situations prevent people from becoming consumers, the spirit of consumerism would be weaker than in the West, yet this is not the case. According to statistics, Iranian consumers outspend people of the world's wealthiest countries in some areas. Tehran is now widely regarded as the "nose job's" capital. Iran is the world's third-largest consumer of energy per capita, and it is the world's fifth-largest gold buyer. Iranians consume six times more fuel than the world average. Although Apple Inc. has imposed harsh restrictions on Iranian Apple users, and Iranian Apple users are unable to use many of the iPhone's functions, and the price of an iPhone 12 is equivalent to an Iranian worker's 8-month salary, there are still millions of

iPhone users in Iran. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

Working is one of the most effective ways to alleviate poverty on a personal level, but a rising body of scientific material reveals that an increasing number of Iranians are becoming resistant to hard work. As a result, it should come as no surprise that some Iranians refuse to take any employment that comes their way. There are an estimated 2.5 million jobs in Iran that no one wants, despite the fact that there are millions of unemployed Iranians yearning for work. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

Iran, as a developing country, might be an incredibly attractive marketplace in terms of population size, rising consumer demand for luxury items, and the presence of affluent people. Despite the importance of the Iranian market for luxury goods, research on the market and Iranian consumer behavior in this area is limited. Perhaps luxury goods business practitioners feel that a golden rule of success applies everywhere, including the Iranian market, and that they should tell customers what they should have rather than asking them what they want. (Teimourpour & Heidarzadeh Hanzaee, 2011)

Customers in developed countries view domestic items to be of higher quality than imported ones, but consumers in developing countries regard domestic products to be of lower quality. (Lu Wang & Xiong Chen, 2004) As a result, Iran, as a developing country, considers imported goods to be of greater quality than native goods. This remark holds true for all luxury goods in Iran, as they are all imported. As a result, it is possible to argue that among Iran's luxury customers, the quality value of luxury items is a significant factor.

3.6.1. Luxury Atmosphere In Iran Before The Crisis

The luxury market in Iran was growing sharply in recent years before the economic crisis. There are many examples that can describe this phenomenon. The appearance of global luxury brands in fashion such as Gucci, Prada, Polo, Omega, Rolex, Louis Vuitton and Versace products is obvious. Each year, luxury car sales in Iran achieve new highs. In the field of real estate, there are many apartments and houses that are comparable to the best designed houses in the world. Luxury services in Iran include elegant restaurants, spas, beauty salons, gyms among others. (Teimourpour & Heidarzadeh Hanzaee, 2011) When

it comes to the religious side of Iranian consumers, it appears that those who are highly religious are looking for excellence in products when they shop. (Mokhlis, 2009).

Many things might be identified as influencing factors for shifting Iranian consumption patterns:

1. The income gap is one of the factors that contribute to the consumption of high-end goods. When it comes to luxury products, the price should be high, especially if people want to show off their money. According to studies on the Islamic religion and its impact on purchasing behavior, Muslim shoppers place a high value on price discounts, promotions, and store credit. (Bailey & Sood, 1993). Iranians value brands more than items because they are members of a collective society in a Muslim country. The more well-known and valuable a brand is, the more it is recognized. This is why flashy luxury companies like Rolex, Omega, and Gucci have been so successful in Iran.

In Iran, on the other hand, there is a traditional element with strong religious and collective identities. They frequently spend time and celebrate special events with their families, close friends, and coworkers who have similar features, owing to their religious and collectivistic views. Luxury brands are frequently purchased by such people in order to display their wealth and achievement in life. Indeed, in several product and service sectors, these people are the principal consumers of international brands. (Karami, Olfati, & Dubinsky, 2017)

2. Media: Luxury goods advertisements on satellite channels and social media have familiarized Iranians with international luxury products. Actors in popular films and on television are becoming role models for Iranians.

Despite Iran's strained relations with the rest of the world, Iranian customers value foreign markets and multinational brands. (Karami, Olfati, & Dubinsky, 2017)

3. Population: According to the most recent data issued in 2019 by the national statistics office, 46.6 percent of Iran's 83 million people is under 30 years old. This new generation has higher hopes and ambitions for the future, as well as a keen

interest in fashion and image. As a result, personality and self-development are the desires and demands of the new generation.

From a marketing viewpoint, this indicates that companies interested in the Iranian market should consider Iran to be a potentially large and growing market. A new generation of Iranian customers has emerged, one that is cosmopolitan, values innovation in their purchases, and values youthfulness and convenience. Because this market is quickly expanding, it may have a preference for worldwide brands. Indeed, this group uses a variety of global and social media platforms to keep up with the current fashions and socio-cultural trends, such as Facebook, Instagram, Twitter, and WhatsApp. As a result, marketers should take into account the cultural values identified in this study while making product decisions and communicating marketing messages. (Karami, Olfati, & Dubinsky, 2017)

4. Iranian women's new role: As a result of Iran's economic circumstances, the number of educated women is increasing. Young Iranian women are becoming more influential in many aspects of life, including shopping and decision-making. Iranian women are fascinated in luxury items, and economic freedom is enabling them to put their desire into reality. (Teimourpour & Heidarzadeh Hanzaee, 2011)

According to an analysis based on the theory of planned behavior that examined the effects of three factors including consumer perceived value, sensitivity to social norms, and need for uniqueness on consumer intention to purchase luxury products, all three mentioned components have a positive impact on consumer intention to purchase luxury products. The people surveyed stated that a luxury item such as a Rolex watch should only be offered in a small number of places, and that if it is placed with other items, consumers are less likely to buy it. (Moteshakereh, Abtahi, & Rahchamani, 2013)

3.6.2. Luxury After Crisis

Continuous international sanctions, as well as the COVID-19 pandemic, have increased constraints on the Iranian economy, according to a recent World Bank assessment. Due to a lack of access to foreign reserves as a result of US sanctions, the currency rate depreciated sharply, causing prices to rise. Job losses caused by the pandemic and high inflation exacerbated poverty, especially among the poor. In early 2021, inflation had

risen to almost 48 percent. Because of US sanctions that prevent Iran from accessing foreign funds, the Iranian rial has lost half of its value since April 2020. Poverty rose by a percentage point between 2017 and 2018, hitting 14% just before the outbreak. Before the middle of 2021, it was anticipated that the loss of household income owing to the pandemic, combined with the high cost of living due to inflation, would increase poverty by 20 percentage points. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

Worse, according to Iran's Statistical Center, inequality has risen five years, from 38.5 points in 2015 to 39.9 points in 2019. (Sinaei, 2021)

Estimates vary by source, as they do in most underdeveloped nations, and the Iranian government strives to put the best face it can on the country's challenges. However, objective institutions such as the IMF and the World Bank have recently released assessments that appear to provide a fairly accurate picture of Iran's current issues. There is also hard evidence that the vast majority of Iranians have suffered in real ways as a result of the regime's mismanagement of the economy and the consequences of its wars and adventures. This could explain why the protests have spread across the country rather than being centered in Tehran. (Cordesman, The Crisis in Iran: What Now?, 2018) According to statistics, more over nine out of ten Iranians (91%) think it is difficult to get work where they live, which is unchanged from 2020. Pessimism has been stronger than in prior years since 2018. Since the reimposition of US sanctions on the country in 2018, more than 90% of Iranians have said it has been difficult to find work domestically. (Reinhart, 2021)

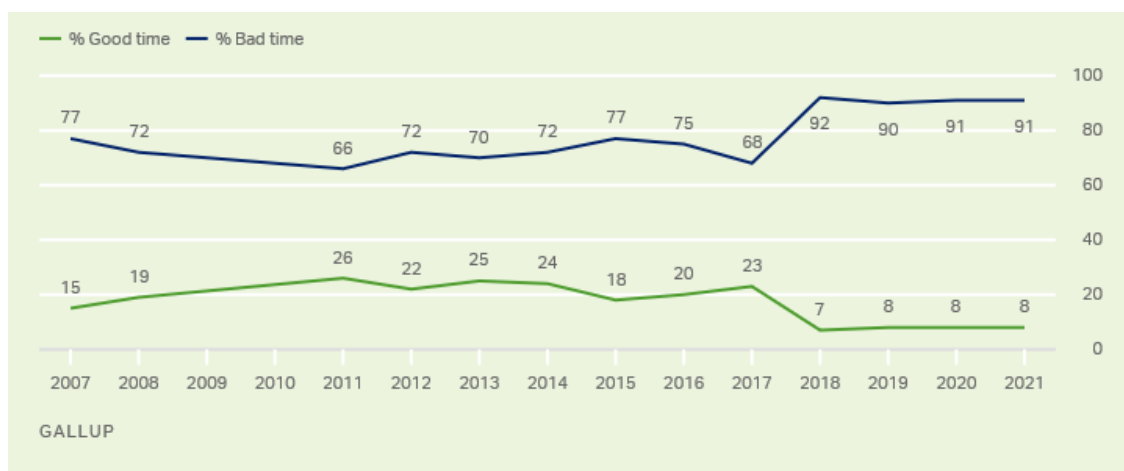


Exhibit 3-3: More Than Nine in 10 Iranians Say It Is a Bad Time to Find a Job

The average Iranian person earns \$150–300 per month, whereas the average middle-class individual earns \$400–700 per month. Iranians' income no longer covers anything beyond life's needs since living expenses and commodities prices, particularly food, have risen. For example, a person earning \$150 per month will normally rent a small one-bedroom apartment for two-thirds of that amount. (Rahmani, 2021)

According to official data, more than 50% of Iranians live in "absolute poverty," and the situation is becoming worse. (Entekhab, 2020 (1399))

More and more enterprises are reporting challenges as a result of increased taxes, declining subsidies, foreign market restrictions imposed by sanctions, and trouble getting hard currency required for trade. Raw materials are also in short supply. Layoffs and strikes by workers who haven't been paid in months, notably in government-owned industries, are frequently reported in the media. (Hafezi & Barbuscia, 2020)

Despite the growing demand for luxury brands in Iran, the market for these brands has diminished, and the firms that have already entered the market have seen major sales and profit drops in recent years. Furthermore, compared to other rising markets, the rate at which new luxury brands are introduced in Iran has been significantly lower. Unfortunately, there has been no research into luxury branding in the Iranian market so far. (Rahimnia & Hosseini Arian, 2021)

The Iranian market has been one of the major targets of counterfeit products imported from other countries. Using remarkable import tariffs, the government protects most domestic industries against foreign competition. High tariff rates are applied on luxury products, and people must pay almost twice the actual price to purchase these products. (Rahimnia & Hosseini Arian, 2021)

In many aspects, the Iranian people are deeply divided. Iran has traditionally been split between a modern, primarily urban educated minority and a religious, conservative mix of rural and urban poor. (Cordesman, *The Crisis in Iran: What Now?*, 2018)

Despite the pressures on Iran imposed by US sanctions and the COVID-19 virus, according to a recent Forbes report, the number of millionaires in Iran has climbed considerably. Iran today has 250,000 millionaires, the majority of whom live in Tehran. (Williams, 2021)

Thanks to a cottage industry of small-time sanctions-busters, Tehran's rich can still get Dutch coffee filters and baby carrots from California for a price. Late-model Air Pods protrude from ears on the streets of the city, and any traffic bottleneck could feature a gleaming Range Rover. (Yee, 2021)

The #RichKids Instagram pages are significant because they provide young Iranian men and women with a simple and cost-free way to consume. RichKidsofTehran (RKOT) has about 540K Instagram followers and follows the same fundamentals as the previous similar accounts on Facebook and other social media platforms: first-class bratmobiles, large villas, and gorgeous young ladies in bikinis. Given that it comes from a primarily conservative and devout culture—a nation that objects to iconography, where alcohol is outlawed, and immodest dressing is a crime—this unabashed parade of money, flesh, and champagne may seem unusual. (Dangerfield, 2015) Following Rich Kids Of Tehran, wealthy youth in other Iranian cities such as Tabriz, Isfahan, Mashhad, and Shiraz created similar pages. The vocabulary of the #RichKids pages can contribute to a more nuanced understanding of the discursive practices around the concept of the wealthy as a distinct class due to its rebellious nature. The #RichKids posts take advantage of the wealth celebration to highlight a near-maniac consumption of high-end products and enjoying a high-end lifestyle. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

According to studies, the Rich Kids Of Tehran's "social literacy" is lower than average. (Notash, Ghaffari, Kazemipour, & Torkaman, 2018 - 1397) They stigmatize poverty by depicting the current situation in Iran as something that can be overcome by the wealthy. It effectively persuades the majority of its followers that the more than 40 million people who work two jobs every day only to avoid being thrown out on the streets by landlords are poor because they are unable to exploit their personal abilities. Despite their celebrity status, they appear to be "talentless" individuals like us, and they boldly announce that their only talent is being wealthy; hence, while we are unable to appreciate our poor lives, we can better enjoy the delight of someone who shares our lack of talent. However, This group of wealthy Iranian youth has contributed to the global conversation about Iranian culture by bridging the gap between the West and Iran. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

The #RichKids are able to transcend from the realm of fantasy to the world of reality by acting like celebrities and chronicling their lives in a nearly identical manner. The number

of Instagram admirers and followers demonstrates how persuasive these visually documented personas are. (Gallagher, 2015)

When viewed as a whole, #RichKids appears to be nothing more than an exhibition of pricey goods. Iconic goods and ritualized patterns of conduct are crucial among them: throwing costly parties, taking expensive vacations, and being seen in high-end settings and fetishized places. The visual manifestation of the variants is characterized by an aesthetics that prioritizes size, exclusivity, and abundance as the most important formal principles and millions of young Iranians demonstrate a less costly version of this lifestyle. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

Iranian celebrities use Instagram to encourage people to consume more, both directly and indirectly. In Iran, cultural and governmental codes encourage—and compel—celebrities to view consumerism as harmful to society; as a result, top Iranian celebrities paradoxically preach against consumerism and its wasteful nature while promoting the consumerist lifestyle by flaunting their luxury homes, travels, clothing, and so on. Furthermore, they frequently put promotional content on their pages, which is a significant source of revenue. These celebrities, unlike the people on RKOT, openly attribute their "success" and money to their "skill," implying that they are worth what they have. In a country of 80 million people, certain Iranian celebrities have tens of millions of followers; it's difficult to persuade people that these celebrities lack the "talent" they claim and just know how to present themselves as talented and amazing people. As a result, most celebrities are #RichKids in the sense that they flaunt their ability to consume; they have devised strategies to make fans believe that they, too, are partaking in the super-expensive consuming that Iranian superstars enjoy. (Shahghasemi, Pornography of Poverty: Celebrities' Sexual Appeal at Service to the Poor?, 2020)

All of these factors aid followers in better identifying with those who want their attention in order to stay on top, make more money, spend more, and therefore draw even more attention. This helps to explain why "heroes of productivity" in Iran are giving way to "heroes of consumption." The introduction of social media has confounded the concept of consumption. However, the situation gets more problematic when individuals in a poor country like Iran desire to keep up with the lifestyle of the super-rich in this consumerist era. Most Iranians would find it increasingly difficult to accomplish their dream of

becoming consumption heroes in a bankrupt and impoverished economy where inequality is widening. Many young Iranians have discovered a similar, but insufficient, way to vicariously consume goods and services: through consuming the consumption of others. (Shahghasemi, Rich Kids of Tehran: The Consumption of Consumption on the Internet in Iran, 2021)

4) How Has Trade in Iran Been Damaged by Sanctions

Studies on whether economic sanctions work to force change in the behavior of the target country are the subject of controversy. There is evidence that economic sanctions are more effective than long-term sanctions. However, van Marrewijk & van Bergeijk (1995) show that if the target nation is gradually aware of the validity of the sanctions, the economic costs and the sending thoughts, the sanctions may respond in the long run (Dudlák, 2018). In addition to whether unilateral or multilateral sanctions (such as joint US-EU sanctions against Iran) work better in changing behavior, as well as the superiority of sanctions over the overall target economy of the firm. Individuals are targeted and have an impact on the exchange rate, income and expenditures of different sectors. It is also discussed, which we will summarize.

Murshed (2020) in a study examined the short-term effects of economic sanctions or consideration of international trade restrictions on goods and services, as well as the prevention of international financial flows. Trade sanctions can take two forms: reducing exports to the target country and reducing exports from the target country. Both types of sanctions harm the target economy: first, by reducing the overall supply in the target country, and second, by worsening its exchange relationship. From the sender's point of view, its economy may benefit from the rental demand created by export restrictions for the target economy. Financial sanctions are more explicit in harming the target economy. They reduce the supply of funds or capital in the target country with negative consequences for credit, investment financing, as well as options for financing government spending.

On this basis, it can be said that the countries that are subject to sanctions face many economic and social problems. Rising inflation, followed by rising commodity prices, the closure of factories and the closure of industries and, of course, rising unemployment, control of imports and exports, and the rise of monopolies and the formation of the trade mafia, among many others. There is. In this regard, economic sanctions, by creating an atmosphere of disorder and turmoil in the economy, cause prices to rise and subsequent public dissatisfaction.

4.1. Supplier Point of View

Different stores have always played a key role in cities and people's relationships and quality of life. Mediation of production conditions and consumer needs dynamizes the activities of goods and service stores, which are constantly adapted to changes in supply and demand, along with innovations in technology and industry itself. Changes in the systems of goods and service stores can be seen as a sequence of periods of growth and decline in the number and variety of categories of goods and service stores and commercial forms, focused on the core and decentralization towards observed margins. These waves are associated with population distribution, mobility systems, consumer values, lifestyle patterns, and industry organization, as they are now generally accepted. In the long run, changing consumer services and different stores has provided consumers with a wider and more diverse selection at better prices. However, it has created a major imbalance in the economic structure of different store systems. Some changes and restrictions, such as sanctions, challenge the economic viability of many stores and businesses.

In addition, with the onset of the corona epidemic, many businesses and stores are facing serious vulnerabilities. The current situation has affected trade around the world. Offline stores have already suffered from the growing competition from online stores. The epidemic crisis has completed this competition. And in this case, they either go out of business or close a large proportion of physical stores, which means that consumers are not able to return to their previous habits. In this regard, post-first wave surveys have shown that consumers around the world have reconsidered the way they buy the products they need (Accenture, 2020) (McKinsey, 2020). In this regard, according to the current situation in the world, after the first and second waves of COVID in different parts of the world, has caused many consumers to reconsider their shopping habits or even use a new method (Sheth, 2020). Due to the extraordinary measures taken against this disease, some consumers have been forced to buy online, deliver door-to-door, or pay without cash that they have not used before. Hence, research has shown that consumers are highly concerned about the health and economic impact of Corona. Findings show that purchases are based on the most basic needs, people buy more consciously, and instead of using face-to-face shopping, they welcome online shopping (McKinsey, 2020). Accordingly, offline stores and local services have realized that this critical situation has affected their business growth. Hence, they have also tried to deal with this crisis to some

extent by creating online services such as telephone registration of orders and free shipping (Pantano, Pizzi, Scarpi, & Dennis, 2020). Therefore, stores that operate in a traditional way by launching channels on virtual networks, try to open a place for themselves in this space and attract customers.

Hence, the business model and stores are perceived as a structure consisting of elements, interactions and dynamics. In this regard, stability within stores through the supply chain recognizes the ability to withstand shocks in the form of severe events, and companies must achieve constructive and responsive behavior to achieve this goal and gain flexibility capabilities. That is, they are able to respond effectively to disasters that may occur (Karl, Micheluzzi, Leite, & Pereira, 2018). On this behalf, the risk of supply vulnerabilities due to factors such as sanctions should be considered in contemporary supply chain management. Supply chain delays are usually unlikely to occur, and yet, even if they do occur occasionally, they can have severe consequences for stores (Sureeyatanapas, Waleekhajornlert, Arunyanart, & Niyamosoth, 2020)

In some societies, due to vulnerabilities such as sanctions and the Corona pandemic, various stores have evolved their supply chains and learned how to respond to this new society, which demonstrates the dynamics of closure, isolation, and growing constraints on social and economic interactions. Because restrictions imposed as a result of sanctions or to prevent the spread of the virus have directly affected the national and global economy and, consequently, the movement of goods. Thus, sanctions and COVID are possible causes of supply chain disruption (Silva, 2021). As a result, it has had a negative impact on global trade, with supply chains almost completely shutting down. Vulnerabilities resulting from this include delays in delivery and labor shortages. Store supply chain managers are aware that supplies and goods for businesses around the world are in short supply. Hence, supply vulnerabilities should be included in current supply chain management, and stores should plan their supply chain extensively (Zhu, Chou, & Tsai, 2020). They should also focus on balancing flexibility with efficiency and cost reduction to anticipate supply vulnerabilities. Corona epidemic events represent a wide range of supply chain hazards, where sudden instability affects its long-term development (Silva, 2021).

According to the issues studied in this work, the selection of suppliers and the ability of responsible people to consider their decisions are factors that cause a kind of disruption in the supply chain and, as a result, the vulnerability of stores (Sureeyatanapas,

Waleekhajornlert, Arunyanart, & Niyamosoth, 2020). Vulnerability refers to vulnerabilities in the face of threats. They may be structural or circumstantial, such as corona-related cases or sanctions, although these usually reveal problems.

In this regard, according to Fahimnia et al. (2015), business managers are exposed to new challenges, such as creating a supply chain network that is effective, efficient and flexible enough to overcome vulnerabilities. However, it must also be sustainable (Sarkis, Qinghua, & Lai, 2011). These vulnerabilities can be caused by natural phenomena such as earthquakes, tsunamis and bad weather or by human hands (Amindoust, 2018). For this reason, the researchers also noted that some businesses tend to deviate from their sustainability goals while dealing with unpredictable vulnerabilities (Mari, Lee, & Memon, 2014).

Sureeyatanapas et al. (2020) agreed that supply-side vulnerabilities are expanding among businesses. However, with issues such as economic sanctions and the Corona pandemic that the world is currently experiencing, businesses have been forced to adapt their supply chains to this new closed world. As a result, there has been a global shortage of basic products and commodities. These events forced businesses to change their management and logic in the supply chain, informing them of the changes that should be made in the event of a recurrence of the same destructive events (Zhu, Chou, & Tsai, 2020). Some researchers suggest that businesses do extensive mapping of their supply chains to predict supply-side vulnerabilities (Sheffi, 2020).

Therefore, the risk of supply disruption and business vulnerability should be considered in modern supply chain management (Levary, 2008). Assume that the risk of injury is related to the subject of supplier selection. In this case, it would not be wise to assume that complete information about all the criteria or the decision maker's full understanding of the problem is available. The occurrence of destructive phenomena usually occurs with low probability but high intensity and can be seen as ambiguities related to business vulnerability (Sureeyatanapas, Waleekhajornlert, Arunyanart, & Niyamosoth, 2020).

In this regard, vulnerability is a variable that is formed externally and can determine the risk through the size of a blow or even some kind of injury (Elleuch, Dafaoui, Elmhamedi, & Chabchoub, 2016). In relation to businesses, its purpose is to show the extent to which it is exposed to a destructive event (Blackhurst, Rungtusanatham, Scheibe, & Ambulkar, 2017). Thus, vulnerabilities are seen in businesses as well as in different stores when a

value move, if exogenous, allows for flexibility and can determine the value of product latency (Babich, 2006). However, we can also find it in intangible assets (hardware, software, infrastructure, and relationships with other stores) as well as in the environment (political issues, such as economic, social, or technology (Pourhejazi, Kwon, Chang, & Park, 2017)).

Risk and the ability to withstand shocks and strengthen businesses are the features that define vulnerability (Elleuch, Dafaoui, Elmhamedi, & Chabchoub, 2016). In this regard, it is necessary to analyze the components (vulnerability and risk) in case of disruption. In this regard, some methods seek to combat vulnerabilities in businesses, such as: Active management of the risks to which businesses are exposed, and to do this, managers must have methods to identify and measure.

4.1.1. Vulnerability to Sanctions

The main difference between economic sanctions and other forms of government intervention is the incentive to impose restrictions. Countries often choose economic sanctions as a foreign policy tool. By blocking the target country from gaining access to the benefits of foreign trade, the sending countries seek to force the country to change its policy in order to lift sanctions. In addition to imposing restrictions on certain goods that the target country prefers to acquire through trade, it may seek to restrict its access to capital (Biersteker, Eckert, & Tourinho, 2016).

The trade and financial constraints associated with sanctions are generally designed to impose economic costs on the target country's economy, which are relatively less costly for the sending country.

Countries subject to sanctions have limited access to international and financial trade, so in an effort to counter the effects of sanctions, they will try to find other sources of restricted goods. Specific reciprocal measures include the development of alternative suppliers of sanctioned goods and capital, and an increase in the domestic production of sanctioned goods. Both of these measures will incur short-term costs as the target adjusts its economy to comply with sanctions. If the goal is to make the necessary changes to survive without sanctioned goods, the long-term effects of sanctions may be less significant. The third option is that he may not be able to find alternative sources for the sanctioned goods and will be forced to do so without them. In that case, the effect of the sanctions is likely to last longer. The resort of the sanctioned government in this scenario

is usually an attempt to sacrifice the sending countries for any economic problems caused by the sanctions (Avetisyan & Lektzian, 2018)

Theoretically, however, it has been argued that anticipating or threatening sanctions has worse consequences than imposing sanctions (Fuchs & Klann, 2013). Their main argument is that the threat of sanctions poses political, legal and credit risks to various businesses. Exposure to these risks reduces the expected profit for businesses and ultimately reduces the commercial debt between the sender and the target. However, anticipating sanctions can also increase inventory by producers and consumers, especially in the short term. The main reason for this could be the large sunken costs associated with changing export destinations or import sources. Similarly, for consumers, tastes and preferences change slowly, and therefore there is no tendency to change consumption packages due to imminent sanctions.

In general, the focus of the previous economic literature has been on the effectiveness of stimuli in changing the behavior of the target government to align with the intentions of the sending government. This field of literature includes the studies of Pape (1997), van Bergeijk (1989), Bapat and Clifton Morgan (2009) and others. Most of these studies conclude that sanctions are ineffective in convincing the target of changing protest policies. However, whether the sanctions are effective or not, they can still affect the reciprocal relationship between the sender and the target. This can lead to a reduction in trade debt, foreign direct investment, migration, and ultimately a reduction in demand for goods and services in the target country.

Hence, current studies have shown that sanctions have adverse consequences for the target countries. They show that the imposition of sanctions has adverse distributive effects and is more severe for the poor and civilians (Afesorgbor & Mahadevan, 2016). Causes currency crises. It delays economic growth and development in the target country (Neuenkirch & Neumeier, The impact of UN and US economic sanctions on GDP growth, 2015) and widens the poverty gap (Neuenkirch & Neumeier, 2016).

Another field of literature has shown that political interactions between governments, good or bad, can have major consequences for bilateral trade between them. Rose (2007) shows that strong political ties are established through government visits - significantly increasing trade debt between governments. Similarly, Nitsch (2007) confirms this positive effect of government and official visits to bilateral exports. Conversely, strained political relationships also disrupt commercial debt (Fuchs & Klann, 2013). This makes

bilateral trade very sensitive to government-to-government political interactions. Anderson and Marcouiller (2002) explain that trade is unstable because it involves overseas transactions that are exposed to various risks. As a result, any ambiguous action or improper execution of the contract may have significant negative consequences for the purchase and sale of goods and services in countries. Such uncertainty could result from the threat of economic sanctions, which could make the implementation of international agreements as difficult as the actual (imposed) sanctions. For example, Morrow et al. (1998) highlight the exposure of international stores to the political risk associated with their assets or products. Because they are at credit risk and expose exporters or importers to non-payment due to restrictions on financial transfers. As a result, many international stores are blocking the export of their products to the embargoed countries, in which case they will lose some of their customers. So this shows how sensitive trade and commerce are to the threat of sanctions compared to the actual imposition of sanctions.

In fact, if a factor such as sanctions prevents the target country from selling its export products, that country will face financial constraints and disruption of imports, and sanctions will naturally have their first effect on domestic market demand, ie the people. If the country under sanctions has weak industrial foundations and can not meet the livelihood needs of its people with its products, that country's job is done.

A historical review of the sanctions shows that there were many threats of sanctions that were ultimately not implemented. Currently, the international diplomatic landscape is overwhelmed by rising political tensions between governments along with the threat and imposition of sanctions. However, there is no empirical study that focuses on the consequences of the threat of economic sanctions on the purchase of goods and services. Previous research has focused exclusively on the commercial consequences of sanctions (Caruso, 2003). A number of studies argue that the threat stage is crucial in understanding the outcome of sanctions, and that the threat of economic sanctions may even be more important than the actual imposition (Eaton & Engers, 1992).

Targeted behavior at the threat stage or before actual imposition may affect the outcome of sanctions. At the threat stage, there may be different periods of action for the target. A target may decide to follow only one threat from the sender to avoid any negative consequences of actual imposition. In contrast, the target can challenge the threat by adopting pre-strategies that can minimize the final imposition of sanctions. Any possible

adjustment to minimize the damage of sanctions is not limited to the target, because there are also economic factors in the sending state that will have an adverse effect if the threat is actually implemented. Thus, anticipating international sanctions can lead to diversionary actions by economic agents within the sender and target countries, which may have negative or positive consequences for that country's economy (van Bergeijk, 2009). Adjustment measures before the actual imposition may not be unlikely in practice, because even in cases where sanctions have been imposed, the targets adopt strategies to circumvent the sanctions.

The analysis of trade agreements has changed dramatically as a result of considering the implications of the forecast. For example, McLaren (1997) shows that predicting the outcome of trade agreement negotiations can significantly increase the impact of signing trade agreements. In contrast, Baier and Bergstrand (2007) highlight the fact that trade and commerce may be temporarily delayed pending an imminent trade agreement. In addition, there is literature on safeguards and anti-sanctions measures that addresses anticipated effects such as storage, or immediate supply (Hoekman & Leidy, 1989). It was van Bergeijk (2009) who linked the possibility of storage to the threat of sanctions. He points to the fact that the threat can serve as an incentive for potential targets to guard against the negative consequences of future sanctions. Thus, the net impact of the threat of sanctions depends on the behavior or attitudes of the targets towards the risk and the process of shaping their expectations (van Bergeijk & van Marrewijk, 1995)

From these theoretical perspectives, the tendency of threatened sanctions to create a stockpile may qualitatively alter the net consequence of the threatened sanctions or minimize any negative effects. Indeed, van Bergijk and van Marwijk (1995) point out that the passage of time between threat and imposition serves as an important impetus for the goal of building warehouses and regulating the economic structure in advance. Therefore, it is acceptable that the forecast of sanctions may not have the same effect as the actual sanctions imposed, because economic operators may act differently under the sanctions imposed compared to the threatened sanctions.

Today, knowledge is needed to reduce the harm of sanctions in two specific dimensions: First, the impact of specific tools used by the sender. Second, international trade Sanctions on which specific products apply, for example, whether sanctions include essential goods such as food and medical equipment or luxury goods for the rich. On the other hand, as countries change their production conditions, such sanctions will have

different effects on both supply and demand. Sanctions devalue the national currency, which means justifying production and making it more economical to export a variety of goods and services. In other words, foreign goods lose their competitiveness in the market due to the devaluation of the national currency, and sanctions impose small and large financial barriers and force them to leave the market. This means opening the field for domestic producers, and this is refueling the country's production engine.

4.2. Consumer Point of View

Iranian consumers care about product quality in their purchasing decisions. Economic constraints can increase price sensitivity for certain types of consumer goods. However, products of European origin are widely considered desirable in Iran.

This is especially true of consumer goods as symbols of luxury, and many high-end European brands are visible in the Iranian market. However, these products are traditionally imported through internal intermediaries and informal channels. Hence, the increase in e-commerce and the trend of direct sales by Iranian distributors may contribute to greater awareness and demand for European brands. The country's growing potential has already been noticed by some well-known consumer goods companies seeking to explore the market, including Italian designer Roberto Cavalli. Small and medium-sized European companies with competitive advantages in product design and low production costs should find many business opportunities in the country's medium-price groups. Because price sensitivity among Iranian consumers, combined with low market presence and limited access to international law holders, means that infringement of intellectual property rights and forgery can be a challenge for new entrants to the market.

Today, however, the Iranian retail market is facing economic sanctions to meet the growing demand for reputable and quality imported goods, including electronics, telecommunications products and parts, watches, jewelry, clothing and other consumer products, and this has caused problems in responding to applicants within the country. Now, considering the Iranian people as a large group, despite the usual conflicts within the group, external threats will cause more solidarity among the members of the group. This is important because Iranian consumers are expected to behave differently in the face of sanctions.

Accordingly, in the following, Iranian consumer groups are introduced, then the role of sanctions on consumer behavior is examined.

The living conditions of people, especially the middle class, have deteriorated after the sanctions, and their purchasing power and income have decreased. Also, the access of the middle class to some goods has decreased or it is not possible for them to buy due to their reduced purchasing power. Because foreign goods reach the consumers more expensive due to the devaluation of the national currency, and affecting consumer behavior, it reduces the intention to buy and the intention to use.

Therefore, these products lose their competitiveness in the market and sanctions also put small and large financial obstacles in front of them and they are forced to leave the market of that country. In this case, the middle class suffers a lot. Because it is no longer possible for them to buy such products.

4.2.1. Iranian Social Structure

Iranian social structure is based on social classes. Iranian people are divided into: 1) Upper class, 2) Propertied middle class, 3) Salaried middle class, 4) Working class, 5) Independent farmers, and 6) Rural wage earners. (Abrahamian, 1982)

In Iran, the top ten percent of earners pay only 3% of total income taxes, but in the United States, the top ten percent pay more than 70% of total income taxes (US billionaires are collectively richer than their Iranian counterparts, however) (Jebraily, 2018).

The Iranian Revolution's significance and societal ramifications are far too complicated to be addressed by a single term. As a result, two points should be considered. First, the events that contributed to the revolution's victory in 1979 revealed a broad ideological and socioeconomic base. Second, while the main grievances at the outset of public protests and labor strikes in 1978 were economic, the demands became plainly political a few months later. A polyphony of voices within the revolutionary body (students, intellectuals, clergy, merchants, employees, and workers) began to scream slogans with a single goal: the removal of the Shah through a process of solidarity building.

The 1979 revolution was largely Iranian, despite the fact that it is often referred to as simply Islamic. A wide range of ideologies were represented in society's revolution against the state. The religious element, as well as many groups with solely Marxist tendencies, Islamic-Marxists, and others who were not strictly linked to any of these ideological frameworks, took to the streets. It was a massive uprising against an arbitrary

regime that, towards the end, lacked political and social legitimacy. The revolution took place in the name of the oppressed and disadvantaged. It was fueled by anti-class feelings between the lower and upper classes (tabaqeh-e payin and tabaqeh-e bala), oppressed and oppressors (mostaz'afin and mostakberin), poor and rich (mostaz'afin and mostakberin) (foqara and sarvatmandan).

The class debate continues to be important forty years after the declared "winning." Nonetheless, during the last few decades, a growing middle class has cast a pall over the oppressed. As the challenges in separating the economy persist, the chasm between classes has increased. Indeed, beginning in the 1990s, when the dowlat-e sazandegi (meaning "Construction government") was tasked with rebuilding the economy following an eight-year war with Iraq, the Islamic Republic moved its focus away from the masses and toward the middle classes.

The top-down rhetoric somehow adapted the credo "produce and consume" after years of implementing new liberal measures aimed at increasing production. This approach was accompanied by a never-ending feud among the various groups within the state apparatus. Due to economic concerns, a lack of representation, and freedom, it also created political and social fragmentation within society, as well as stark disparities between some sectors of society and the state. (Morgana, 2019)

Migrant migrations from rural areas to urban centers increased and changed traditional systems that provided societal stability during the Iran-Iraq war (1980-1988). The main sources of discontent outside of the power centers were a lack of housing and a demand for jobs. People relocated to the outskirts of major cities, yet they were unable to find high-paying jobs or afford housing. Unemployment issues, which disproportionately affect young university students, are a constant source of frustration for the government and a source of public dissatisfaction with the political class. A considerable percentage of the populace is unsatisfied with the revolution's outcome due to economic mismanagement, long-standing diplomatic isolation and economic sanctions, pro-business reforms, corruption, and a lack of transparency.

With this introduction, it becomes clear that if we want to examine the effects of sanctions on the purchase of Italian goods by the Iranian people, we can examine the affluent upper class and the upper middle class, because the weaker classes were not able to buy Italian products since the beginning.

Some of the same socioeconomic groups as the previous elite made up the postrevolutionary upper class, including rich landowners, industrialists, financiers, and large-scale merchants. The majority of these organizations have fled Iran, and the government has seized their assets. A small percentage of Iran's pre-revolutionary upper elite continues to work and reside there. However, most of these individuals did not hold positions of political power. Senior clergy, high-ranking bureaucrats, executive officers of public and private enterprises and charity foundations, and wealthy entrepreneurs were among those with political clout; none were members of the pre-revolutionary economic and social elite. Although a reputation for piety and loyalty to the Revolution's ideals was initially more important than family or wealth for entry into the post-revolutionary political elite, those who rose to positions of political power received generous salaries that propelled them into the upper income brackets and provided them with multiple legitimate opportunities to acquire more wealth. Since the mid-1990s, the children of the new elite have been pushed to pursue college educations, and postgraduate degrees from international colleges have become status symbols. These socioeconomic trends have progressively but subtly impacted the conditions for political elite recruitment: In the race for politically significant jobs, possessing a university degree and ties to a notable religious or revolutionary family have become advantageous. (Curtis & Hooglund, 2008) Up to 2016, Iran has had three million people with a net worth of more than one billion Tomans (\$270,000) in 2016, 32,000 "high net worth individuals" with a net worth of at least \$3 million, 1,300 multimillionaires with net assets of \$10 million or more, and four billionaires. (Barnato, 2016) Iranian President by that time, Mahmoud Ahmadinejad claimed that only 300 people in Iran control 60% of the country's wealth (out of a population of 80 million in 2016).

It is clear that the crisis caused by sanctions has not affected this group. Because in any case, this group has enough budget to buy luxury and expensive products, and in the absence of original goods in Iran, they are able to buy their desired products during their trips to other countries.

We now turn to the group that has suffered the most as a result of sanctions on foreign luxury goods: the upper middle class. Sustained economic development doubled GDP per capita and brought millions out of poverty and into the middle class in the 15 years leading up to the 2011 Obama sanctions. Market-based reforms following the end of the

Iraq war, rural-focused governmental investment in infrastructure, education, and health, and rising oil prices in the 2000s all contributed to this shift.

The middle class's composition did not change considerably after the revolution, but its size more than doubled. Average living standards in metropolitan regions, which are home to the middle class, more than doubled during the same period, according to survey data. The middle class grew rapidly from 28 percent to 60 percent of the population during this period, according to a widely accepted income threshold (per capita expenditures above \$11 PPP, or twice the World Bank poverty line of \$5.5 for upper-middle-income countries), with the majority rising from the ranks of the poor, whose share fell from 33 percent to 7%. (The lower-middle class's percentage of the population fell from 38 to 32 percent, while the upper-income group's share increased from 1 to 2%.) (Salehi Isfahani, 2021) Entrepreneurs, bazaar merchants, physicians, engineers, university teachers, managers of private and public concerns, civil servants, teachers, medium-scale landowners, junior military officers, and the middle ranks of the Shia clergy were among the pre-revolutionary social groups still identifiable. New groups emerged as well, including technicians in specialized fields such as communications, computers, electronics, and medical services; owners of small-scale factories with fewer than 50 employees; owners of construction and transportation firms; and professional staff of broadcast and print media. Merchants, particularly those with affiliations to bazaar-based organizations, gained political power that they had lacked prior to the Revolution, even if their establishments were physically located outside the traditional covered bazaars. (Curtis & Hooglund, 2008)

The pre-revolutionary cultural split between middle-class secularists and those who believed religion should play a role in both public and private life did not vanish. However, since 1979, the political relationship between these two opposing viewpoints has shifted in the opposite direction. Whereas the state strove to keep religion in the private sector under the monarchy, the Islamic Republic has actively pushed religion in public life. Secular Iranians have resented the religious outlook's prominent role in politics and society, particularly its expressions in a slew of laws and regulations that they see as intruding on their personal lives. While the secular-religious divide cuts across all occupational groupings, those who promote religious values and public observance of prayers and religious rituals are more concentrated in the marketplace, security forces,

and administrative positions in bureaucracies than in other occupations. (Curtis & Hooglund, 2008)

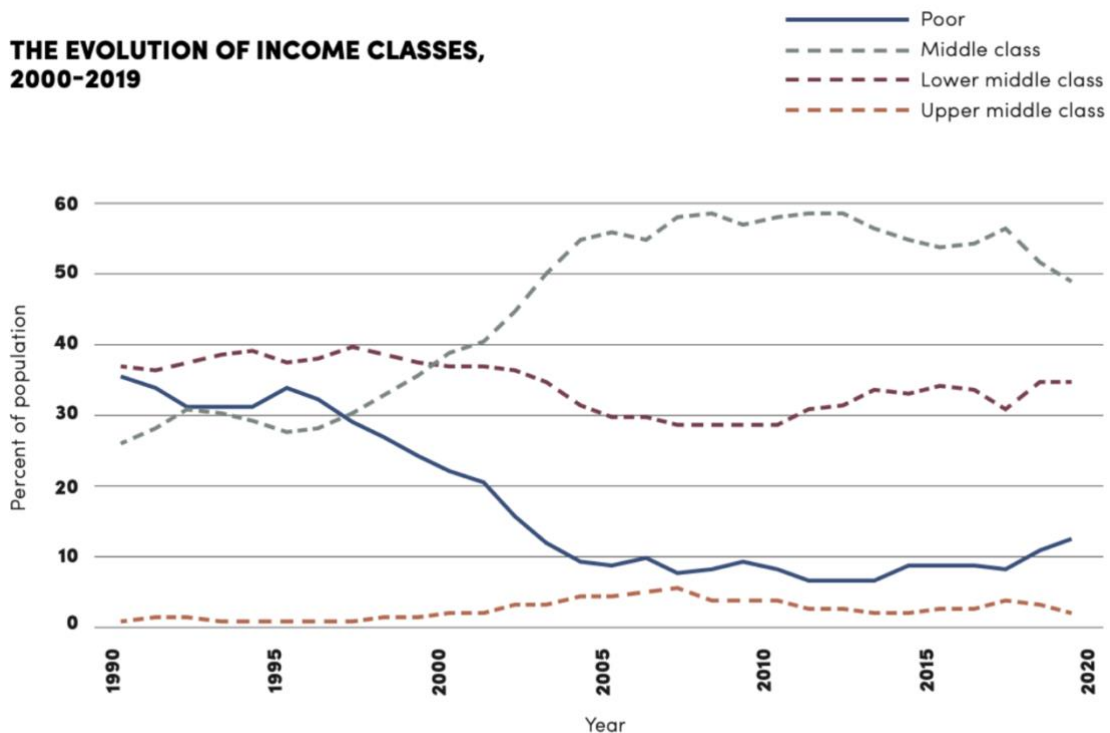
As the largest social class with the most education, Iran's middle class is a strong voting group. In 1997, when Iran elected its first moderate and pro-rapprochement president, Mohammad Khatami, the middle class accounted for only 30.5 percent of the population and 56.1 percent of the educated population of voting age (older than 16 and with at least a high school education). By 2011, they had doubled their share of the population to 59.8 percent and of educated voters to 80.9 percent.

President Hassan Rouhani was elected in 2013 with significant middle-class support to negotiate a nuclear agreement with the United States, which was a primary demand of the public. His success was based on hope rather than economic hardship. Obama's sanctions had an impact on the election agenda, but they did not determine the outcome. The value of Iran's currency dropped within months of the imposition of sanctions, triggering inflation that eroded increases in the living conditions of ordinary Iranians, particularly the middle class. However, sanctions alone would not have resulted in the nuclear agreement, as Trump's even harsher penalties have plainly proved. (Salehi Isfahani, 2021)

Iran's middle class may be reconsidering its future as a force for political moderation and globalization after a decade of economic stagnation caused by sanctions and unmet international agreements.

The middle class is the largest, with a share of the population that has expanded from one-third in the 1990s to about 60% in the late 2000s. The poor fell from one-third to less than ten percent throughout the same time period. Because the shares of the lower and higher middle classes do not move significantly over time, the rise of the middle class was the most prominent element of social change in Iran during the two decades prior to sanctions. This was due to large public investments in health and education infrastructure, primarily in rural areas, in the 1990s and the oil boom in the 2000s, as well as the decisions of millions of families who demanded these services from the government and invested their own money in their children's education and health. Millions of people have been lifted out of poverty and into the middle class as a result of public and private activities. However, since the imposition of sanctions in 2011, the middle-class share of the population has fallen by ten percentage points, from 58.4 percent in 2011 to 48.8 percent in 2019, implying that about eight million fewer people

are in the middle class than would be expected if the share remained constant. (Salehi Esfahani D. , 2020)



Source: *Impact of Sanctions on Household Welfare and Employment*
 Djavad Salehi Isfahani

Exhibit 4-1: The Evolution of Income Classes

Individuals from all income levels, not just the poor, have suffered as a result of the economic crisis. While the number of people living in poverty or close to it is important since they are the least able to cope with a loss of income, the size of the middle-income groups is also important. For one thing, the impoverished are eligible for many sorts of government help, whereas middle-income people are not and must rely on their own resources. (Salehi Esfahani D. , 2020)

Concerns about the state of the "middle class"—those who aren't on the verge of becoming poor but aren't yet destitute—involves harm to long-term social and economic development. The middle class is widely regarded as the primary driver of social and economic development, with its size linked to many indicators of economic growth, such as improved education, health, and infrastructure, as well as democratic factors like inclusive growth, good governance, and political stability. (Kharas, 2016)

Apparently, as a result of the changes of this period, the middle class is "disappearing" and the disappearance of the middle class is transforming society. This transformation is in a way that in policymaking, if more attention is paid to the situation of the middle classes or this part of the society becomes more numerous, the situation of society will improve, otherwise the members of the middle class will fall to the lower three deciles of society.

The differentiation between the new middle class with other social classes and the traditional middle class is in the way of consumption, entertainment, and the type of occupation. The new middle class has "leisure", "different lifestyles and consumption patterns", "closer to science and technology" and "specialized jobs in universities and bureaucracies".

If we want to measure the volume and number of the middle class and estimate it, for example, as 60% or 40% of the population is the middle class, we must divide the same volume into two parts, the upper middle class and the lower middle class. The lower middle class is close to the income of the poor, but its lifestyle is not like that of the poor. The upper middle class does not have the same income as the rich, but their lifestyle is like the rich. So these two middle class groups must also be distinguished from each other. (Ebrahimi, 2022)

For all the reasons presented, it can be concluded that the upper middle class, which before the crisis of sanctions, was an important part of the buyers of Italian luxury products, as a result of this crisis has been removed to a very considerable extent and therefore the sales of luxury products in Iran have been reduced significantly.

5) Brand stores closure in Iran

Foreign brand stores have been closed one by one since the beginning of Iran's sanctions, and only a handful of brand stores remain open. This is a topic that some find pleasant and hopeful for domestic production, because the demand for domestic goods will increase and will affect the economic cycle of the country, but for others it is a threat to the economy and domestic production, because the closure of the way of export and import is not profitable for the country under any circumstances. In this regard, proponents of the closure of foreign brands believe that in the face of sanctions, the presence of foreign brands will provide an opportunity for domestic business owners. Therefore, if in previous eras, small domestic brands could not compete, today, with the exit of competitors due to new sanctions, the possibility of growth and development has been created, even with an emphasis on exports. However, some researchers believe that this issue either reduces competition or eliminates it, and this is not in the interest of the country's products, because it is the competition that increases the quality and also the price can be reduced.

Accordingly, in this chapter we have tried to find out the cause of this issue.

The international political economy emphasizes the importance of political and diplomatic relations in determining trade debts between governments (Fox and Macro, 2013; Hillman, 2016). However, if these political relations are strained, it could have a negative impact on trade and imports of foreign products to sanctioned countries. Morrow et al. (1998) argue that increasing political or diplomatic tensions between governments increase the risk of disrupting trade and imports of foreign products between governments, leading to the closure of many foreign stores in the target country or the prohibition of the import of foreign products in those countries. This means that the greater the likelihood of political tensions, the more businesses and companies importing foreign products must be prepared to compensate for the risk of disruption. In addition, they argue that this issue is exacerbated even by anticipating political tensions between governments. A recent study by Fuchs and Klann (2013) confirms the commercial impact of diplomatic tensions even without explicit conflict or economic sanctions between governments. Empirically, they show that countries that have received sanctions have stagnated in bilateral trade and imports of foreign products with other countries, although in some countries imports have not been explicitly sanctioned,

and only the threat of sanctions has been imposed. Brooks (2002) strongly argues that the threat of sanctions is sufficient to have a negative effect on the target, even when the sender only issues a threat that may or may not be imposed.

The implications of the forecast of sanctions on trade and imports of foreign products may be affected by the reaction of sellers and consumers to any threat signal. To a large extent, companies importing foreign products into business not only make strategic decisions based on the intrinsic value measured by the price, quantity, and quality of goods and services, but most importantly, pay attention to trade-related political risks and their nature (Fuchs & Klann, 2013). These political risks are important determinants for companies importing foreign products, because trading and importing foreign products is not a cash and transportation transaction only, but involves longer processes and takes time for products to cross borders. One example of how the political dangers of strained political relations can hinder trade and imports of foreign products and the closure of international stores is the inability of trading partners to pay for goods sent to them due to the ban on financial transfers as a result of economic sanctions. Sanctions may pose a major exchange problem, especially when goods are in transit without sufficient assurance of the validity of the documents in accordance with the terms of delivery. Therefore, a risk-averse exporter will be reluctant to send products to an importer if there are potential threats or anticipation of sanctions against the importing country.

Conversely, anticipating sanctions can also increase inventory, especially in the short term, when changing suppliers of raw materials, intermediate or national products may be more costly. This is important when costs are overestimated and therefore play a key role in export or import decisions of companies importing foreign products (Jensen & Bernard, 2004). The trade cost literature of threatening or anticipating sanctions only mentions its negative effects.

Most studies have concluded that anticipating sanctions can have negative consequences for trade and imports of foreign products in sanctioned countries (Anderson & Marcouiller, 2002). However, reduced export and import costs are the main determinants of the entry of a company importing foreign products into the market. Reduced costs may include market information and search costs, set costs to adjust products to a country's standards or preferences. In general, these reduced costs may prevent companies importing foreign products from making an immediate decision to change their suppliers

due to imminent trade constraints. Reasonable expectation theory predicts that prior expectations of risks minimize the likelihood of a loss, and that potential factors are eliminated by the possibility of prior liabilities. In the short term, companies importing foreign products in sanctioned countries may resort to storage as one of the mechanisms in the face of potential threats from the sender. In general, companies may react to the forecast of sanctions by creating a warehouse, especially when immediate changes in suppliers are more expensive.

Similarly, the basic theory of the consumer shows tastes and preferences as key determinants of demand. Therefore, consumers are reluctant to change their preferences in the short term and, therefore, are more likely to resort to storing consumer goods to maintain the same level of satisfaction. Thus, a significant reduction in costs and consumer tastes and preferences can lead to a positive outcome of the threat of sanctions on trade and imports of foreign products. There is evidence of storage by some target countries as a way to minimize the negative consequences of sanctions in the future. Therefore, it is theoretically acceptable that the threat of sanctions could lead to an increase in trade and imports of foreign products between the sender and its target before the imposition of sanctions. Davis and Meunier (2011) cite such evidence in two cases: when there were growing political tensions between the United States and France (over the invasion of Iraq) and China and Japan (over territorial and historical disputes). They show that even in the face of intense political hostility, trade and investment debts remained high between these countries, largely attributed to the overwhelming costs incurred by governments, foreign importers, and consumers in the event of a change in behavior.

If the threat of sanctions is to have a significant effect or change the behavior of companies importing foreign products, the threat must be credible enough to change the behavior of exporters and importers. The credibility of the threat largely depends on the institution from which the threat originates, as well as the ability to enforce sanctions, that is, the credibility of the entity to command and enforce the sanctions. For example, Fuchs and Klann (2013) show that deteriorating trade relations and imports of foreign products are affected by the rank of political leader. The threat of sanctions may be issued by various institutions such as the executive or the government, the legislature, government agencies, and so on. Degrees of government agents have different levels of authority and therefore different credentials. Various exporting and importing

associations hold regular meetings inviting relevant foreign and commercial service agencies. In general, threats from institutions such as the Ministries of Commerce and Industry, the Ministry of Finance and Trade, and Foreign Customs are taken seriously by exporters or importers, as they are primarily executors. This suggests that the threats of institutions that are in closer contact with traders may be more credible and lead to stronger adjustments to minimize the cost of sanctions when they are imposed.

Different sanctioners use different sanctioning tools. Hufbauer et al. (2007) explain that different types of sanctions have different effects in several ways. They argue that trade sanctions may have a limited effect compared to financial sanctions, because disrupting financial debts may disrupt trade and imports of international products even without any explicit trade sanctions. In addition, trade controls may apply to selected products because the Geneva Convention prohibits essential goods such as food and medicine. Unlike financial sanctions, trade sanctions can be difficult to impose, so it is possible for target countries to easily circumvent the ban.

The different effects of different instruments may not necessarily be limited to broad categories of financial and commercial instruments. In trade sanctions, there may be an import ban or export sanctions, and these can vary the trade debts between the sender and the target differently. Likewise, there are various financial sanctions instruments, such as cutting financial aid, capital debt, bank loans, and access to Swift. These different tools can have different effects on trade and imports of international products. In addition, concerns about the use of smart sanctions have increased. This includes the use of asset freezes and travel bans, which mainly target the political and economic elites in the target countries. Hufbauer et al. (2007) argue that these so-called smart sanctions are easily circumvented because they require accurate private information about individuals.

5.1. Economic Damage of Sanctions on Trading in Iran

The impact of mass sanctions imposed by the United States, the European Union, and other countries has made exports to and from Iran extremely challenging, primarily due to the inability of potential trading partners to transfer money to and from Iran. This forces the Iranian government and domestic companies to either accept the trading partner's national currency or exchange it for other goods (Aloosh & Aloosh, 2015). Accordingly, many companies have stopped doing business with Iran for fear of retaliation for violating sanctions.

For example, several leading international financial institutions, including the Swiss financial company Credit Suisse and the London-based Standard Chartered Bank, were fined hundreds of millions of dollars for violating sanctions on trade with Iran (Butler, 2013). In December 2012, Standard Chartered Bank of Britain paid \$ 327 million in fines to the US Treasury Department. Because it had made 60,000 transactions in favor of Iranian financial institutions. Other institutions have been the subject of investigations into Iran sanctions violations, including the Royal Bank of Scotland, UniCredit, HSBC, Deutsche Boerse, Societe Generale, and Credit Agricole.

International sanctions have also hurt Iran's declining economy, although other factors such as economic mismanagement, corruption, and investor fears of political instability and possible military conflict have also contributed (Moret, 2015). For example, Iran's GDP has shrunk by 9 percent and its entire economy has shrunk by 15 to 20 percent since the last round of sanctions in 2012. Since 2010, Iran's currency has been unstable and has lost two-thirds of its value against the US dollar, as determined by an inflation rate of 40 to 50 percent in 2013. Iran has also lost \$ 160 billion in oil revenues and more than \$ 100 billion in Iranian assets have been frozen in foreign financial institutions. This significant reduction in energy-related revenues is significant because the national economy is heavily dependent on the oil industry as part of its export economy, which has been severely sanctioned under the sanctions regime (Nakanishi, 2015).

Successive waves of sanctions have also led to a significant increase in the cost of trade in Iran. Bypassing sanctions for the conduct of traditional business costs millions of dollars for Iranian companies, as businesses must find alternative ways to transfer money and transport goods to prevent declining sales of their products (Dizaji, Farzanegan, & Naghavi, Political institutions and government spending behavior: theory and evidence from Iran, 2016). To counter the inherent risk of doing business with Iran, some foreign banks charge up to 5 percent for transferring money in and out of the country, and in some cases, Iranian businesses are required to pay money to intermediaries to provide documents indicating their origin or destination (Hosseini, 2013). Therefore, all these cases cause businesses in different stores to have difficulty buying and selling their products because, in this case, due to banking sanctions, some of their international customers avoid buying their products, and in this case, these stores lose their customers and their sales level decreases sharply.

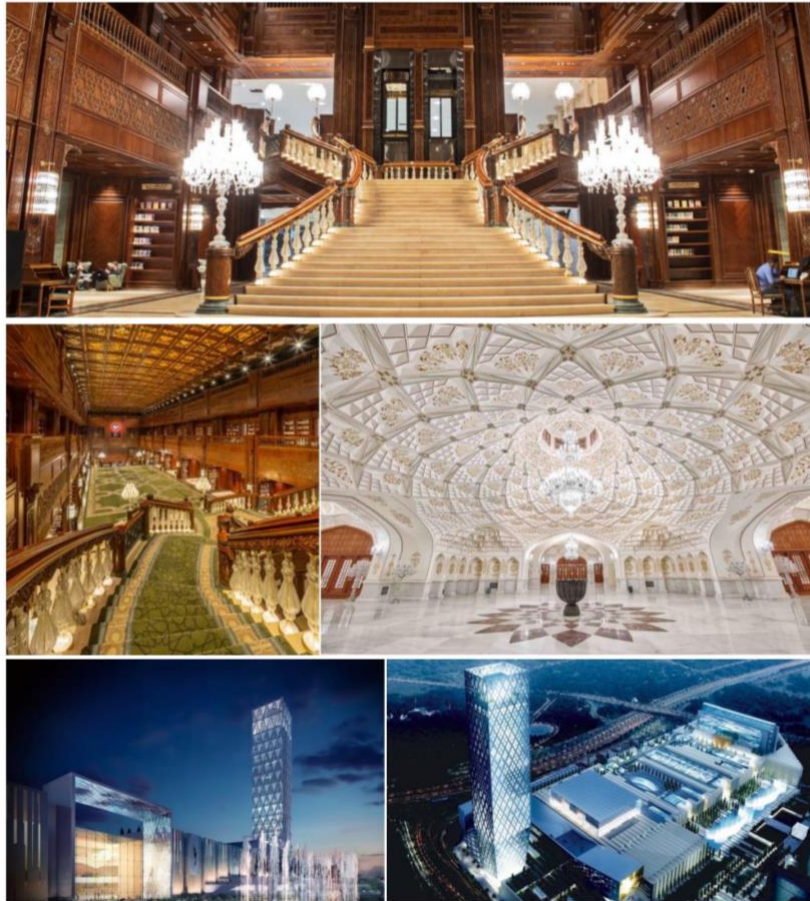
After the lifting of sanctions and in 2016, Iran was considered by Italian luxury brands as a "new far west" to be conquered, as a land populated by an increasingly large middle class willing to spend over 10,000 euros a year for the purchase of Made in Italy products. Italian stylists believed in the potential of a young, cultured, culture-hungry and, in certain segments, wealthy market. Analysts believed that being rich in natural resources and with a young, well-educated population of about 80 million, Iran could be a potential goldmine for luxury goods companies. Roberto Cavalli was among the first Italian brands to strike out in Tehran with a store dedicated to its own label. This way, the first luxury and single-brand made in Italy boutique was inaugurated and the Florentine designer Roberto Cavalli signed it. The two-storey Cavalli store, with 350 square metres of floors made of brown quartzite mixed with crystal dust, decked out with ponyskin carpets, sold women's, men's and children's clothing and eyewear, as well as home furniture (Reuters, 2016). An Iranian entrepreneur, Mehdi Firouzan, together with Abbas Firouzan, and a third partner, Moezeddini, decided to ask for the franchise for the Republic of the Iran of Italian fashion and luxury brands. "We want to transform Alef Street into a Montenapoleone street in Tehran", Mehdi Firouzan explained, referring to the famous Milanese luxury street. "We asked Ferragamo, Armani, other Italian and even European designers to open their single-brand stores in Iran. What our people want most is the quality of life and we want to offer it to them. Italy can help us" (ANSA, 2016) .But as a result of sanctions, this dream did not come true.



Exhibit 5-1: Roberto Cavalli and Versace Brand Stores Side by Side in Tehran, February 2016

The Iran Luxury Mall, one of the largest shopping centers in the world, a real "temple of expensive shopping" built in Tehran, the capital of Iran, was ready to import 30 million luxury goods from Italy, including cosmetics, fashion items, and design products for furniture. But the decision by the Iranian government to suspend trade relations with the West made Italian entrepreneurs' dream of billionaire earnings vanish. Blameless victims of the ongoing trade war between Iran and the US, which began after Trump tore up the nuclear deal signed by the two countries together with the main European nations, including Italy. Due to international tensions, great Italian fashion and design brands such as Armani, Prada, Dolce and Gabbana, Versace, Roberto Cavalli, Trussardi, Missoni, Etro and many others were the "big absentees" at the inauguration of the Iran Luxury Mall. A moment of "mourning" for the Made in Italy that hoped to raise its flag in a country with an internal market of 80 million inhabitants, half of whom are under the age of thirty. However, it was not only the Italian manufacturing industry that suffered the negative consequences of this situation, but also the Iranian government itself. Isolated as at the time of the "Islamic revolution" which took place thirty years ago, when the regime that still governs the country was established.

The emblem of the failure of Iranian international politics seems to be the Iran luxury mall. A gigantic shopping center of two million square meters, spread over four floors, with 500,000 spaces dedicated to purchases left empty. The facility was supposed to be the meeting place between Iranian citizens and the western market. Inside the Iran luxury mall, which cost the government three billion euros, theaters, 5-star hotels, restaurants and other entertainment areas have been built dedicated to avid local consumers, who will now have to be content with buying only goods from local companies, whipping the desire for Made in Italy. (Lacerenza, 2018)



Source: kojaro.com

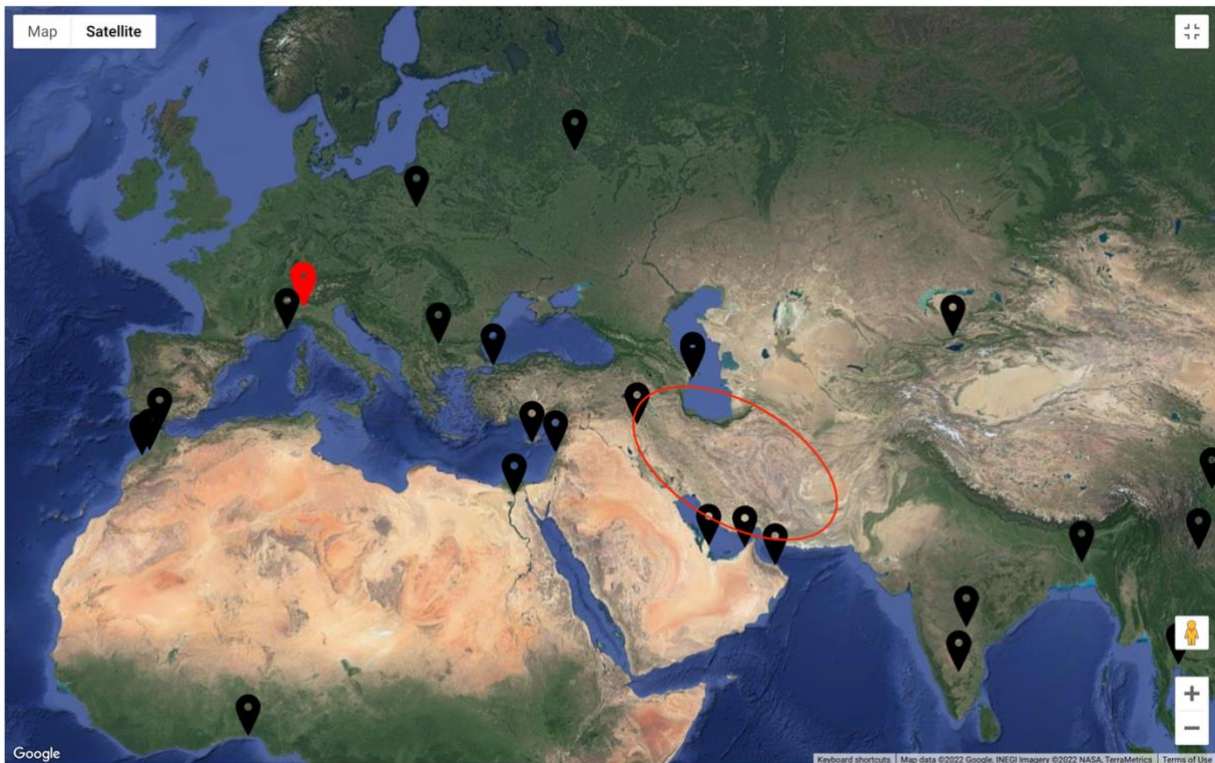
Exhibit 5-2: Iran Mall, Tehran

5.1.1. Current Situation of Western Brands in Iran

On April 2021, Chairman of Iran-Italy Joint Chamber of Commerce Ahmad Pourfallah has said Italian companies are still eager to engage in trade with Iran and are preparing to return to Iran. "We observed the highest presence of Italian businessmen in Iran once the previous sanctions were lifted," he remarked. The Italian Foreign Minister was the first high-ranking political figure to visit Iran, and the Italian Prime Minister followed suit, demonstrating how serious Italy is about cooperating with Iran. Many Italian companies are currently preparing to re-enter Iran after the sanctions are lifted, and we have recommended our 5000 members in the Iran-Italy Chamber of Commerce to do the same. All of the 105 members of the joint chamber in Rome, both Italian and Iranian, are ready to restart their operations in Iran." (Tehran Times, 2021)

5.1.2. Example: Roberto Cavalli

Roberto Cavalli clothing store was closed in 2018 after Trump sanctions. The interesting point about this store is that its furniture store, called Roberto Cavalli Home Interiors in Zafaranieh, Tehran, continues to operate with original luxury goods from the same brand. As can be seen in the image below, if we refer to the official website of this brand, there is no trace of the Tehran branch.



Source: <https://robertocavallihomeinteriors.onirogroup.it>

Exhibit 5-3: Roberto Cavalli Home Interiors Stores in Europe and Middle East Scale

But this big and luxury store in Tehran with the specifications of a full-fledged brand store is standing.



Source: Google Maps

Exhibit 5-4: Roberto Cavalli Home Interiors, Tehran, Iran

But how can a large luxury goods store act as a representative in a country when it is not mentioned on any official website? Here is the hypothesis of circumventing sanctions. The first hypothesis is that the person who owns the license of this brand in Iran has received it as an establishment license in his own name and has established it in Tehran. The second hypothesis is that these products are purchased through a company in a third country and sent to Tehran.

5.1.3. Bypassing Sanctions

Iranian businessmen and commercial and economic institutions are accustomed to fighting for their survival. Since its establishment in 1979, the Islamic Republic of Iran has always struggled with the problem of foreign sanctions in various forms and degrees. Most of the spare parts of Iranian passenger airlines have been purchased and supplied from the black market during this period. Finally, you can find any product in the Iranian market for a price.

The manager of a drilling and mining company in Iran says that in order to buy the most advanced technology and equipment needed by his company, he regularly meets and deals with the sellers of these types of goods, which are British and German companies. He adds: "Foreign companies are very afraid of doing business with Iran, but in the end they are also traders and businessmen. European companies send our shipments to Dubai with documents indicating that their final destination is Dubai. In Dubai, we pay 3 to 5 percent of the brokerage fee and the commission, these shipments are sent to Bandar Abbas through intermediaries."

Under the influence of sanctions on Iranian banks and difficulties in transferring currency, Iranian merchants are forced to find indirect ways to pay money to their trading partners abroad. For example, the mentioned manager uses Iranian intermediaries who have bank accounts in countries such as South Africa or Malaysia and through them transfers the necessary amounts to the bank accounts of his trading partners in European banks. He says about 30 percent of his profits go to circumventing sanctions.

International sanctions have become a new source of income for those foreign banks that still do business with Iran. According to Iranian sources, a foreign bank currently charges an additional 5 percent commission for transferring currency from Iran. Under the normal circumstances of the commission, such services are much less than one percent, but Iranian companies and traders have no choice but to pay these additional amounts. (RadioFarda, 2013).

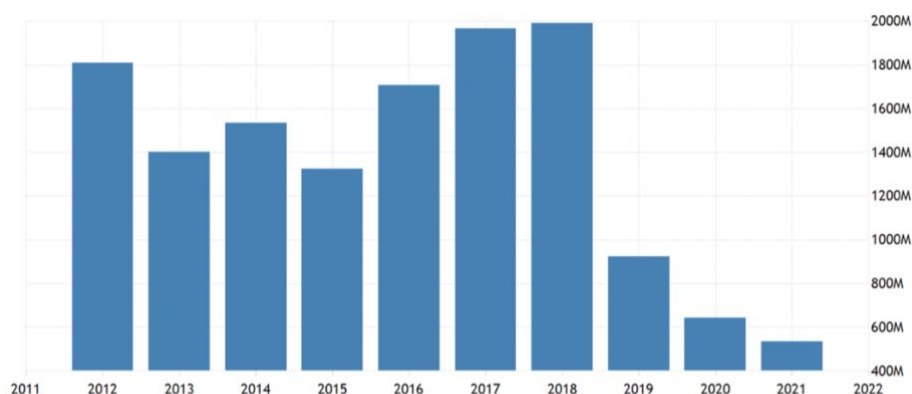
How companies bypass sanctions:

Finding a way to circumvent economic sanctions in the current context of Iran is one of the most important steps to have a successful business that Iranian companies engage in. this topic has been fully discussed in Chapter 9.

6) Italian Products in The Iranian Market: Home Furniture

Italy is a developed European country and the largest producer of high-quality luxury products (from cars to home decoration and clothing) in the world. Italy is usually on the list of major countries of origin of Iran's imported good. Official customs statistics published on the Tehran Chamber website show that Iran's main items imported from Italy are: "furniture", "machine parts and components", "mechanical machines and devices", "packaging machines and wrapping machines" "Machinery and apparatus for preparing or modifying tobacco," "Machines and apparatus for crushing, forming or molding solid mineral fuels, ceramic pastes, and other mineral products, machines for making sand casting molds", "Non-domestically produced medicines", "Components and parts for dishwashers", "Machine tools for working on wood, cork, bone, hardened rubber, hard plastic materials, etc.", "Injection molding machines for working on rubber or plastic materials or for making products from these materials", "Containing drugs "Corticosteroid hormones are derivatives or structural analogs that are not domestically produced." "Machine tools for working on stone, ceramics, concrete or minerals such as cold glass", "Mesh, hedge, made of iron or steel, welded at intersections", "Furnace burners for solid fuels or Gas "and" set of generators with compression-combustion piston " (Tehran Chamber of Commerce, 2022).

According to the United Nations COMTRADE database on international trade, Italy exported \$532.38 million to Iran in 2021 (Trading Economics, Italy Exports to Iran, 2022).



Source: COMTRADE | trading economics.com

Exhibit 6-1: Italy Exports to Iran (2012-2021)

Italy exported \$3.07 million worth of furniture, lighting signs, and prefabricated buildings to Iran in 2021 (Trading Economics, Italy Exports of furniture, lighting signs, prefabricated buildings to Iran, 2022).

Italy Exports of furniture, lighting signs, prefabricated buildings to Iran	Value	Year
Lamps and Lighting Fitting; Illuminated Signs, Illuminated Name-plates	\$1.14M	2021
Prefabricated Buildings	\$1.10M	2021
Seats (Other than Dentists or Barbers Chairs)	\$407.55K	2021
Other Furniture not specified elsewhere	\$336.20K	2021
Medical, Surgical, Dental or Veterinary Furniture	\$59.82K	2021
Mattress Supports; Articles of Bedding and Similar Furnishing	\$21.29K	2021

Source: COMTRADE | trading economics.com

Exhibit 6-2: Italy Exports of Furniture, Lighting Signs, Prefabricated Buildings to Iran

The following are well-known Italian brands in Iran:

- 1- Versace
- 2- Gucci
- 3- Dolce & Gabbana
- 4- Fendi
- 5- Roberto Cavalli
- 6- Missoni
- 7- Bonaldo
- 8- Adra
- 9- Casamilano
- 10- Trussardi
- 11- Modenese Gastone

These brands are at the top of sales in various industries such as fashion, furniture, etc., and are considered a luxury and quality brands; The reason for this is the use of the best raw materials in the construction as well as the unique design of these products. In this regard, various countries, including Iran, are interested in importing Italian products. Regarding Iran, looking at the growth of Iran's population, economy, imports, and exports

in the last 20 years, we can understand why this country is a gold mine for Italy. While all European companies are looking to Iran, Italy hopes to benefit from the history of its relations with Iran in this competition, as it was the first European country to resume economic contact with Iran in 1998. Italy worked in Iran even during the sanctions. Because Italians are looking for new markets and Iranians are looking for foreign investment. Before the sanctions, Italy was Iran's second-largest trading partner in Europe after Germany. In 2011, trade between the two countries reached 7 billion euros, but in 2013 it fell to a little over 1 billion euros. These exchanges decreased to 959 million in 2015. But in the past year, there have been signs of improvement in Iran (Ataeikhah, 2022). Two-thirds of Iran's 78 million population is under the age of 35, and the average level of education in this country is high, and given the growth it will have in the coming years, investing in this country is reasonable and Iran can be considered a commercial destination for Italian products. Because the existence of cultural similarities between the people of Italy and Iran has caused Iranians to be very interested in Italian products. In this regard, the proverb has been raised: "Italy is the Iran of Europe" or "Italians are like the Iranians". Because the existence of all cultural commonalities, makes Iranians use Italian products to decorate their homes. In addition, in the country today, due to the tendency of more people to luxury and the eye-catching phenomenon of the middle class, they try to have at least one luxury device from foreign brands in their homes. At first, luxury had a traditional meaning, referring to the general public expecting the wealthy to buy certain clothes or luxury items. But today, different sections of society are trying to use this luxury foreign equipment in their homes. In this case, one of the markets that in recent years has been the target for various types of cheap, expensive, and luxury goods, based on the needs of consumers, is the furniture market.

Meanwhile, the furniture industry as a job-creating, productive and old industry is of special importance in most countries of the world. The growth and development of this industry can have a significant impact on increasing GDP and non-oil revenues for countries. This industry in Iran accounts for 9% of the industrial labor force and 72% of the added value of the entire wood industry in the country (Mowj News, 2021). Despite the huge potential that exists in the furniture industry, today we see that a significant share of the country's furniture market is allocated to foreign products and most manufacturers have turned to imports, so this trend continues and the authorities do not think of a solution like increasing domestic production quality increasing and it has ended

up to be the reason for the closure of industrial units, unemployment, a huge range of labor, as well as the outflow of millions of dollars of foreign currency from the country. This article tries to find the root causes of domestic buyers' desire for foreign furniture and the resulting problems for the development of this job-creating and income-generating industry.

The wood industry is one of the industries that have a wide range of classes. This industry in Iran with about fifty thousand large and small production units (13.9% of the total units of the industrial sector), more than 150 thousand employees (9% of the labor force of the industrial sector), and 6630 billion rials value added (3.2 percentage of value-added from the country's industrial sector) has a high capacity in the production and export of wood products. Among these, the importance of the furniture and wooden products industry is more than other sectors of wood industries, because these two subgroups of the wood industry alone account for 80% of the total production centers, 9% of the labor force, and 72% of the added value of all wood industries in the country (Mowj News, 2021).

In recent decades, changing the consumer culture of the people and increasing the urban population have caused a great change in the consumer market for these products and even in low-income groups, the use of furniture is considered a basic need. Therefore, this product has a very high diversity due to the diversity of applicants and consumers. Its variety has made it a consumer good, and as a result, constant demand has led to its constant supply. Permanent supply requires continuous production, which ultimately creates employment, which is one of the important outputs of this industry in addition to its main product, namely furniture.

The furniture industry, despite the comparative advantages in the production and export sector, including the abundance of cheap labor, low energy and transportation costs, the strong market demand of European countries, the Persian Gulf, and Central Asia, due to many problems in the production, export, and regulations, not only has it not been able to achieve decent development and acceptable share in international markets, but it has also failed in the domestic market. So that even domestic markets have become exhibitions for foreign furniture products and domestic buyers in most cases are more inclined to buy foreign furniture, especially Italian.

According to personal knowledge and research on different Iranian websites, it can be mentioned that the most important reasons for the desire of Iranian buyers for Italian furniture are:

1- Unfavorable performance of domestic producers: Attitudes and behavior of the producer in the field of production and supply of the product are one of the main reasons for the consumer's tendency to buy or not to buy products. A manufacturer who operates solely for profit in a short period cannot hope to produce and sell its product in the long run. In contrast, the manufacturer's attention to recognizing customer tastes and product production tailored to their needs and tastes (in terms of price, variety, performance, satisfaction, standard, etc.) can be a factor for more production and sales in the long run. Part of the reluctance of consumers to buy domestic furniture stems from the performance of domestic producers, in this regard we can mention the following:

- Lack of customer recognition: Today, customer identification in terms of age, gender, desires, wants, etc. is one of the most basic needs of any manufacturer for planning. The manufacturer must know the customer of his product and present his product according to their wishes. Lack of customer research is one of the biggest reasons that has created a gap between producer and consumer. In fact, by conducting field research, the manufacturer can easily find out the information he needs to know the customer.

- Lack of attention to customer demands: The next reason that can be due to the poor performance of the manufacturer, is the lack of attention to customer tastes and desires. Focusing on short-term profits and lack of attention to product quality and customer satisfaction by some domestic manufacturers has led to a decrease in customers' desire for domestic goods and a tendency towards foreign products, which paves the way for foreign goods to enter domestic markets. A manufacturer who for any reason does not present his product according to the customer's wishes, cannot hope for consumer commitment to buy their product.

- Unfavorable performance of some manufacturers: Some domestic furniture manufacturers for various reasons have had poor performance in terms of quality, standard, price, sales, after-sales service, etc., and this has caused buyers to have a negative view of domestically produced furniture.

2 - Lack of new and diverse designs: One of the basic principles of marketing is to present the product according to the wishes and tastes of the customer, and due to the diversification of the customer, the product should be diverse (in terms of color, design,

size, performance, etc.) To satisfy all tastes. A prospective producer must be able to produce and supply new products according to market tastes. Variety in foreign furniture (for example, Turkish furniture) is one of the factors that lead the domestic consumer to buy it. In contrast, domestic manufacturers in many cases have limited their products to a few examples for technological, financial, managerial, etc. reasons. Manufacturers should attract buyers by offering various and new designs for different tastes while observing the quality and ergonomic standards because buyers who do not have different options, go for imported goods and sometimes goods that have lower quality than those domestic ones, with a much higher price, because they do not see the desired designs, colors, and comfort in domestically produced goods.

3 - Lack of up-to-date domestic production technologies: Production technology is evolving and changing every day. Most of these changes are directly and indirectly the factor that ultimately the consumer is more satisfied with the purchased product. Today, one of the main pillars of production, especially on an industrial scale, is advanced machinery in line with modern technology, which unfortunately is one of the main weaknesses of Iran's wood industry. The wear and tear of the machines of this industry on the one hand and the increase in the price of new machines on the other hand have caused the majority of production centers to continue operating with worn machines and not be able to modernize their machines. This issue in addition to negatively affecting quality and quantity causes high maintenance and fixing costs, which increases the final product cost.

4 - Not using new marketing methods: Marketing science has undergone great changes today. In today's world, the survival of the producer is tied to the customer, and the producer gives up any benefit, even profit, for customer satisfaction. Unfortunately, marketing techniques that have been used in industrialized countries for many years, either do not exist in Iran or are used to a limited extent. Research shows that one of the reasons that companies fail is because of their inability to use marketing techniques.

5 - Lack of use of wood raw materials and appropriate fittings: The use of appropriate raw materials is one of the most important factors that greatly affect the quality of the product provided to the customer. Raw materials affect the production of wooden products and furniture in terms of quality, quantity, and price. Despite the production of many raw materials required by the furniture industry in the country, unfortunately, its quality problems persist and the quality of these materials is not comparable to its foreign

counterparts, and this difference in material quality will appear in the quality of the final product. Along with the superior technology of production of foreign fittings and raw materials and taking into account the distance of innovations in this sector, the country's products will not be qualitatively competitive with foreign products. As it can be seen, foreign companies, using suitable raw materials, offer different products from domestic goods, which are of interest to many buyers.

6 - Product specifications: An important factor for product selection by the customer is its specifications. A product must have a set of desirable specifications from the customer's point of view to choose it. In many cases, the reason for consumers' choice of foreign products is the fundamental differences between the foreign product and its domestic counterpart. Regarding the differences between domestic products (in general) and foreign products, which is a factor in the selection of foreign products by our consumers, the following can be mentioned:

- More appropriate price according to the quality of the furniture: The consumer reacts to price changes due to his income limit. Therefore, a reasonable price is one of the most important factors in attracting customers. By comparing the products and considering their differences, customers must consider the price factor and involve a more appropriate price in their final choice. Meanwhile, in cases where the price of foreign products is more appropriate than the price of domestic products, consumers will be more inclined to buy foreign products. Utilization of international markets and mass production is one of the main and important reasons that reduce the price of foreign products compared to domestic products.

- More and better performance: In comparison with some types of furniture, it is easy to see the efficiency and better performance of foreign furniture with their domestic counterparts. Better efficiency and performance are the result of good design and construction of a product. If the manufacturer can be successful in the process of designing and manufacturing a product, it will have a lot of potential in the field of competition. Therefore, it is necessary to pay more attention to the design and manufacture of domestic products to enable more competition for domestic products.

- More useful life: the use of new technology, the use of appropriate raw materials, compliance with international and strict standards, product coordination with human structure (ergonomics), etc. have all made the useful life of some foreign products higher than similar domestic products. This means that a longer useful life means less cost

compared to production efficiency. Therefore, it is natural that there is a greater tendency to buy foreign furniture.

7 - Having global standards: The benefit of a product from modern world standards, can be considered an advantage. Some foreign products that are offered in Iran, have global standards and this is a factor in buyers' desire for them. In general, by expanding the standards of furniture products and enforcing these standards, it is possible to prevent the supply of quality furniture inside the country, as well as the export of non-standard furniture called Iranian furniture.

7) Promotion and Advertisement

7.1. Advertising of Foreign Products in Iran

Product introduction in marketing is one of the most important issues that has always been challenging for all companies, even large companies. Product-oriented businesses are well aware of how vital the product introduction is to their business. Most of the time, the product produced has no defects, but due to the problem in the way of introducing the product, the business suffers a great failure.

Today's market competitors have worked hard on how to introduce their products. Steve Jobs, the late CEO of Apple, says about how a product is introduced: The value of a product is expressed by the way that product is introduced.

But this is one side of the story, on the other hand, in some countries, including Iran, the promotion of foreign goods and products is prohibited in order to create appropriate advertising and cultural mechanisms to fulfill the slogan of the year based on supporting Iranian goods and to increase the quality of domestic production, as well as encouraging people to use domestic goods and services for the growth and development of Islamic Iran. In fact, according to a parliamentary resolution, the promotion of foreign goods with similar or Iranian samples on the radio and television and in the press was banned.

According to Article 19 of this plan; To protect Iranian goods, the subject of this law is the promotion of foreign goods with similar or samples of Iranian goods in radio and television, press, city or wall signs, public transportation, printed papers, telephone and cyberspace is forbidden, and the media advertising, will be fined equal to ten times the contract of the advertisement.

According to Note 1 of this article, the promotion of foreign goods that a part of their production is processed in Iran and is approved by the Ministry of Industry, Mines and Trade is allowed.

According to a 2020 study that examined the five main environments for advertising goods and services defined by Iranian regulations, the following results were obtained:

- Advertising in public places, for example billboards: The published report indicates a great achievement that there was no illegal billboard advertising on almost all roads and highways observed in 2018.

- Iran Radio and Television: A great success was achieved. A study conducted in 2013 showed that foreign products are not advertised in any way on Iranian radio and television.
- Print media such as newspapers and magazines: There was no high-quality evidence on the level of law enforcement. However, the observations indicated a major success in banning the advertising of foreign products.
- Film: Indirect advertising was significant in the films screened. A survey of best-selling films found that about 70% of the evaluated films showed at least one image of a foreign product in one scene of the film.
- Internet Advertising: Despite the passage of the law banning the advertising of various goods and services through the Internet, observations indicate a high level of advertising of these products by various websites (Abachizadeh, Ostovar, Pariani, & Raeisi, 2020).

7.1.1. Advertising Restrictions in Iran

In Iran, domestic and foreign companies face the following restrictions for advertising goods and services:

- 1- Advertisement that promotes corruption and superstitious beliefs or opposes the official religions of the country is prohibited.
2. In the advertisement of a particular product or service, another similar product or service should not be implicitly or explicitly denied.
3. Advertisements should not offend people who suffer from certain disabilities or diseases.
- 4- Advertising of goods and services in religious, scientific, and educational centers is prohibited.
5. Advertisement should not cause insult to the official religions of the country, customs, traditions, ethnicities, and different dialects.
- 6- It is not allowed to use scenes such as smoking and other similar cases that are harmful to human health or addictive, explicitly or implicitly promoting their consumption.
7. Advertising that promotes the destruction of the human environment, forests, pastures, natural resources, and natural habitats of animals is prohibited.
- 8- Advertisement should not induce terror and violence.

- 9- In advertisements, it is not possible to use writings and images that show animals being harassed.
 10. During ad cases, all laws related to the protection of the material and intellectual rights of authors, writers, and artists and the relevant regulations must be observed.
 - 11- Any instrumental use of women in advertising is prohibited.
 - 12- The appearance of the characters used in the advertisement should be by the national and religious customs of the society.
 13. Advertisements should not evoke a preference between males and females.
 - 14- In advertisements, the use of children to introduce goods and services that they do not expect to consume or benefit from, is prohibited.
 - 15- Promoting a foreign language, misspelling, and misrepresentation in advertisements are not allowed.
 - 16- If it is necessary to use a foreign script when placing advertisements, the size of the Persian font should be larger than the foreign font.
 - 17- To use the map and flag of the Islamic Republic in the advertisement, the official flag and the complete map of the country must be included.
 18. Advertising should not make domestic products worthless.
 19. Advertising of goods, services, and products of foreign countries is permitted if its supply and sale within the country are not prohibited by law.
 20. Advertising on the facilities, walls, buildings, and structures of embassies and political representations of foreign states is prohibited.
 - 21- Advertising on facilities, walls, buildings, and structures of natural and legal persons, governmental and non-governmental is subject to obtaining the prior permission of their owners and officials.
 22. Advertising of goods and products for which the implementation of the standard is mandatory is subject to having a license to use the standard mark and industrial research in Iran.
 23. The advertisers and creators of advertisements must have the necessary, convincing, and legal documents for the claims and arguments of the subject of the advertisement.
- (Ministry of Culture and Islamic Guidance, 2013)

7.2. Methods of Promoting and Advertising Foreign Products in Iran

Paying attention to supporting national production and creating a culture in the field of people's use of domestically made products is a very important and vital issue for the economic sectors of Iran. The importance of this issue is so great that the Leader of Iran has repeatedly emphasized it and invited the officials to promote the culture of production and use of domestic products. Following this governance strategy, in recent years, the Islamic Republic Broadcasting Organization has made the protection of Iranian goods a priority in its policy agenda and has implemented special operational plans in this area. This has led to the banning of foreign goods and services in the national media of Iran to support national production. Therefore, to advertise and sell their products in Iran, various foreign stores are looking for other media besides Iran Radio and Television. Therefore, in this regard, they use various social networks to advertise their products in Iran.

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Internet in Iran is playing a crucial role in promotion and advertisement in Iran. On one hand, there are increasing Internet users in Iran and on the other hand, there are less limitations on advertisements on the Internet comparing to the national media.



Source: Kepios

Exhibit 7-1: Annual Digital Growth in Iran

7.2.1. Website

In 2008, the Economist Intelligence Unit surveyed the e-readiness of the world's largest economies, including Iran, and measured the quality of a country's ICT infrastructure and the ability of consumers, businesses, and governments to use ICT to their advantage. The Economist Information Unit measures e-readiness based on six criteria: technology connectivity and infrastructure, business environment, social and cultural environment, legal environment, government policy and vision, and consumer and business acceptance. The results of this study in Iran showed improvements in the four criteria of connection infrastructure and technology, business environment, social and cultural environment, and legal environment. The standard of government policy and outlook did not change compared to 2007. But the criteria for consumer and business acceptance had changed.

Iranians are increasingly using Internet and a big part of this use is for following fashion and finding online shops.

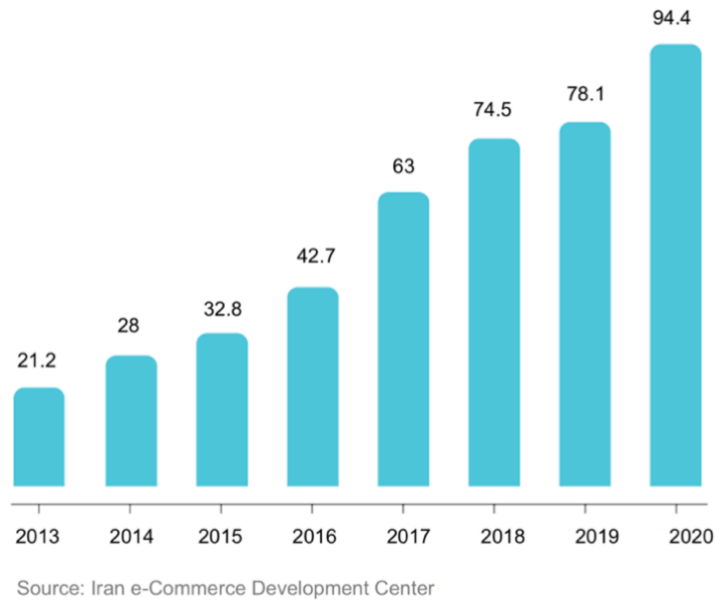


Exhibit 7-2: The Growth of The Number of Internet Subscribers (in million)

Accordingly, in Iran, the online store and online shopping market on the website have been very hot and full of new news for some time. The share of online retail grew by 60% in 2020, from 2% in 2019, to 3.2%. This uptrend, in addition to showing the natural and gradual growth and development of online retail, has also been influenced by the spread of the Corona virus and the expansion of online shopping (Donyaye Eghtesad, 2021).

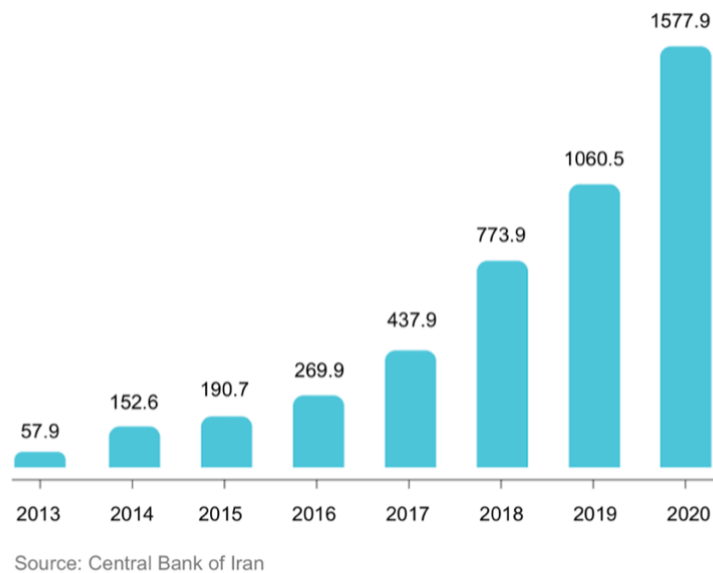


Exhibit 7-3: The Growth in The Number of Online Purchases in Iran (in million)

When it comes to online shopping, Iranians face other kind of problems. The Amazon website is not active in Iran due to US sanctions (Motamedi, 2019). The Iranian version of Amazon is DigiKala, which was launched about 10 years ago by two Iranian brothers (Kamali Dehghan, 2015). Today, this marketplace is known to everyone in Iran.

The net worth of goods sold in Digikala in 2020 increased by 2.5 times compared to 2019, with a growth of 151%. In the last 8 years, the net sales of Digi Kala in Rials have grown by an average of 107% every year (DigiKala, 2020).

Prior to the 2018 sanctions, most of the Italian brands were ordered and purchased through this website, but today, due to rising prices and lack of easy access to European goods, all of which have been affected by the sanctions, these goods are not available on DigiKala.

7.2.2. Social media

a) Social Media Marketing Activities

Social media refers to online platforms, applications, or media that aim to facilitate interactions or content sharing (Richter & Koch, 2008) Today, businesses tend to create, communicate and offer a variety of online marketing activities through social media to build and strengthen strong relationships with stakeholders. This activity is known as social media marketing (Koay, Ong, Khoo, & Yeoh, 2020). This provides companies with the opportunity to reach out to customers and build relationships that ultimately improve company profits.

Kim & Ko (2012) divided social media marketing activities into interaction, entertainment, customization, popularity, and word of mouth (WOM), and applied these categories to luxury fashion brands. Thus, social media is a virtual space where customers can interact with each other to discuss specific brands. Social media users enjoy the content, branding, entertainment, relaxation, and entertainment (Muntinga, Moorman, & Smit, 2015).

b) Social Media in Iran

Iran is the nineteenth most populated country in the world, with 83 million people, and the third most populous in the Middle East and North Africa (MENA), after Turkey and Egypt. Iranians have had to rely on satellite dishes, which are technically illegal but frequently utilized, and the heavily censored Internet to connect with the rest of the

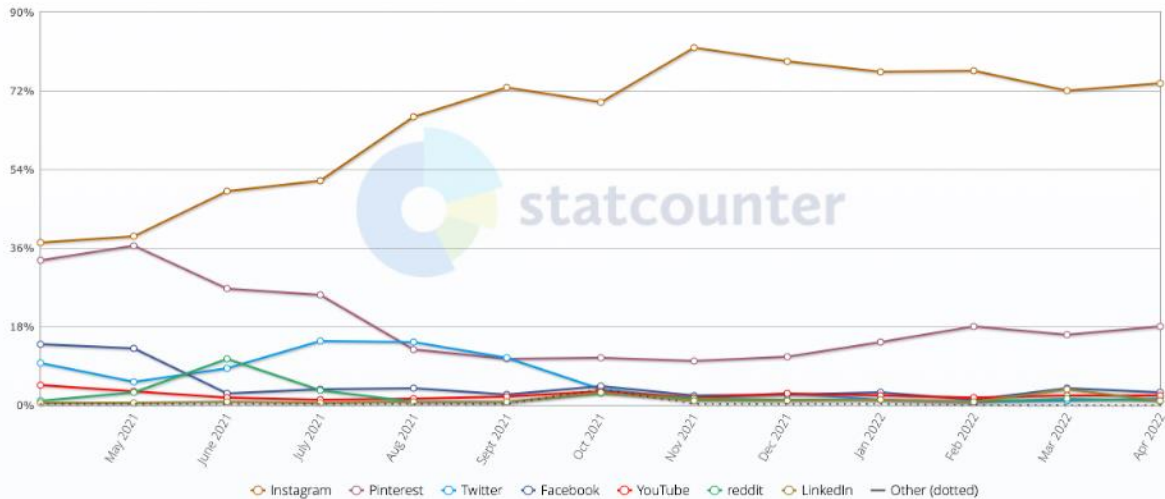
world due to the country's international isolation for four decades. Since 2009, many social media applications, such as Facebook and Twitter, have been restricted in Iran (Syed Zafar, 2021). Youtube has been blocked in 2006 and 2009, followed by its last block in 2021 up to now (Awa-Abuon, 2021). Telegram which has been the most popular social media before Instagram with 93% of Iranians over 15 years old using it, has been banned in May 2018 (Dursun, 2021). Despite these blockings, the number of Iranian Internet users is estimated to be 57.4 million, however, some analysts say it is considerably higher. According to 2017 research by the government-funded Statistical Center of Iran (SCI), at least 73 percent of Iranian households have access to the Internet, with 80% of urban households and 57% of rural households having Internet connection. Iranians mainly use the Internet to access social media (70.5%), download games, movies, and music (55%) and conduct online searches (36%) (Statistical Center of Iran, 2021). Internet access is expected to be increasingly more widespread, especially given recent increases in Internet bandwidth, penetration, and speeds.

It's also worth noting that mobile Internet has the greatest connections, with 105 percent of active mobile Internet subscribers per hundred people in November 2021 (Portal of Measuring Information Society of Iran). In February 2020, that figure was only 72.5 percent. Iran's mobile phone penetration rate is over 155 percent, according to a study published by the state-run Islamic Republic News Agency (IRNA) in August 2021, partially due to the fact that some Iranians own multiple phones. Furthermore, due to the epidemic, the use of cell phones and mobile Internet has expanded considerably in the last year and a half (Deutsche Welle Persian, 2021).

The Iranian Students Polling Agency (ISPA) estimated in February 2021 that 73.6 percent of Iranians over the age of eighteen utilize social media and messaging apps. Popular foreign social media platforms like Facebook, Twitter, and YouTube are blocked, but Iranians can use circumvention techniques like virtual private networks (VPNs) and proxy services to gain access to them.

The SCI reported in September 2021 that the number of Iranians using social media had increased by 12% in the previous three years, with 65 percent of those above the age of fifteen. According to the SCI, 68% of Iranians over the age of fifteen use Instagram, while 88% use WhatsApp. Despite being restricted since 2018, Telegram is used by 45 million Iranians who send 15 billion messages per day, according to the research (Statistical Center of Iran, 2021).

Social Media Stats Islamic Republic Of Iran Apr 2021 - Apr 2022



Source: Statcounter Global Stats

Exhibit 7-4: Social Media Stats

Iranians, like people all across the world, use social media for a variety of purposes, including business, entertainment, and political and cultural activities.

c) The Role of Instagram in Promotion and Sales

Instagram is currently the most popular social media network among Iranians, and it is currently unblocked by the administration.

Instagram is an image-based social media platform that allows users to easily understand information through photos and images. Accordingly, it is possible for brands to communicate with others regardless of language or nation. Instagram had 1 billion users in October 2020, and that number is projected to increase to 1.2 billion by 2023. Due to the high interaction rate of Instagram and the visual nature, 71% of world-renowned brands use this platform in their advertising programs (Delafrouz, Rahmati, & Abdi, 2019). In general, different companies use Instagram to inform customers about their products and stay competitive (Reagan, Filice, Santarossa, & Woodruff, 2020).

In its latest census at the end of 1997, the Radio Regulatory Authority announced that the number of Internet users in Iran was 74,518,000. In 2018, the number of Iranian Instagram users has been announced as about 24 million. In other words, about 32% of

Internet users in Iran are also active on Instagram. This number of users means that 30% of the Iranian population uses Instagram. This number of users has made Iran the seventh in the world in terms of Instagram use (Financial Tribune, 2018).

The results of a poll published by the Iranian Student Opinion Polling Center (ISPA) show a significant increase in the use of social media among the people. The report, which considers social media and social networks as one, shows that in mid-April 2018, 17.7% of people over the age of 18 used Instagram. This number increased to 32.2% in June after Telegram was filtered. A noteworthy point is the presence of 54% of Iranian youth aged 18 to 29 on the social network Instagram.

Although Instagram arrived in Iran a little late, but this social network was able to quickly open its way to the lifestyle of Iranian users and, following foreign patterns, Iranians were facing the activity of a new generation of celebrities in this space and in various fields such as tourism, food, fashion, sports, etc., which directly express their views and opinions and operate under various headings such as blogger, Instagrammer or influencer, and due to having a high number of followers, are a reliable source for advertising goods and products considered trademarks. Thus, Iranian Instagram influencers, like their counterparts in the West, utilize their profiles to promote sponsorships, products, and other services.

There are numerous Persian-language articles about how to make money on Instagram. Each influencer seems to set their own pricing.

While some Iranians pay to advertise on Instagram, others use it for free to promote services such as dentistry, beauty salons, and underground tattoo parlors. Vendors of clothing, jewelry, and home goods offer their creations and contact information in their bios, or ask for direct messaging only.

Instagram is also used by many restaurants and cafés. Many restaurants, notably, do not have websites and instead rely on Instagram direct messages for reservations. This is not only due to the fact that Instagram is free, but also because Iranians use the app to look for restaurants and rely on food influencers for recommendations.

Because of the coronavirus outbreak, Iranians have become more comfortable with social media, and as a result, internet companies have grown. In Iran, messaging and social media applications, particularly Telegram and Instagram, account for more than 80% of online purchases (Ghanbari, 2021). Due to Telegram's ban and a greater understanding of Instagram's potential, Instagram has taken over.

It's also worth noting that Instagram businesses help Iranian women. Instagram allows Iranian women who, due to traditions or familial duties, are unable to work outside the home, to start a business from home. These women are not only making money, but they are also feeling alive.

According to a survey published by the SCI in September 2021, 83 percent of online firms use Instagram, Telegram, and WhatsApp for sales in addition to their websites. As per the survey, social media platforms such as Instagram support eleven million Iranian jobs (Tejarat News, 2021).

Therefore, it can be argued that Instagram is a place where customers learn more about branded products, interact with the brand and other users, and have fun browsing brand content. In turn, customers' experiences of having a brand on Instagram can ultimately contribute to the special value of a customer-based brand.

8) Distribution in Iran

The distribution system can be considered as one of the economic subsystems of a country that has a lot of complexity. Just as the production of goods and services has a fundamental role and importance in economic growth, so does the manner of distribution have a significant impact on economic development. In this regard, the methods of distribution of goods and products are considered equal in importance to the quality of production. Therefore, one of the most important concerns of customers and manufacturers is the proper distribution of the product to the right place and target customers. Proper distribution of goods can be a competitive advantage of an enterprise over its competitors. Also, the choice of distribution channel and method of distribution of goods is one of the most important options that managers of enterprises and producers consider. Because the distribution system of goods has a prominent and significant role in achieving the sales goals of companies and manufacturers and exposes their products to buyers and consumers and when this is done correctly, positive results will be achieved.

8.1. Types of Importing Companies in Iran

In Iran, due to sanctions and customs restrictions, the possibility of importing goods faces many complications and problems. At present, with the mentioned problems, importing foreign and Western products is very time consuming and costly. So it's natural that smaller companies can't handle it. Therefore, here, companies importing and distributing foreign products are divided into two main categories.

a) Big Companies

The largest companies based on revenue, includes a list of the largest public and private companies which are ranked based on annual revenue. This list includes companies that have earned an average of \$ 100 billion over the past fiscal year (Donyaye Eghtesad, 2020). Hence, large companies are companies that are powerful and have a lot of capital and relations, and thus are able to have a lot of trade relationships with different countries and import or export different goods to the country.

These companies are able to trade with foreign companies and buy products from Western companies by having individuals or liaison companies in other countries, which

can include a third country such as Turkey or in the country of origin of products such as Italy. And then, because they have enough capital to circumvent the sanctions, they import the products into Iran.

These companies are reluctant to make small deals with the consumer due to large transactions to import goods, and prefer not to communicate directly with customers to avoid retail problems. Their business routine is generally B2B and they do not intervene directly in retail, but sell products to wholesalers or retailers.

Of course, not all of these companies are the same size and are in a wide range. For this reason, companies that are considered large but are smaller than other companies in this range, sometimes set up online or physical stores to sell B2C for faster ROI.

b) Small Companies

Small businesses based on revenue, includes a list of the smaller public and private companies which are ranked based on annual revenue. This list includes companies that have averaged less than \$ 100 billion in revenue over a fiscal year (Donyaye Eghtesad, 2020). Like large companies, these companies are in a wide range. The larger companies in this group import products directly from countries such as China and Turkey. Because there is no need for intermediaries to do trade with these countries, and naturally, there is no need to pay large fees to circumvent the sanctions as there are no limitations. Therefore, small companies are usually either direct importers from China and Turkey or the main customers of large companies.

Therefore, their work style is B2B and B2C. This means that they may sell the product both directly to the consumer and mainly to their colleagues or retailers. Because they have less capital and no way to communicate with the main company in the West, they buy the required Western products from large companies and sell them to consumers at a higher price for a profit.

These companies also have physical and online stores. Online sales of products and services around the world are growing rapidly. This large and exponential volume indicates that the issue of return on investment (ROI) in this type of B2C business is also increasing significantly. Online B2C is also much more effective than usual B2C (World Bank, 2019). Similarly in Iran, licensed Internet businesses have grown from about 28,000 in 2020 to 89,000 in the first six months of 2021 (Eghtsad News, 2022).

8.2. Methods of Distributing Goods to The Consumer

With the passage of the traditional economy and the intensification of competition, the continuity of enterprises depends on identifying and attracting new customers and retaining customers. This is possible through the proper use of marketing techniques; However, using effective marketing tools and parameters can develop and improve different businesses. Today, information technology has created a huge change in market knowledge and customer access. Information and communication technology is an essential partner that establishes the relationship between consumers and producers at the global level.

Accordingly, many small and large stores that advertise and sell their goods in real space, use the Internet as one of the most important means of sustainable communication and a suitable platform for their goals and intentions. This has not excluded macroeconomic enterprises either. In other words, websites have become an intermediary between these firms and consumers (Naderibani, Alhosseini Almodarresi, Dehghani, & Afshar, 2016). Hence, the methods of purchasing various goods and services by the consumer or the methods of distributing the goods to the consumer are done in person and online.

In-person purchasing can be considered one of the common and old methods of marketing and sales. It can be said that this method of selling is the oldest and most primitive method used by sellers from the distant past and still remains strong with some changes. Face-to-face sales is a type of sales in which the salesperson meets with customers face to face and sales conversations are conducted directly.

However, the advent of the digital age and the use of new marketing tools such as email marketing, chat boxes, online stores, social media, and the like have led some to assume that in-presence sales have declined slightly.

Information technology as a general technology is widely used in all countries and has accelerated economic and social growth in advanced societies. Therefore, governments in many countries have developed and implemented special institutions and programs to promote this technology (Mahmoudi Meymand, Forouzandeh Dehkordi, & Ahmadinezhad, 2010). One of the symbols of such change and progress is the use of computer networks and the Internet in business, commerce, and other government affairs (Salehi Sadaghiani & Dehghan, 2005). Meanwhile, one of the phenomena that has grown with the growth and development of information technology in recent years is the

sale of goods and services through companies and online stores, which is gradually gaining its position as a method. With the growth and expansion of such stores, the need to develop appropriate behavioral patterns is also felt (Rahnama Gharehbeyglou, Hamdi, Saeidnia, & Irannejaz Parizi, 2019). As consumers spend a lot of time and effort completing multiple tasks, it is best to consider the benefits of online shopping convenience. The ease of online shopping is one of the most effective factors in predisposing customers to shop online (Jiang, Yang, & Jun, 2013).

Online shopping is done when a digital platform is used for shopping. In online shopping, consumers surf online stores to buy the goods and services they need. Online shopping is very important for governments because promoting e-commerce and expanding online shopping will solve many of the problems that most governments face. In this case, events such as a significant reduction in fuel consumption and costs, reducing the heavy costs of using force to control traffic, and reducing air pollution will occur.

The reasons for online shopping go back to the advantages that online shopping has over face-to-face shopping. Online shopping is a good way for governments to grow economically and strengthen their families. Many shops have taken steps to sell their goods and services through the web and the Internet and help it grow. Iran is no exception and is currently experiencing significant growth in online shopping.

Although the issue of trust is important for customers in all countries to buy online, in Iran this is much more important. Because buying original products in Iran faces many challenges. The most important issue is the lack of official representation of Western products in Iran. This is enough to make the Iranian customer hesitate to buy original luxury products. On the other hand, the Iranian customer is not able to buy Western products online because the Iranian banking system is not connected to the global banking system and Iran has its own banking network. Therefore, physical stores and unofficial online stores are the only references for buying Western products in Iran.

Naturally, consumers in online shopping environments take a higher risk in terms of the actual quality of the products and services they purchase (Park & Stoel, 2005). Hence, they need to have confidence in their purchase. In general, the website of a business in the online world can be a metaphor for the sales force of the business, and consumers form their perception of trust in the website based on their interaction with that website. Hence, if people have more confidence in online shopping, they are more likely to shop online (Shiau & Luo, 2012). Therefore, trust plays a key role in online shopping because

if consumers feel threatened or insecure, they will certainly be skeptical about the purchase (Beldad, De Jong, & Steehouder , 2010).

8.2.1. Purchasing on Instagram

In recent years, the tendency of the Iranian people to use social networks has increased and they spend many hours during the day browsing them and exchanging information in this way. Meanwhile, one of the social networks that has received more attention than others and are active in it from all ages and strata, is Instagram, which is currently the most popular social network in Iran. So, it seems that by starting an Instagram business, a large market is available to the seller. Because if there is not much capital to start an online business, Instagram is the best solution for sales. Joining the Instagram site and launching a business page is completely free and there is no need to pay for it. Posting on Instagram, viewing statistics, and using other features of business profiles on Instagram is very easy and anyone who knows how to work with smartphones can do it. A large number of Iranian users are active on the Instagram social network; So, it seems that seeing and being known on Instagram in Iran is an easy task. However, in Instagram purchases, it is not possible to connect to the banking portal and pay online.

Therefore, purchasing from Instagram in Iran is mainly done in the following way:

- First, the customer sees the product through the Instagram page.
- The customer raises questions via Instagram Direct and orders if desired.
- The page manager sends the bank account number.
- The customer pays the fee and sends the payment receipt via Direct.
- The customer's order is registered and the goods are sent to the customer via Iran Post.

As it is clear from the mentioned steps, ordering through Instagram in Iran is an informal process that requires a lot of trust-building. Therefore, on this platform, online stores often rely on influencers to increase their sales and advertisements. Influencer marketing is one of the most important and perhaps the most effective ways to increase sales on Instagram. Customers generally have a better relationship with the real people who use and promote the product. As a result, marketing through influencers is growing more and more on Instagram.

Due to the very high popularity of Instagram in Iran, it is not difficult to say that a large percentage of Iranian retailers depend on it, and if a seller can build trust in this platform

and sell quality and original products, can achieve high sales even through WOM marketing.

8.2.2. Purchasing from Online Stores (Website)

Selling products in the online store or providing services through the site has advantages over the social network Instagram. For example, depending on the type of business, different categories can be considered for different types of products. In the online store, it is possible to specify a specific inventory for each product to reduce the number of inventories with each purchase, and if it is completed, a message such as "The desired product is not available" will be displayed on the site. With payment gateways, there will no longer be a need to track the amounts paid by customers, and everything (from the payment hour to the deposit amount) is clear in the user panel provided by the banks.

The steps of buying from online stores in Iran, like in other countries, include ordering the product, paying through the payment gateway, and receiving the goods at home.

Solutions have been proposed so far to solve the problem of users' trust in online stores, and to expand their sales. For example, most online stores in Iran must be provided with e-Trust Symbol to build trust. In fact, the e-Trust Symbol is a symbol for Internet businesses issued by the e-Commerce Development Center owned by the Ministry of Industry, Mines, and Trade of Iran for the purpose of organizing, authenticating, and certifying online stores. If a site has a trust symbol, it means that the identity of this business has been verified by the e-commerce development center. Currently, the trust symbol can be issued for one year and can be renewed. The electronic trust symbol is designed in 5 stars and is defined as follows:

One Star Symbol: The first level of trust symbol that businesses receive after submitting an application, during the process of granting and verifying identity and location, is the one-star symbol. After receiving the symbol of one business star, the seller can receive the bank payment portal and start the activity in the e-commerce space.

2 to 5 star rating: The award of 2 to 5 star rating is based on the entry of the business into the ranking process and during the specialized evaluation process based on defined criteria. In fact, the ranking of Internet businesses is designed and implemented with the aim of creating a self-control system to continuously improve the performance of businesses and increase customer satisfaction based on clear and measurable criteria in the form of awarding stars (from 2 to 5 stars) (Khoueini, 2021).

Despite all of the above, if we want to compare shopping from Instagram with shopping from online stores with websites, we find that with the exception of a few reputable online stores such as Digi Kala mentioned in Chapter 7, in other cases, still shopping on Instagram is more popular. Because in recent years, Instagram has gone from a simple network for sharing posts to a network for marketing businesses. There are many stores that have very successful strategies for marketing their products and services through Instagram and making money from Instagram. Hence, Instagram marketing is known as one of the marketing methods that has grown and expanded especially in recent years. It can be said that today, most Iranian sellers choose this way to buy and sell their desired products. Instagram, as a great platform for marketing activities, has been able to attract the attention of many businesses and today is one of the communication channels for buying and selling goods.

8.2.3. Shopping In-Person

Although some people make their purchases online, some other people still do not believe in online shopping and prefer in-person shopping.

In fact, considering how users use the Internet in Iran, which is mostly limited to working with messaging applications, it is not surprising that users still choose to buy in person and after ensuring the accuracy and health of the product instead of using online stores. In fact, they prefer to shop in the old, well-known way.

But why Iranian users still do not see shopping in online stores as a good option, while in developed countries the situation is quite the opposite and shopping in online stores is well established? There are several answers to this question, the most important of which are:

- Check the health of the product

When the product is purchased in person, the seller tests the product for the customer and delivers the product after ensuring its accuracy and health. In this case, if the product has a problem, it is replaced immediately and another product is delivered to the customer. Most online stores also give users a deadline to test, and if the product has a problem, the user can return it and receive another product. But this process takes a few days compared to in-person purchases. On the other hand, users' lack of confidence in returning the goods is another reason, and some people think that if they receive a defective product, it is not possible to replace it.

- Uncertainty about the authenticity of the goods

People in Iran still do not trust online stores. Many people think that if they buy from an online store, they will receive counterfeit goods, and this makes them prefer to buy in person rather than buying online. It cannot be denied that sometimes they face such a problem in online shopping, but it should not be forgotten that many times during in-person shopping they also face this problem and receive non-genuine goods. Of course, it is the job of online stores to gain the trust of users and gain credibility by selling original goods; As many physical stores have gone through this.

- Impossibility to buy from reputable and well-known foreign online stores

Although online stores around the world have not been around for a long time, they have been able to gain public trust. In Iran, these stores have not yet found their place among the people, and on the other hand, it is not possible to use foreign and reputable online stores. As mentioned before, because the Iranian banking system is not connected to the global banking system, it is not possible to buy online from foreign sites in Iran.

- Delivery time

Shopping online usually takes longer than buying in person; In fact, face-to-face shopping coincides with the delivery of goods, and online shopping is usually possible with several-day delivery. In some large online stores, some goods can be delivered immediately and overnight, but usually, you have to wait two to three days to receive the purchased goods online.

- payment method

Online stores often charge a fee before sending the goods, and in the meantime, if there is a problem in the delivery of the goods and the goods do not reach the user, the cost is deducted from his account. Of course, these stores reimburse the cost to the user's account, but reimbursing the cost is also a bit time-consuming.

If all these factors are put together, it becomes clear that users in Iran have some right that they do not show much desire to buy online. On the other hand, the mentioned factors are not always true and some online stores have done their best to gain the trust of users by offering original goods, at reasonable prices and fast delivery (such as Digi Kala). The growing atmosphere of online stores and in-person shopping also indicates an increase in people's attention to online shopping, and it can be hoped that the young generation of Iranian users will help a lot in activating this section.

9) The Process of Delivering an Italian Product to a Customer in Iran

9.1. Customer Journey

Given all the limitations mentioned in previous chapters, we can conclude that importing Italian products to Iran is not easy and is very time-consuming, costly, and risky.

Italian Product Journey in Iran

Due to limitations, the process of product journey of Western products in Iran is not normal and there are major problems in almost all stages.

a) Awareness

The first step in all customer journeys is to first become aware of a business. In most cases, the customer has a problem that a particular product solves, even if the problem seems small. Undoubtedly, the most basic problem of the Iranian customer about Italian products and the whole of the West is the knowledge of the existence of original goods in the distributor or seller in Iran.

The Iranian importer prepares a catalog according to the companies from which he has the possibility to buy (such as having an intermediary). Cataloging is an older way that has faded thanks to the Internet. Stronger companies have a website and invite the customer to see the products on the website to review and place an order. Today, Instagram is a better way because Iranians are familiar with how easy it is to use and prefer to be aware of new products by following the pages. That's why it can be said that a strong Instagram page is a guarantee of sales success in Iran.

As mentioned in Chapter 7, advertising foreign products in the national media has many limitations that make it virtually impossible. Therefore, the Internet is the main way to inform Iranian customers about Italian products. Due to the very important function of Instagram in Iran, the process of informing customers is done extensively through Instagram pages. Although the Iranian government has tried to impose restrictions on Instagram, it has not been able to control it. Therefore, it has much fewer restrictions than the national media. Therefore, sellers and sometimes even distributors of Italian products, seriously take the action of informing customers through Instagram.



Exhibit 9-1: Instagram Page of an Iranian Importer

Major importers, on the other hand, have the website, which in some cases indirectly refers to imports from Italy due to sanctions.



Resource: velency.ir

Exhibit 9-2: Website of an Iranian furniture Importer

In this way, Iranian customers can find the sellers of their desired products by searching the Internet.

It should be noted that for Iranian customers, due to years of restrictions on the supply of foreign products, WOM marketing is the most important method that has been very effective in the long run. In this way, when they get information from their friends and acquaintances about finding a seller who has sold the original product to the customer, they can easily trust the seller and make consecutive purchases from the desired seller. This is also the case with Instagram pages. This means that whenever a customer introduces an Instagram page as a seller of original products, a flood of followers goes to that page. This is why most sellers pay a lot of money to influencers to advertise on Instagram.

b) Consideration

If the Instagram pages or the website are accepted by the customer and attract his opinion, the desired product will be included in the list of purchase options.

For an Iranian customer, trust is the most important challenge. Because of the lack of direct representation of foreign products and also because of the flood of Chinese goods in Iran, the confidence to pay high prices for original products becomes a major challenge. Therefore, the more real followers the page has, and the better it displays photos of existing products, as well as clearly explains how it works and sharing the positive experiences of previous customers, the more successful it can be in building trust.

c) Purchase

After seeing the products, reviewing and comparing them with other available products, and trusting the seller, the customer buys the product.

Given that we are looking at Italian products and mostly Italian furniture, we must point out that in Iran buying is not a matter of paying for and receiving the product immediately. Currently, due to the economic crisis in Iran, high inflation, and lack of liquidity in the hands of Iranian customers, importers generally import small and less expensive Italian equipment as usual and put it in their inventory to find its customer. However, large and expensive items such as furniture, which have both high costs and high maintenance costs, are purchased from the Italian company after the customer orders and pays the deposit.

Obviously, in this case, sending the product to the customer will take some time.

d) Retention

Considering that the Iranian customer is wishing to receive the original product, his expectations are lower than other customers, and only the supply of the original product to the Iranian customer will satisfy him. If, in addition to this, other items such as receiving the goods on time and a reasonable price for the product are observed, this will be a guarantee for customer retention.

e) Advocacy

Given all that has been explained about customer retention, it can be assured that the Iranian customer will add a number of other customers to the supplier vendor, and as mentioned, given the restrictions on access to Western products in Iran, WOM is of particular importance.

Now the steps of the customer journey are explained, but as it is clear, the main problem that the Iranian importer faces is buying and importing the product to Iran.

9.2. Import of Western Goods to Iran

The information in this section is collected through telephone interviews with Iranian importers who did not wish to be identified, but given that the interviews were at different times and with different people, it can be concluded that the main method of importing Western products to Iran, is held this way.

Purchasing Western products is done through a third country. This third country should be a country that is not on the sanctions list and it is easy to ship goods from it to Iran. Naturally, with these descriptions, Turkey and the UAE are the best options. A large number of Iranians have established companies in these two countries and from there they buy and deliver goods to Iran. Sometimes an Iranian importer cooperates with an Emirati or Turkish company.

9.2.1. Payment

Now the first important issue is to pay for the product to the company in the third country. Because, as has been mentioned, the Iranian banking network is not connected to the global banking system. Following the sanctions, Iranian banking institutions were

removed from the Swift global system in March 2012, which lasted until 2016. After that, Iranian institutions gradually returned to this system, but two years later, in 2018, following the maximum pressure from the United States, Swift cut ties with Iranian banks for fear of violating US sanctions against Iran. On the other hand, in order to combat the problems of foreign currency leaving the country, the Iranian government, by setting a maximum available amount of 5,000 Euros in cash for each person departing from Iran, prevented the physical transfer of foreign currency. However, Iran's imports play an important role in the economic market and thousands of people are working in this field. Many times, when political problems lead to problems in paying money to foreign countries, different sectors in Iran face problems and this shows the great importance of imports in Iran. The UN Security Council's financial sanctions against Iranian banks, along with unilateral sanctions by the United States and the European Union, which include sanctions on individuals, companies, and banks and the seizure of their assets and property, disrupt financial relations and money transfers. With the imposition of international sanctions against Iran's financial and banking monetary system, it became impossible for Iranian banks to provide foreign exchange services to Iranians, and even Iranians themselves in other countries with their Iranian passports could not receive foreign exchange services in dollars or euros, or it was very difficult for them to receive it.

It should be noted that in 2017, when the currency inflammation and economic crisis in Iran began, the Iranian government announced a fixed government exchange rate, which practically failed. That is, the Iranian government in that year set the exchange rate of each US dollar at a fixed rate of 42,000 rials in Iran, but practically the dollar was not sold at this rate anywhere. The government then announced that the government exchange rate would be offered to traders to import into Iran. According to importers, this government exchange rate has certain conditions and does not apply to all goods. Rather, it is given in cash to in-person purchase conditions to eligible merchants, which is not considered because this is not possible for Western products.

The method that Iranian importers use to deposit money is using an exchange office. There are a large number of Iranian money changers in most cities in Turkey as well as in Dubai. These money changers have a bank account in Iran where the Iranian importer transfers the money to. After receiving the money, the Iranian money changer instructs its representative in the country-of-origin country or any other country which has access

to global banking network to pay the desired amount to the person or company. According to Iranian importers, money changers charge a fee of 50 euros for each transfer to Europe.

In this way, the steps of order registration and payment will be done.

9.2.2. Delivery to Iran

The next challenge that the Iranian importer faces is the issue of sending cargo to Iran. There are two main reasons for this challenge. One is sanctions and the other is Iranian Customs.

As noted in previous chapters, some companies do not do business with Iran because of sanctions and others because of fear of the United States. In this way, most companies will terminate the transaction if they know that the main destination of the cargo they send is Iran. Therefore, Iranian importers import Western goods to Iran in ways other than the usual methods.

Importing a product to Iran depends on its size. If the product is small, it is usually imported to Iran via passenger. For instance, an Iranian passenger who intends to fly from Milan to Tehran, can sell some of his baggage allowance in exchange for a sum of money. According to the importers, at present, they buy the baggage allowance of passengers for 12 to 15 euros per kilo, and the passenger, after carefully examining the package and making sure of it, puts it in his suitcase and imports it to Iran. In this case, it is cheaper to send the goods and the goods will not enter the Iranian customs.

The main challenge of sending cargo is when the product size is large, such as home furniture. Because in this study, the purpose is to analyze furniture, it is mostly focused on sending large goods. In this regard, Iranian importers use the borders of Turkey and the United Arab Emirates to import these products. In this case, the land border is used for imports from Turkey and the sea border for the UAE. Most furniture importers use the sea border.

In this case, Iranian importers are forced to circumvent the sanctions by sending cargo in one of two ways:

a) Switch Bill of Lading

The Switch Bill of Lading is used to evade import and export sanctions. In this way, the foreign seller first sends the goods to the first destination that is not under US pressure, and then the bill of lading is sent to the final destination. (Taheri, 2021)

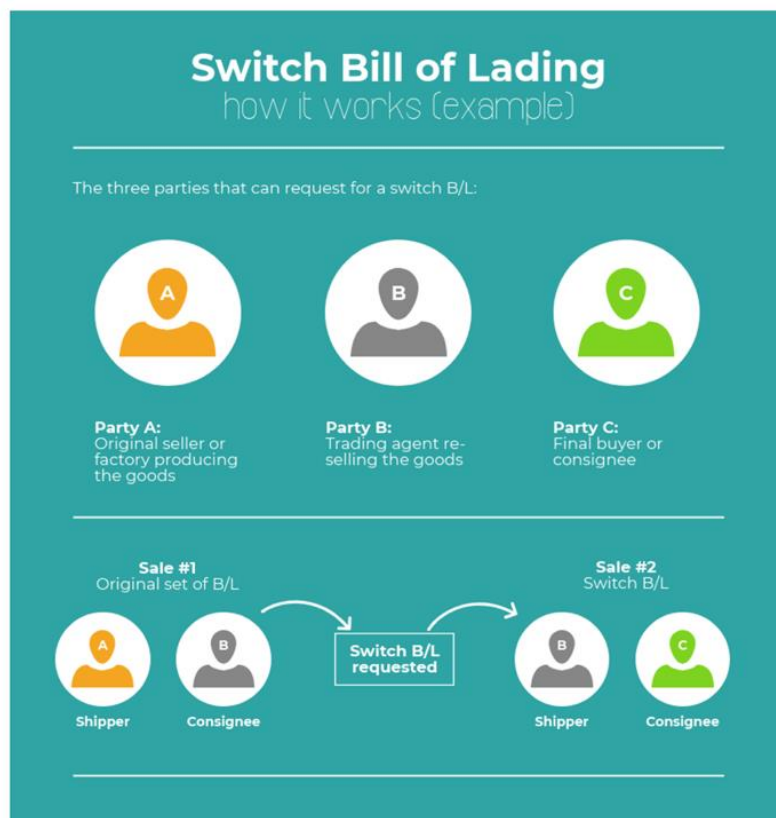
The Switch BL is issued only for international shipping and replaces the original bill of lading when the intermediary wants the seller's information to remain confidential. It refers to cases where a second bill of lading is issued by the shipping company (or its representative) instead of the bill of lading created at the time of shipment. The agent requesting the switch is often offered at a different port from the port of loading. This switch may be issued for a variety of reasons. (TahaKhalij, 2020)

for example:

Consider these three parties:

- Side A: Factory producing goods
- Part B: The commercial agent of the sale of goods
- C side: final buyer / recipient

The first and main set of BL will be issued with A as the sender and B as the receiver. The shipper may later request a BL switch that lists B as the sender and C as the recipient. (Yurlova, 2018)



Source: iContainers
<https://www.icontainers.com/us/2018/11/01/switch-bill-of-lading-complete-manual/>

Exhibit 9-3: Switch Bill of Lading

In today's fast-paced world, shipping companies are more likely than ever to deal with transactions that typically have the ability to hide factory contact details from the final buyer.

Although you are technically dealing with the same shipment, the switch bill of lading information has been intentionally edited for a variety of reasons.

The intermediary wants to hide the name of the original exporter from the recipient to prevent direct communication between the recipient and the original exporter.

- The broker does not want the buyer or the seller to be informed of the country of origin.
- It is possible that the original bill of lading is stored in the country of origin and the shipment arrives at the port where it is to be unloaded before reaching its destination.
- The intermediary wants to reimburse part of the costs by receiving the first payment from the recipient before paying the shipping cost.
- Goods may be re-traded upon shipment and the destination changed.
- For small goods, different invoices may be set separately, which the buyer prefers to have only one invoice to facilitate his sale, or vice versa. (Ghoghous, 2020)

b) Cross Stuffing

Cross Stuffing is a mode of transport in which loads are often translocated between different ships. In this method, the container is transferred from one ship to another, or in some cases, the cargo inside the container is exchanged with another container. Cross-stuffing in maritime transport is used to eliminate a series of problems during the export and import of goods between different countries.

In some ports, due to some restrictions, it is not possible to load or unload cargo directly, so commercial companies are forced to use the cross-stuff method. One of these limitations is that the volume of the ship is large and the port does not have the capacity to dock at such a volume, so the ship stops outside the port and transports the containers to smaller vessels to be docked at the port. Take and unload the load. Using cross-stuffing method in this situation is the only way that allows incoming shipments to enter the country. This method is also used to import goods, in which the goods are ordered through a third country and the ships of this country load the cargo at the origin. After reaching the desired destination, the ships load the cargoes using the cross-stuff method on the ships of the main destination country and are transported to the country many times without any problems. (Naderi, 2022)

Using the cross-stuffing method allows some countries to circumvent political sanctions. Containers and ships operating in logistics transport all have a unique code that identifies the ship and the load. Some countries do not allow ships of a certain origin to dock due to some political and economic sanctions. This is where cross-stuff transfer comes in handy for traders so they can export their goods wherever they want or supply the products people need from anywhere in the world.

A third country is needed to circumvent sanctions through cross-stuffing. It should not have any specific restrictions on maritime transport laws, and the destination country should allow its ships to dock at its ports. Countries that are sanctioned at their destination and are unable to unload their goods directly at their ports of destination, first transfer their cargo to that third country and load the cargo using third-class shipping methods on third-country ships. By doing this, the cargo and ship code will be changed to a third country and it will no longer be a problem for the ship to dock at its destination.

Obviously, cross-stuffing operations will incur additional costs, as the owners of the goods will have to pay the cross-stuffing fee separately in addition to the shipping cost. The type of packaging, the nature of the product and the need for special equipment for unloading are all cost-effective, but the average cross-stuff cost is \$ 300 to \$ 400 per 20-foot container and \$ 500 to \$ 600 per 40-foot container. (AriaHaml, 2020)

Iran has been grappling with the restrictions and sanctions of European countries and the United States for many years. Many shipping companies and ships carrying the Iranian flag are on the sanctions list of these countries. Therefore, the use of the cross-stuff method for export and import of goods in Iran has become common. Many traders use the Arab countries and the Persian Gulf to export and import goods.

Iranian export goods are first transferred to these countries and, using the cross-stuffing method, they are placed on the ships of these countries and transported to the desired destination. The same method is used to import goods to Iran. Iranian companies register a series of companies in these countries and order the required goods in this way so that the goods are prepared in the name of this country and there is no problem with transferring them to Iran. That is why the cross-stuff method is very important for the Iranian maritime transport system, and the work without it is so lame. (BSL, 2020)

Iranian Customs

The final challenge for the Iranian importer is the passage of goods through Iranian customs.

If we theoretically search the Iranian customs site, we find that the customs cost for those foreign products that are also domestically produced (such as furniture) is a very high amount. That is, after entering Iran, the goods must first enter the Iranian customs. In customs, after checking the goods, its customs tariff is determined. If the goods are among the authorized goods of the Iranian customs (which include virtual goods that are not domestically produced), the remuneration customs fee is not included. But if the goods are also produced in Iran, the customs amount is very high and in principle it can be said that the main reason that foreign products are sold in Iran at a much higher price, is the Iranian customs.

For example, because foreign furniture is considered a luxury item, so the customs duty and commercial profit of the furniture is doubled and about 106% of the value, and 9% has value added tax that must be paid to the Iranian customs.

Taking into account this issue, it can be concluded how much more expensive Italian furniture is sold in Iran than its original price. However, according to the interviewed importers, they also have intermediaries in the customs through whom they can clear the goods for a much lower amount than the Iranian customs tariff.

Thus, after the goods are cleared, it can finally be delivered to the customer.

Conclusion

Trade is one of the main pillars of a country's economy, and any disruption in it causes a lot of damage to those present in the cycle, including producers, importers, consumers, and even the government. One of the most important ways to disrupt this process has been through sanctions.

According to the study, sanctions to prevent the export of products to sanctioned countries are not completely successful, but make the situation more difficult for the people of the country.

The same is true of a country like Iran, which has been under sanctions for many years. This means that the people of Iran are moving further and further away from social and financial well-being under the pressure of sanctions, while governments are not backing down from their position of power. As an example, the main thing that the Iranian government has done in order to address problems caused by sanctions on the import of goods is to encourage people to use domestically produced products. In order to achieve this goal, the Iranian government has imposed many restrictions on the promotion of foreign products in Iran, to the extent that advertising of foreign products in the Iranian national media is prohibited, unless part of the product is produced in Iran. The Iranian government has also imposed heavy tariffs on imports of foreign products similar to those which are produced domestically. However, in most cases, the Iranian people want to use foreign products because they are not satisfied with domestic product quality. In this way, it can be understood that the main blow of the sanctions will hit the people of that country, while they may not have interfered in the political affairs leading to the sanctions.

If we want to consider Iran separately from sanctions, we can expect luxury brands in Iran to be very successful. Several important factors are influential in this regard. First, despite the fact that more than 83 million population with an average age of 32.1 young, of which a significant percentage are educated, we can understand the importance of the Iranian market. Also it is safe to say that the Iranian youth are more modern than the rest of the people of the Middle East and show great interest in the Western lifestyle and seek to follow it. This is evident in the type of cover they wear and in the overall style of their lives. This shows how much potential the Iranian market has for the success of Western

brands. When it comes to Italian brands, they become more eager to follow since Italian brands are famous for being luxurious.

The next noteworthy issue is the social culture of the Iranian people. Iranians have a collectivist culture and are very interested in socializing with others, and this may be the reason why they quickly follow each other's example. They attach great importance to the judgments of others about themselves, and therefore, pay special attention to the appearance of life, including the type of clothing, the type of home layout, and the use of luxury brands. Because of this, showing off is important to most of them. This makes a family, although it is middle class, have at least a few luxury items for arrangement in their home.

The last point is that Iranians are consumerists. Naturally, the poor class is an exception to this rule. But in general, the upper and upper-middle class of Iranians are interested in consumerism and show a significant cost of consuming luxury products.

If we put all these factors together, we realize that the Iranian market is a very large and important market for luxury goods. As several Italian luxury brands, including Roberto Cavalli and Versace, realized this and were among the first Italian brands to enter the market. But due to sanctions, their official activities with Iran were canceled.

What has disrupted this important issue is the presence of sanctions. The sanctions were originally aimed at forcing the Iranian government to make the changes desired by the United States and the European Union but had principally ended to the detriment of both the Iranian people and the traders, importers, and producers of luxury goods. Because it has not actually changed the behavior of the Iranian government. But it has put the Iranian people in a state of economic crisis and is making their living conditions more difficult day by day .

If we want to add the impact of sanctions to the existing realities of Iranian society, the result will be different.

Iran has been a country with many ups and downs throughout its history. The current era of Iran, that is, the post-revolutionary era has changed the economic situation of the people. In recent years, and before Trump's maximum pressure in 2018 that plunged Iran into a severe economic crisis, a new upper-middle-class had formed that included those who had been able to improve their well-being within several years due to the favorable economic situation. They were the ones who could have been able to go beyond the middle and lower-middle-class to form the upper-middle class. These were people who

were not from the upper class, but in fact, could afford to buy luxury goods. On the other hand, due to the culture of showing off in Iran, this group, despite sufficient financial resources, was buying luxury products even more than usual. But it was not long before the group became weaker and weaker, again due to sanctions, until it fell back to the middle and lower-middle classes. In this way, this group was removed from the collection of customers of luxury products. At present, despite the economic crisis caused by sanctions in Iran, the upper class, which has sufficient financial capacity to buy luxury products, is its only customer.

Of course, because the existence of sanctions in Iran has a long history, it has faced problems in every period about the arrival of Western products in Iran. But now, as a result of the maximum pressure from US sanctions, the issue has become more difficult and most Western brands have left Iran. However, some companies follow US sanctions against Iran, not out of the direct influence of US sanctions against Iran, but for fear of losing the vast US market.

On the other hand, there are Iranian importers who have for years faced problems with sanctions, including restrictions on money transfers and shipments. So over the years, they have learned how to bypass them. Despite different problems at different times, Western goods have always been found and continue to be found in Iran. The only difference is that these goods are sold at a much higher price than the real price. Because both circumventing sanctions is costly and also the importer is willing to make more profits than usual for the reason of the amount of risk he incurs, since the Iranian importer faces many restrictions, including restrictions on payment and even shipping goods to Iran. It can be said that the Iranian importer for importing from Italy is practically faced with a large number of closed doors, each of which requires cost and risk to open.

Finally, by examining all the dimensions, we realize that in the matter of importing Western products to Iran, most of the pressure is put on the Iranian people. Because the Iranian Customs, which is a government agency, receives customs tariffs on imported goods. Importers, on the other hand, offset their risk-taking costs by selling the product at a much higher price than the real price. Finally, it is the people of Iran who, despite pursuing luxury products and great interest in buying them, are somehow deprived of buying them. Because original luxury products are hard to find in Iran at the moment, and

if they are found, they have to pay a much higher price than the real price in order to be able to buy their favorite product.

In conclusion, it can be concluded that sanctions are the main and perhaps the only obstacle to easy trade between Iran and Italy. This shows how effective the lifting of sanctions can be in the influx of Italian brands into Iran. Because the population of Iran is still educated, modern and Western-oriented, and has a culture of ostentation and consumerism from previous generations. Therefore, young Iranians have a great desire to use Italian luxury brands and are waiting in the hope of lifting sanctions, which is the key to solving Iran's economic problems.

In addition, according to the Iran-Italy Joint Chamber of Commerce, several Italian brands are still paying attention to the Iranian market and are waiting for the lifting of sanctions to enter this large market and it is hoped that in the future, with the lifting of sanctions, Iran will face GDP growth and economic recovery.

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