

# IRAN: THE BUSINESS OPPORTUNITY OF THE DECADE





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# Preface



In the early years of this decade, when western sanctions against Iran were building in ferocity, the country's large middle class endeavoured to hedge against possible economic collapse or military attack. They did this by buying gold and foreign currency, and by stocking up on food and medicines. In 2012 the price of foreign cancer drugs soared and everyday items such as nappies and bottled water grew scarcer as Iranians stocked up in anticipation of an Israeli onslaught on the country's nuclear facilities. I was among the few westerners who continued to go regularly to Iran during this troubled period, visiting my Iranian wife's family in Tehran and bringing in little luxuries like foreign cheese and chocolate that had become extortionately expensive. Each time we arrived, the corrosive effects of galloping inflation and a collapsing rial were more apparent; the likelihood of a prolonged crisis climaxing in military confrontation seemed high indeed.

Since the election in May 2013 of the moderate reformist President Hassan Rouhani, however, and the nuclear deal that Iran signed in January 2016 with America, Russia, and the European Union, the country has experienced an extraordinary turn-around. It isn't that Iran's fundamentals have changed – these, as you will learn from Skolkovo IEMS report, were always strong. What the nuclear deal and the subsequent fall in international tensions mean is that Iranians are now finally in a position to fulfil the potential of a young, educated and entrepreneurial population inhabiting a resource-rich landmass at the epicentre of Eurasia. Iran has already become a different place from the pre-Rouhani pariah state. Oil sales are back almost to pre-sanctions levels, the shelves are full, and the IMF has predicted that the economy will grow by 4.5% in 2016/17. Not bad for a country that in 2012 suffered a crippling recession and seemed a candidate for disorderly collapse.

In a clear sign that the US will not, in spite of continuing bilateral tensions, forego this potentially lucrative new market, in September 2016 the American government approved the sale of 80 Boeing airliners to the Islamic Republic. The Boeing deal is the clearest illustration yet of the irresistible attraction being exerted by the last major economy to embrace global capitalism. 'After Iran', one wide-eyed investor told me recently, 'only Mars and the moon are left.'

The Iran I got to know in 1999 was for many foreigners about as remote as Mars and the moon. In that year I made my first reporting trip to the country; enthralled, I returned the following year as the Economist's resident correspondent, a position I held until 2005. Iran back then was buffeted by international gales caused by 9/11 and the US invasions of Afghanistan and Iraq. Tensions rose with the west over competing regional agendas, and in 2007 my family and I left for the UK, where I took up a fellowship at Oxford University and was in demand as an analyst of a country that was generally described as a threat to Western interests. That description changed with Rouhani's election, and nowadays, dividing my time between Iran and the UK, I am more often asked to comment on Iran's diverse economy and the high returns it promises the canny business person.

Russia remained a friend throughout Iran's period of international isolation. Now that the Islamic Republic is in from the cold, Russian investors, exporters and service-providers should be excellently placed to leverage Iran's healthier balance sheet and its appetite for foreign goods and services. But competition looks like being stern, both from China, currently Iran's biggest trade partner, and from the West as bitter memories of sanctions fade and economic ties strengthen once more. Germany, for example, whose exports to Iran plummeted during the sanctions period, has surged back up the league table of exporters to Iran, exporting USD 1.1bn-worth of

goods and services in the first half of this year. Russian exports to Iran over the first five months of this year, although double the same period in 2015, amounted to a relatively modest USD 700m. Considering Russia's size and historic links to Iran, it is possible to imagine much higher trade and investment volumes between the two countries.

This is why I am so pleased to be closely involved in the SKOLKOVO Business School's forthcoming open course on doing business in Iran. As well as being an exciting business opportunity, Iran is a complex and sophisticated society containing much that is unfamiliar. It is my hope that next March we can open up the black box of Iran and its economy. Gaining local knowledge is the essential preliminary to sound commercial decision-making.



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# Executive Summary





2016 was a year of rediscovery of Iran by the international business community. A number of high-profile deals in the first half of the year attracted attention to what could easily turn into the business opportunity of the decade. With a market of 80 million people, and a GDP in the world's top 20, Iran can be compared with the combined markets of Eastern Europe in early 1990s.

While the dependence of the Iranian economy on oil exports is a big issue, the country's economy is more diversified than many of its Persian Gulf peers. It has a strong manufacturing base, and has demonstrated ambition and achievements in the area of technology which are well above the regional average. The country has a very high position in the per capita production of science and technology graduates, and it consistently demonstrates a high level of investment in R&D. Among other things, Iran produces over 1m cars per year, which is more than Italy. In addition, the climate allows for very diverse agriculture; Iran is a major global exporter of fruit, vegetables and spices.

For the international business person, it is important to understand the political system of the Islamic Republic of Iran. The modern Iranian state is unique in that it is both ideologically Islamic and partially democratic. It has more in common with the Western democracies than is usually thought.

Contrary to the common perception, Iran **is not** a direct-sharia-rule country. In fact, the official role of the religious authorities is on a level with the three branches of power in the classic Western triad of legislature, executive and judiciary. The religious-ideological branch is probably *primus inter pares*, not least because the Supreme Leader belongs to it, but this superiority is not unlimited. In practice, the whole body of government, including the religious authorities, is elective. If this is used as a criterion for democracy, Iran is quite a vibrant one with strong public campaigns for the national and regional institutions.

There is, however, a socialist element to the Constitution, much more so than any direct religious one. However there is a tradition of pragmatism in the economic sphere, and there has been a long-term trend away from the quasi-socialism of the immediate post-Revolutionary years to the more business-friendly approach today. However, corruption is a problem, partly due to the involvement of the non-transparent body of the Revolutionary Guards in the business affairs. Despite this, Iran ranks reasonably highly on the Ease-of-Doing-Business index compared with other emerging markets.

The quality of Iranian consumer market is increased by the relatively high level of human development, in which the country is ranked 69th out of 188 countries in the world. The country's market for consumer goods is worth ca. USD 150bn a year. An important business opportunity is represented by the growing middle class, which is not only increasingly consumerist and cosmopolitan in its way of life, but also relatively large. Together with the ever-growing number of graduate professionals, it includes many successful farmers and skilled industrial workers.

Despite tense political relations with the West, international brands are seen as being of superior quality and so are in demand. Some consumer goods multi-national giants – like Unilever, Coca Cola and PepsiCo – never left the market and their brands are widely available today. Consumer spending on FMCG alone is expected to grow at a rate of almost 30% CAGR in the coming decade. 60% of the population is still under 30, and their full spending power is still in the future.

Cars and housing are thought of as long-term consumer investments. At the same time, no effort is spared in getting the best possible education for children. There is a booming local private educational industry, both in the secondary and the tertiary segments.

Digital technologies are penetrating all spheres of life. Though many internet sites – including most of the social media platforms – are officially unavailable in Iran, local customers quietly circumvent the barriers by using VPNs. E-commerce is already significant, with an estimated volume in 2015 of USD 17.4bn (ca. 2.5% of nominal GDP), and over 20,000 operating e-stores. The country's leading digital company, DigiKala, has an estimated value of USD 150m.

Another sector that is relatively well developed is consumer electronics and home appliances. For this category, the country's position in the middle of a turbulent region appears to be an asset, as Iranian companies eagerly operate in the markets like Iraq or Afghanistan, deriving a substantial portion of revenue from these operations. Iran is in the logistics centre of a vast region of about 300 million consumers, and is connected to its neighbours by means of highways, railroads and the sea. Despite having been isolated for nearly 40 years, Iranians consistently demonstrate an open and integrative mentality.

Another major business opportunity is the long-term program of privatisation of government assets. In the five years since 2004, when the Supreme Leader called for the sale of 80% of the state's shares in large companies, government property worth some USD 63bn was privatised. Yet substantial government holdings remain to offered to investors.

The industrial assets of the country need a significant overhaul, and applying modern IT technologies to business management is also an imperative for keeping up with international industrial competition. Iran consistently maintains a ratio of investment to GDP of about 30%, meaning that there is a USD 140bn a year opportunity in the development of fixed industrial assets and infrastructure. In the latter category, projects worth USD 10bn aim to create new major trade routes through Iran from Western Europe to China, India and East Africa before 2020.

Iran is one of the developing countries with high level of ambition, and it places great emphasis on expanding the base of its educated and affluent population, seeking to provide elements of a modern quality of life even to dwellers of distant villages and to its nomadic population. Thus the business outlook is bright in most markets.

This optimistic scenario is defined by the sixth five-year development plan (2016-2020), which calls for annual GDP growth of 8%. That figure looks challenging in the present-day context, but if that sort of growth could be maintained for three years in a row, it would boost GDP by 26% and Iran would probably overtake Saudi Arabia and Turkey and occupy the top position among the Middle Eastern economies<sup>1</sup>. That would be the key to fulfilling the other ambitions.

However, there are important challenges and risks, many of which are partly, and some entirely, outside the country's control. First, Iran borders on some of the most turbulent areas of the world, and is involved directly in three regional wars: in Syria, in Yemen, and in Afghanistan. Secondly, Iran has a "rogue" reputation in the West, which has been built up many media and politicians. This exposes it to political developments in the Western world, particularly in the USA.

<sup>1</sup> While Turkey is usually not count as part of MENA region, it is definitely one of the strongest economic partners and at the same time competitors of Iran.

It is unrealistic to expect quick political change in Iran. Rather one should expect gradual development, “Chinese-style”, with economic liberalization moving ahead more quickly than ideological transformation. The question is the speed of the global re-integration of Iran, not its overall direction. The Iranian leadership has demonstrated significant economic pragmatism. Though there could be bumps in the road ahead – for example, the Presidential elections in the USA in November 2016 and the Presidential elections in Iran set for May 2017 – an international business person can plan for a long-term Iranian strategy with a reasonable degree of confidence in an opportunity which is unique in both size and quality.



# Mapping the opportunity



Since the lifting of international sanctions on January 16, 2016 following the success in implementation of the nuclear deal between Iran and the so-called “P+1 group” (permanent members of the UN Security Council, i. e. China, France, Russia, the UK and the USA + Germany) which was struck in July 2015, the country has been progressively rediscovered by Western business as a major source of new opportunities. A stream of contracts followed, the largest of which was the USD 25bn deal with Airbus to buy 118 planes. After the immediate enthusiasm, there was a certain disappointment, both in Iran and the West, when it was realised that many of the barriers to trade and investment were still in place.

Yet a dispassionate analysis shows that Iran remains the biggest single new market opportunity of the 2010s. Missing it would be like missing the chances opened in 1990 by the reintegration of Eastern Europe to the world economy. In fact the population of Iran is exactly equal to the combined population of Poland, Czechoslovakia, German Democratic Republic and Hungary in 1990: 80 million people. It is difficult to estimate the relative income levels of Eastern Europe in 1990 and Iran in 2016, but they are probably roughly comparable. As we will see, the degree of industrial and technological

development also has remarkable parallels. Now in Iran, as then in Eastern Europe, grasping market opportunities requires the abandonment of many prejudices which have been created by decades of one-sided and limited media coverage, and understanding the complex and multidimensional nature of both the status quo and the likely dynamics of future development.

A common Western perception of Iran derives from the media image of it as a “rogue state”. On the economic side this usually translates into the perception of a classic third-world country, maybe with some military-related technological capabilities, which is driven by oil money and has a state-dominated and uncompetitive internal market. There is a grain of truth in this, but the real picture of modern Iran is far broader and more attractive, for both business people and tourists. For the latter, Iran offers some of the world’s most renowned sites of breathtaking beauty. For the former, business opportunities are enormous in a strong and diversified economy, within a state that is in the process of transition from quasi-socialism to a market economy. Iran has a number of diversified markets with educated and enthusiastic consumers and an optimistic outlook for future progress.

## Iran as an economy

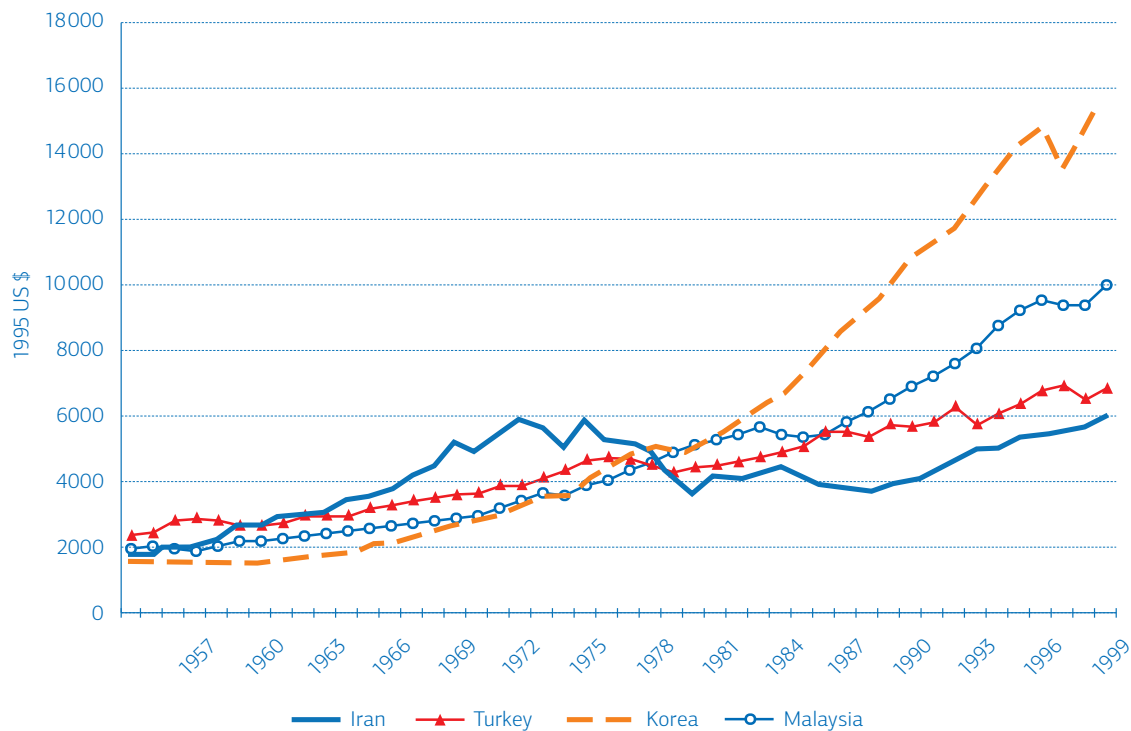
Described in basic economic statistics, Iran represents a powerful combination of GDP size and increasing diversity. In structural terms, it is diversified and industrialized, though oil and gas represent the key source of finance for investment. The country has a medium level of income, and ranks in the middle of the world in terms of conditions for doing business.

### Economy size

Iran is in the world's top 20 economies if measured by Purchase Power Parity, with a GDP of

USD 1.3 trillion, which is bigger than, say, Australia, Taiwan (PRC) or Poland. Within the region it is third after Turkey and Saudi Arabia (which are not just competitors, but political rivals on many issues). In the terms of nominal GDP the figure is significantly smaller, just USD 425bn, which is due to the weak national currency. Yet even this is larger than such respectable economies as the UAE, Singapore or Israel. Note that the high PPP to nominal GDP ratio could become a strong economic stimulant, especially for manufacturing for export. At the beginning of 2010s, in the heyday of its economic boom, China had a similar ratio (300%).

Graph. Per Capita GDP trends in Iran, Turkey, Korea, Malaysia



From Hassan Hakimian: Institutional Change, Policy Challenges and Macroeconomic Performance: Case Study of Iran (1979-2004) – draft<sup>2</sup>

<sup>2</sup> [http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth\\_Commission\\_Workshops\\_Country\\_Case\\_Studies\\_Hakimian\\_Paper.pdf](http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Workshops_Country_Case_Studies_Hakimian_Paper.pdf)

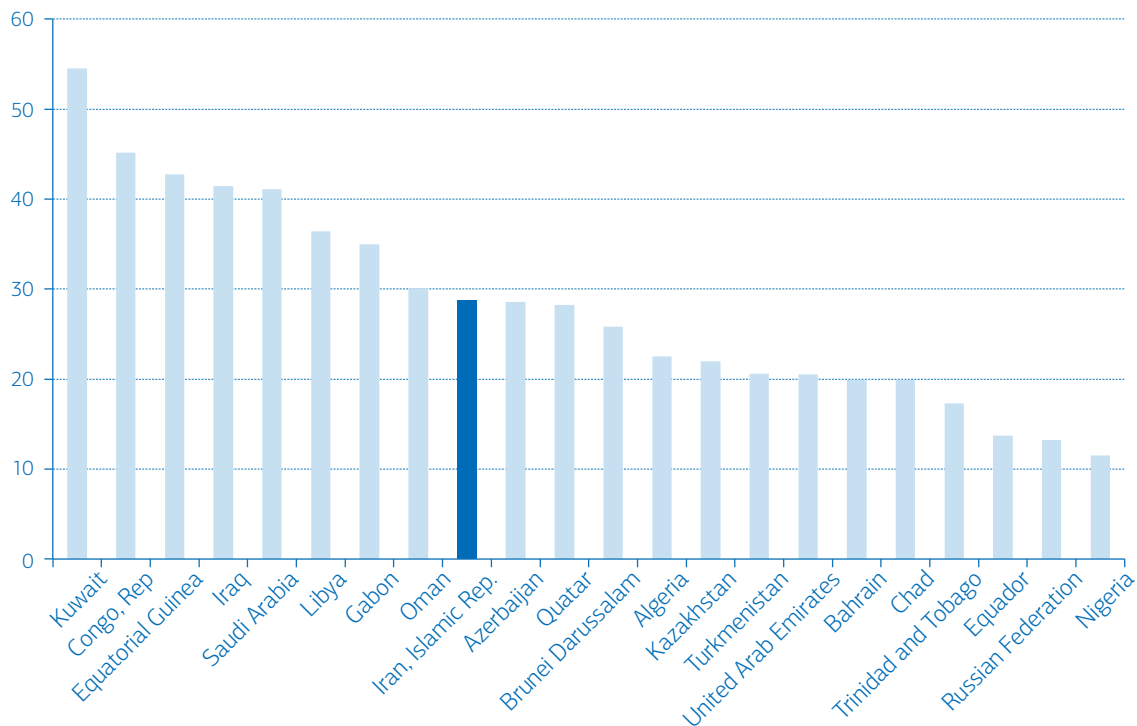
Iran's per capita GDP puts it into upper-middle group according to IMF, with the country occupying 96th position in the world. Among the big economies, its closest competitors in this respect are Mexico (#92) and Brazil (#100). Such a level of income is due to both the relatively high quality of human capital, infrastructure and institutions, and to the country's international competitiveness due to the relatively low cost of qualified labour.

The historical background is relevant. Iran grew rapidly in 1960s and early 1970s, fuelled by a drive to develop national industry on the then-popular theme of "import substitution". As in many other countries,

this was not sustained into the second half of 1970s. The sharp drop in per capita GDP in 1975-1978 played an important role in setting the mood for the Islamic Revolution. Yet overthrowing the Shah did not bring economic recovery. War with Iraq followed quickly, and lasted for 8 years<sup>3</sup> putting the country on the track of steady economic decline (averaging 1.6% of GDP per annum). In many ways, Iran was reduced to a survival economy. It fell out of the group of high-growth countries – like Korea, Malaysia or Turkey – which had started growing in early 1960s from a comparable base

Since the beginning of the 1990s Iran has returned to economic growth, managing

**Graph. Countries with the highest oil and natural gas rent in the world**



All countries with rent above 10% of GDP

<sup>3</sup> Making it the longest war of the 20th century; human losses on both sides were in the range of 1 million.

to match and exceed the rapid population growth that followed the war (for quite a long period Iran was among the world's fastest-growing nations). A number of important reforms were introduced aimed at decreasing the role of state in the economy and stimulating growth through private enterprise. The bullish market for oil was an essential contributor to growth. From time to time the oil revenues allowed the government to retract the populist practice of extensive subsidies on a number of consumer products, but without causing much unrest.

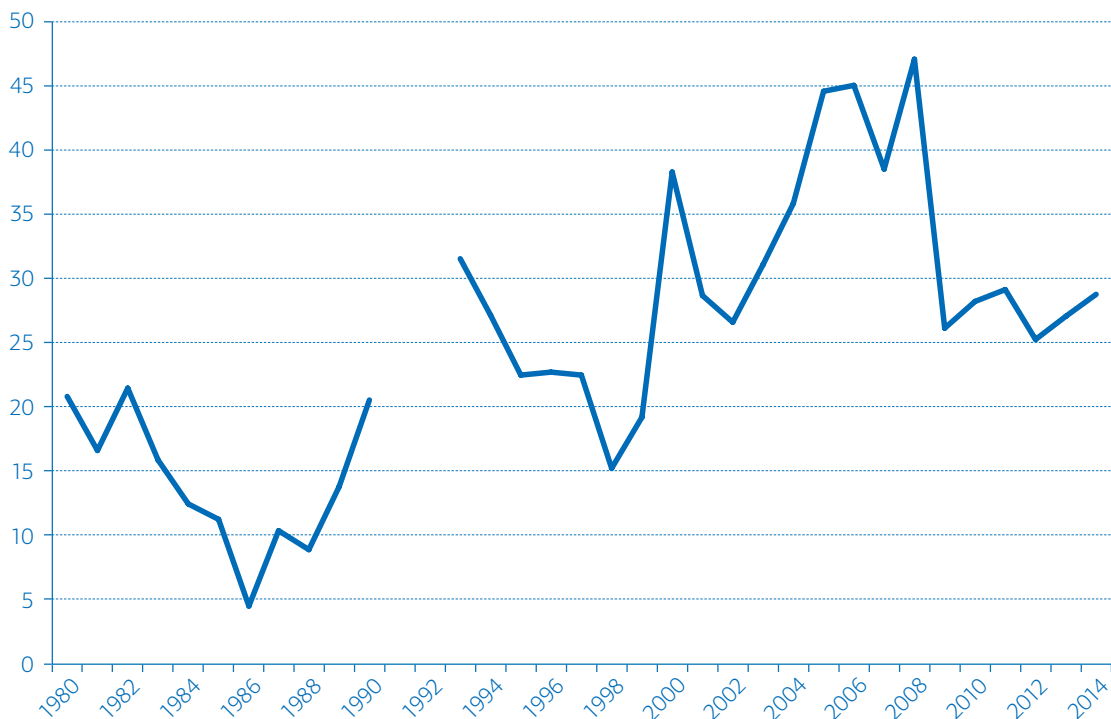
The introduction of broad international sanctions in 2012, and the sharp drop in oil prices which quickly followed, threw the

economy back into decline. GDP contracted for eight consecutive quarters after summer 2012, and the growth rates in late 2014 and early 2015 were very modest. As a result, the rial devalued by some 80% which reduced imports of both consumer and industrial goods. High expectations were put on the economic performance in 2016 after the lifting of the sanctions<sup>4</sup>, yet the actual performance seems to have been rather disappointing.

#### Economy structure and role of oil

The dependence of the Iranian economy on oil exports is a big issue. Indeed the country is in the world's top-10 in terms of the share of the oil and natural gas rent in GDP. Among its

Graph. Oil and gas rent as % of Iranian GDP, 1980-2014



No data available for 1991-93<sup>5</sup>

<sup>4</sup> World bank estimate in March 2016 was 4.2% for 2016 and 4.7% in 2017

<sup>5</sup> Source: World Bank



Persian Gulf peers – or competitors – it comes fourth, and its 29% compares favourably with Kuwait’s 56% or Saudi Arabia’s 42%. Yet some of the countries in the region progressed much further in diversifying their economies: the UAE and Bahrain both have rent in the range of 20% of GDP. Iran’s current level is much lower than the figures for the mid-2000s, when the share of rent went as high as 45% of GDP. Historic analysis shows that the country is capable of development even with a further reduction in oil prices, as it did in 1998.

Overall, Iran has a strong manufacturing industry. It has demonstrated ambition and

some achievements at an international level. These include the space program, with both home-built satellites and launchers and some progress towards manned flight (a number of animals, including a monkey, have already been brought back safely from space). The nuclear and ballistic programs of the country raised strong international concerns, yet it is another demonstration of current technological capabilities. Iran has designed and manufactured its own jet fighters and warships (frigates/destroyers), though their capabilities are much debated by international analysts.

**Table. Iran’s world ranking in exports of some agricultural commodities**

World Ranking in exports	Commodity; (Source: FAO <sup>6</sup> )
<b>1st</b>	Pistachio, Berberis (Zereshk), Caviar, Saffron, Stone fruits, Berries
<b>2nd</b>	Dates, Apricots
<b>3rd</b>	Watermelons, Cherries, Cantaloupes & other melons, Apples, Figs, Gherkins
<b>4th</b>	Sheep Stocks (Flocks), Fresh Fruits, Quinces, Wool, Almonds, Walnuts
<b>5th</b>	Anise, Badian, Fennel, Corian, Chickpeas, Silk worm cocoons
<b>6th</b>	Hazelnut, Buffalo milk, Tomatoes
<b>7th</b>	Grapes, Onions, Sour cherries, Sheep milk, Kiwifruit
<b>8th</b>	Spices, Peach, Nectarines, Tangerine, Mandarin orange, Clementines, Lemons & Limes, Oranges, Goat milk, Pumpkins, Squash & Gourds
<b>9th</b>	Lentils
<b>10th</b>	Persimmons, Tea, Natural honey

6 "Faostat". Faostat.fao.org

Iran's industrial capabilities are helped by efforts to develop national capabilities in key areas of industrial technology. The country has one of the world's highest levels of graduate production in science and technology, and has had a consistently high level of investment in R&D. It is worth noting that, despite the traditionally extensive involvement of the state in the economy, the country has a very impressive share of R&D financed by the private sector (see more on the country's standing in the global innovations ecosystem in the analysis of the position in the Global Innovativeness Index).

The country's drive towards industrialization started in 1960s when the Industrial Development and Renovation Organization of Iran (IDRO) was established with the aim of achieving significant levels of import substitution in manufactured goods. One of the key achievements of those times was the establishment of several automotive assembly plants for international companies, which laid the foundation for a flourishing modern industry. The production of cars peaked in 2013, at over 1.5 million vehicles, which is more than Turkey's output. The subsequent economic crisis led to significant cut in output, yet it is still well above 1m, which is more than Italy.

Though the climate allows for very diverse agriculture, Iran sometimes needs to import grain and rice. However, it is a major global exporter of fruit, vegetables and spices. These are mostly exported unprocessed as the food processing industry currently lags behind in development.

### **Business climate**

Some comparative international indices add to the understanding of the Iranian economy, highlighting some of the more qualitative issues.

Iran is 118<sup>th</sup> in the World Bank's "**Ease of Doing Business**" Index, which is one position higher than 2014. Its competitors are Brazil and Ecuador (#116 and #117) above, and Barbados (#119) and Argentina (#121) below. The "distance

to frontier" is 57.4 points. Three of the stronger areas are "starting a business" (#87), "enforcing contracts" (#62) and "getting construction permits" (#69). Among the weaknesses are "protecting minority investors" (#150), "trading across borders" (#167), "resolving insolvency" (#140) and "paying taxes" (#123).

In the 2015-2016 **Global Competitiveness** Index published by the World Economic Forum Iran was placed #74 out of 140 (the score is 4.09 out of 7), up from #83 a year earlier. It is higher than Brazil and Ecuador (#75 and #76 respectively) but lower than Uruguay and Morocco (#73 and #72 respectively). The country is recognized for its market size (#17). Its "basic requirements" are quite strong, and the weakness lies with the efficiency of markets: of labour (#138) and of finance (#134).

In the **Global Entrepreneurship** Index Iran is #80, below Libya and Morocco and above Georgia and Bosnia and Herzegovina. However, in the years 2013-2015 the country made an impressive gain of 14 positions. The score for start-up skills is higher than the world and regional (MENA) averages, also relatively high are scores for technology absorption and speed of growth. The weak points are "internationalisation of business" (for rather obvious reasons this is almost at zero) and "risk acceptance", "product innovation" and, rather unexpectedly, "cultural support for entrepreneurship".

Another telling exercise is to analyse the country's standing in the **Global Innovativeness** Index (by WIPO, INSEAD and Johnson Cornell University). Iran is relatively low overall with the score of 28.1 and 106<sup>th</sup> position out of 141, around the level of Bolivia (#104), Mali (#105), Namibia (#107) and Ghana (#108). Some progress was made in 2015 as against 2014 (when Iran was #120), yet the ranking is rather low for a country with a space program and nuclear research capabilities. The country is the same in the categories of innovative inputs (institutions, infrastructure, business environment: #106) and outputs (patents, on-line creativity, scientific achievements: #106).

There are strong sides recognized by the **Innovativeness Index**: Iran ranks #46 in human capital and research, with a special focus on the popularity of tertiary education (#4) and the world's top position in graduates in science and engineering (#1). Quite high are research FTE<sup>7</sup> per million of population (#54), gross expenditures on R&D (#46), GERD<sup>8</sup> financed by business (#48), domestic resident patent applications per dollar of purchase power parity GDP (#8), number of scientific and technical articles relative to GDP (#40), citable documents index (#44), number of Wikipedia edits relative to population (#52), gross capital formation as a percent of GDP (#6), and the share of high- and middle-tech industries in total manufacturing (#28).

Yet these strengths are offset by a number of institutional weaknesses. The country ranks low on such metrics as overall political, regulatory and business institutions (#126), trade and competition (#140), business sophistication (#130), knowledge absorption (#137). The latter measure was sensitive to the

degree of internationalisation of the country's business and academic community, thus was unavoidably strongly affected by the sanctions. Overall we can expect Iran to rise rapidly in the Innovativeness Index in the years after the lifting of sanctions.

#### **Takeaway for international business**

The local business community and international observers agree that the country's future development potential is outstanding. In the optimistic scenario, Iran is bound to surpass Saudi Arabia and Turkey<sup>9</sup> on the way to the top position among Middle Eastern economies within a decade. The geographical situation of the country provides a bridge from Europe to Central Asia, India and ultimately China. This makes it a crossing point for potentially important new trade routes, especially in the view of projects like the Chinese "Economic Belt of the Silk Road". Iran seems poised to become a new "economic tiger" (finally fulfilling the promises of the 1960s).

<sup>7</sup> Full-time equivalent, measure of net research workforce

<sup>8</sup> Gross expenditures on research and development

<sup>9</sup> While Turkey is usually not count as part of MENA region, it is definitely one of the strongest economic partners and at the same time competitors of Iran.

## Iran as a state: ideologic Islamic democracy

The Islamic Republic of Iran is an unique state in that it has explicitly religious foundations but derives from them a socio-economic order which is partly socialist. The Republic maintains electability of all key bodies of Constitutional authority, and allows vibrant political discussion and hotly contested elections.

### Dualism of religion and ideology

Like Eastern Europe, Iran's re-emergence of on the global business map was triggered by profound political changes. Some Western observers believe that a political transformation comparable to that from socialist autocracy to Western-style democracy in Eastern Europe will be required for Iran to be considered a really attractive international market.

It is highly unlikely that the country will go through this type of experience in the near future. Yet it is important to understand that its current system, though substantially different from what is classified as "democracy" in the Western world, actually bears a closer resemblance to the Western approach in its foundations and operations than is usually thought.

The Western media and scholars have invented a number of labels when trying to depict the way the Islamic Republic of Iran is constituted and governed. They range from "theocracy" (sometimes with qualification "modern") to "participatory non-democracy"<sup>10</sup>. Indeed the modern

Iranian state is unique in that it understands and structures itself as being both ideological and Islamic. The first qualification means that Islam serves not just the religion for majority of population (four religious minorities are officially recognized), or as the source of directly applied sharia law, but as a foundation for a broad set of views on every aspect of the functioning of the modern state, including the economy, foreign relations, human rights, etc. In this sense Iran is not a direct-sharia-rule state. It operates by codes of laws of which most would not puzzle any international secular lawyer. This approach has certain parallels with the ideological states that used to make up the Soviet bloc<sup>11</sup>.

The Constitution of Islamic Republic of Iran provides for specific ways and instruments for the incorporation of Islamic principles into the foundation and governance of the state<sup>12</sup>. This tends to limit the dichotomy between religion-driven and purely secular approaches to government. In fact, much political discussion in modern Iran is devoted to which aspects of life **should not** be part of the explicitly Islamic interpretation.

"In the Islamic Republic of Iran, the freedom, independence, unity, and territorial integrity of the country are inseparable from one another, and their preservation is the duty of the government and all individual citizens. No individual, group, or authority, has the right to infringe in the slightest way upon the political, cultural, economic, and military independence or the territorial integrity of Iran under the pretext of exercising freedom. Similarly, no authority has the right to abrogate legitimate freedoms, not even by enacting laws and regulations for that purpose, under the pretext of preserving the independence and territorial integrity of the country."

Article 9 of the Constitution

<sup>10</sup> Hassan Hakimian, *Ibid*.

<sup>11</sup> Though the leaders of the Iranian revolution explicitly denied the Marxist line of thought and put enough of efforts to expel the leftist parties – very powerful in 1970s – from the country.

<sup>12</sup> This is in contrast to the foundations of the classical ideological states of the Soviet bloc where the role of the Communist Parties used to be stated in indefinitely broad terms ("The leading and governing force", as per Article 6 of the Constitution of the USSR).

An instructive way to understand the official role of religious powers in the state of Iran is to think of it as a separate branch of power in addition to the classic Western triad of the legislative, executive and judicial branches. The religious-ideological one is probably superior to other three (as the Supreme Leader belongs to it), but this does not confer unlimited authority. Even the Supreme Leader has explicitly defined areas of responsibility, and thus can be seen as an institution, not a person. Understood in this way, the Islamic Republic of Iran looks much closer to the

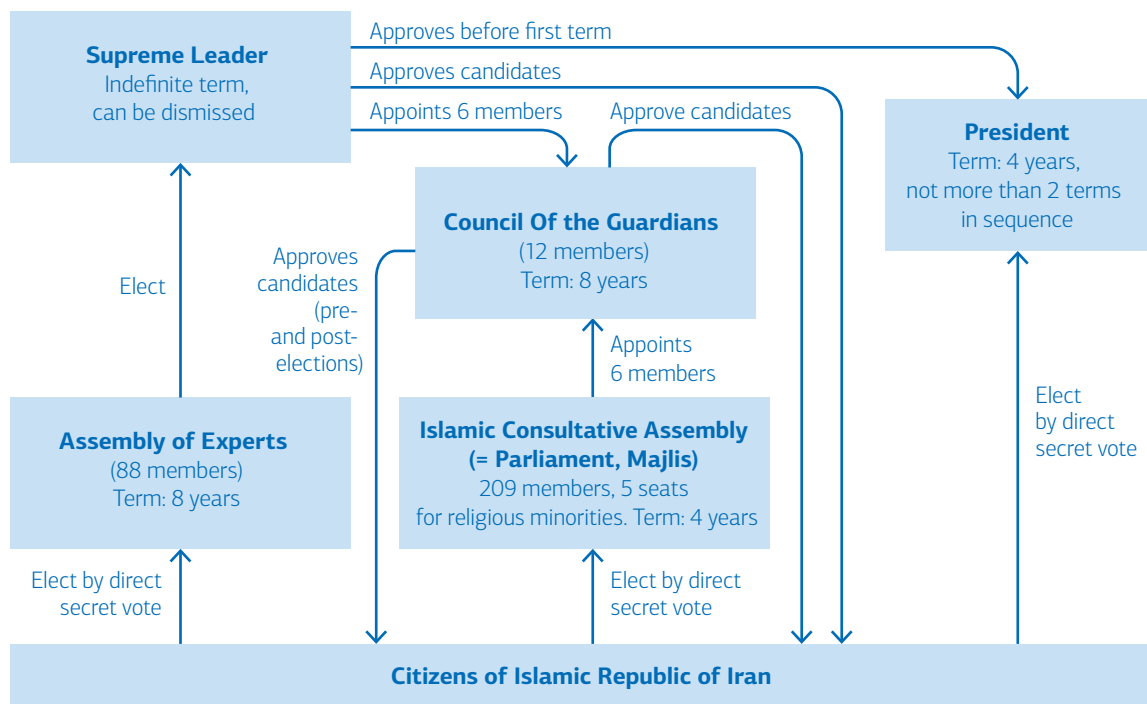
"... all Muslims form a single nation, and the government of the Islamic Republic of Iran has the duty of formulating its general policies with a view to cultivating the friendship and unity of all Muslim peoples, and it must constantly strive to bring about the political, economic, and cultural unity of the Islamic world."

**Article 11 of the Constitution**

Western democracies than many of its immediate neighbours.

The dual – ideological and Islamic – nature of the state is visible in the Article 2 of the Constitution, which defines the foundations of the Republic. It includes five explicitly religious statements (one God, Divine

**Chart: the key bodies of power within Islamic Republic of Iran**



revelation, return to God in the Hereafter, justice of God, and continuous *imamah* leadership) followed by a sixth one that reads: “The exalted dignity and value of man, and his freedom coupled with responsibility before God; in which equity, justice, political, economic, social, and cultural independence, and national solidarity are secured...” The statement that follows effectively equals the practice of interpretation of religious law to the “sciences and arts and the most advanced results of human experience, together with the effort to advance them further”.

Indeed, the Shia branch of Islam which is the official religion of the country is peculiar in a few aspects. On the one hand it involves ceremonies full of exaltation, especially in the period of mourning of *muharram*, the commemoration of the battle of Karbala, at which the Imam Hussein was killed. It also has a definite mystic element, namely the belief that the twelfth Imam went into “Major Occultation” in 941 AD, not contacting any living being on Earth, to return in the end of times as Mahdi, who, together with Isa (Jesus), will establish peace all over the world. At the same time, as was stated, the Shia Islam continues to promote the tradition of *ijtihad* (the creative development of Islamic law by qualified scholars), unlike the major Sunni schools which tend to limit the scope of possible interpretations. Some observers view modern Shiism as being more rationalized and open for development as compared to mainstream Sunnism.

It is important to keep in mind the dualism of the Islamic Republic when assessing the role of clergy in the current politics and the economy of the country. Those coming from the religious branch of power are not necessarily conservatives, at least not in

“...the government of the Islamic Republic of Iran and all Muslims are duty-bound to treat non-Muslims in conformity with ethical norms and the principles of Islamic justice and equity, and to respect their human rights. This principle applies to all who refrain from engaging in conspiracy or activity against Islam and the Islamic Republic of Iran.”

#### Article 14 of the Constitution

“The government must ensure the rights of women in all respects, in conformity with Islamic criteria, and accomplish the following goals: 1.create a favorable environment for the growth of woman's personality and the restoration of her rights, both the material and intellectual...”

#### Article 21 of the Constitution

all aspects of life. Two of the “liberal” Presidents – Khatami in late 1990s and the current Rouhani – are from mullahs, while the much more conservative Ahmadinejad in 2000s was not a religious official.

#### Religious socialism

The Constitution envisages no contradiction between the religious foundations of the state and the goals of the government like (Article 3): “Free education ... for everyone at all levels, ...; strengthening the spirit of inquiry, investigation, and innovation in all areas of science, technology, and culture, as well as Islamic studies, by establishing research centres and encouraging researchers; ... the elimination of all forms of despotism and autocracy and all attempts to monopolize power; ... the participation of the entire people in determining their political, economic, social, and cultural destiny”. These statements (like many others in the body of law of Iran) sounds more socialist than religious.

Officially, the principles of Islamic ideology are applied to the economy as well as other spheres of life. The key economic article of the Constitution, Article 43, states that the

economy has the objectives of achieving the economic independence of the society, of uprooting poverty and deprivation, and of fulfilling human needs in the process of development while preserving human liberty. It further establishes economic foundation principles like the provision of basic necessities for all citizens; attaining full employment; and placing the means of work at the disposal of everyone who is able to work but lacks the means. An unusual Constitutional provision is the prohibition of extravagance and wastefulness in all matters related to the economy, including consumption, investment, production, distribution, and services and prevention of foreign economic domination over the country's economy.

There are obvious traces of socialist ideas in the text, much more than any direct religious influence. The early years of the Islamic Republic actually saw the establishment of the economy with very limited private sector and state dominance in all major industries. Yet the idea of "interpretation and actualisation" of the principles of Islam was applied to economy in full and led to a generally very pragmatic line of behaviour with a long-term trend away from the quasi-socialism of the immediate post-Revolutionary years to a more or less "ordinary business"<sup>13</sup> situation today.

The Article 44 of the Constitution describes the tripartite composition of the economy – state, cooperative and private – but explicitly reserved for the state the following segments: "All large-scale and mother industries, foreign trade, major minerals,

banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like". Importantly, though, the Article refers to "public ownership" in these sectors which is since the mid-2000s has been interpreted as the establishment of joint-stock companies with the free floating of shares and on a market open to private investment.

#### **Electability and transparency**

Practically the whole body of government, including the religious authorities, is electable (see the chart). The most important exception is the Guardians Council, but its members are appointed by electable bodies: the Supreme Leader and the Parliament. Thus, if electability of power is used as a criterion for democracy, Iran is quite a vibrant one with strong public campaigns for both local government bodies and national institutions

"The investigation of individuals' beliefs is forbidden, and no one may be molested or taken to task simply for holding a certain belief."

#### **Article 23 of the Constitution**

"The formation of parties, societies, political or professional associations, as well as religious societies, whether Islamic or pertaining to one of the recognized religious minorities, is permitted provided they do not violate the principles of independence, freedom, national unity, the criteria of Islam, or the basis of the Islamic republic. No one may be prevented from participating in the aforementioned groups, or be compelled to participate in them."

#### **Article 26 of the Constitution**

<sup>13</sup> This is especially manifest in the practice of banking: though officially it denies the idea of interest-based loans and savings (as *riba* or usury is explicitly forbidden by Quran), the modern Iranian banks are not at all shy in advertising for beneficial percentage points as competitive advantages. Certain wording is used to frame the products with respect for the Islamic provision, yet many of the experts from Gulf markets consider the practice not to be the real Islamic banking.

like the Parliament, the Assembly of Experts (which elects the Supreme Leader) and the President.

It might be argued that it is not the foundations but the current quality of the state that presents a challenge for doing business. In the Rule of Law index (by World Justice Project) Iran is ranked #88 out of 102 participants, below Egypt and Sierra Leone, though above Nicaragua and Honduras. The country's system of religion and ideology as the foundation of state is a strong contributor to that low position, including its bottom ranking for "fundamental rights" (#102), and other low rankings, such as for "open government" (#99), "constraints and government powers" (#94) and "order and security" (#80). The scores are much higher for "criminal justice" (#60), absence of corruption (#64), civil justice (#40) and regulatory enforcement (#35).

In the Corruption Perception index by Transparency International, Iran is listed within the group of "high corruption", 130th out of 168 countries, a position which is equal to that of Ukraine and Paraguay. Here we probably see the results of the widespread presence in the economy and everyday life of a very influential and non-transparent body, the Corps of the Revolutionary Guards. Its history goes back to the early times of the Iran-Iraq war, when the formal army appeared to be demoralized by the Revolution, as the military had been the main pro-Shah institution in the country<sup>14</sup>. To compensate for this, a militia emerged and took over the burden of fighting at the front, putting

"The government has the responsibility of confiscating all wealth accumulated through usury, usurpation, bribery, embezzlement, theft, gambling, misuse of endowments, misuse of government contracts and transactions, the sale of uncultivated lands and other resources subject to public ownership, the operation of centers of corruption, and other illicit means and sources, and restoring it to its legitimate owner; and if no such owner can be identified, it must be entrusted to the public treasury. This rule must be executed by the government with due care, after investigation and furnishing necessary evidence in accordance with the law of Islam."

#### Article 49 of the Constitution

personal bravery and devotion in the place of proper military training. Since then the Guards have been widely respected in society, though their more recent role has moved them closer to an unofficial moral and political police. They are alleged to use their public influence to pursue private business interests.

#### Takeaway for business

Despite the common perception, an international business person would probably find not that many traces of Islam in everyday commercial operations with Iran. Thinking of the country's socio-economic order as of some sort of socialism in transition to a freer market is probably more appropriate for business decision-making than diving into the depths of religious thought and rituals. Apart from a few behavioural taboos, including a ban on alcohol and the need for headscarf for women, doing business in Iran is not very different from doing to in other important emerging markets, like officially secular Turkey, or India.

<sup>14</sup> Actually the presumed low motivation of the army was an integral part of the original Saddam's military plan.



## Iran as a market

Iran offers many opportunities both in B2C and B2B markets. In the former, one can rely on the middle class which is constantly growing in numbers, and is becoming increasingly affluent and consumption-oriented. Western brands stand for quality and can justify a price premium, yet local manufacturers are strong in many segments, from cars to home electronics. The digital markets are booming despite certain official limitations in access to the Worldwide Web. On the business side, the ongoing privatisation opens up vast investment opportunities. The industrial sector needs to overhaul most of its productive assets and also invest in the modern IT systems to run its businesses. Finally, the scale of infrastructural development is extremely impressive, even by the standards of a region which is famous for high-profile projects.

### **Consumer market: developed and educated customers**

The strong impression many first-time visitors to the country get is of an unexpected level of modernity. Though the country did not pour the oil revenues it once had in abundance into grandiose projects – you would not be impressed by the urban skyline – it managed to achieve a reasonable quality of life across most parts of the country. The poor suburbs of the cities are particularly telling: you will not find the poverty, destitution and deterioration that are so common in the underprivileged urban districts of the developing world.

The quality of the potential market is probably best understood through an assessment of the quality of the consumers. In this Iran is relatively strong, as described by the Human Development Index. With the score of 0.766 Iran holds, together with Costa Rica, 69th position

out of 188 countries, below Cuba and Lebanon and immediately above Venezuela and Turkey. Thus it is in the middle of the “high” development group. Overall, Iran has demonstrated impressive dynamics in moving from a score of 0.567 in 1990 (when it qualified only for the “medium” group) with an average tempo of 1.26 points a year, significantly quicker than the average for “high” group. Rapid growth occurred in 1990s when the country was recovering from the devastation of the war. Yet even in recent years, 2009 to 2014, Iran moved up 7 positions in the ranking.

The country performs well in life expectancy (75.4 years against the peer group’s<sup>15</sup> 75.1) and expected years of schooling (15.1 against 13.6). Its HDI rank is 4 positions higher than its rank in Gross National Income per capita, indicating that the country performs well relative to its resource base.

Inequality is a problem in all spheres of life. The overall coefficient of human inequality is 32.1 against its peers’ 19, with inequality in income at 46.6% against 29.4%. Interestingly, the separate measures of Gini Index, a common indicator for inequality of income distribution gives a figure of 37.4<sup>16</sup>, which is relatively low<sup>17</sup> by the standards of emerging markets.

The gender development index (the relation of measurements of women to men) is 0.858, putting Iran into the group with the strongest gender inequality. At the same time – somewhat untypical for the region – education is a field where gender inequality is less manifest. Though mean years of schooling for women (7.7) are lower than for men (8.6), this is in line with the averages of the “high” development group. Moreover, the analysis of daily activities shows that Iranian women spend on average more time learning than Iranian men, 62 and 59 minutes a day respectively. In fact 55% of Iranian university students are female and women play a prominent role in the workforce, including high-level

<sup>15</sup> Comparisons are made to the averages of the group of high HDI countries

<sup>16</sup> World Bank

<sup>17</sup> I. e. distribution tends to be leveled, the score of 0 indicates ultimate equality – everybody has the same income, the score of 1 means ultimate inequality, one person takes all of country’s income

specialists. Yet getting up the career ladder is still uncommon for a woman.

Unemployment is a strong economic challenge; the rate stands at 10.4% of relevant population, more than twice the average (4.7%) of the peer group. In particular, youth unemployment is high, at 28.7% vs. 16.7% of the peers. At the same time, equally high is the child labour usage with 11.4% of children aged 6-15 (against 8.3% for peers). Despite the constitutional provision for pension rights only 26.4% of people eligible by age receive state pensions (against 73.9% of the peer group or 88% in neighbouring Turkey).

#### **Consumer market: enthusiastic and increasingly affluent customers**

The Iranian consumer market is worth about USD150bn a year<sup>18</sup>. A key set of important business opportunities is provided by the growing middle class, which is increasingly consumerist and cosmopolitan in its way of life. An entry-level professional with an Iranian university degree could earn, in 2015, some USD 400 net of taxes, while the salary of an experienced mid-level manager would be in the range of USD 2000<sup>19</sup>. However, the definition of the middle class can be much broader than graduate specialists. Many successful farmers specializing in value-added produce like fruit or nuts fall into the same income category, as do many skilled industrial workers.

In post-Revolutionary times the government heavily subsidized some consumer goods, electrical power and, most importantly, petrol. But there has been a continuous drive to get rid of the practice. The first steps, taken in the mid-2000s, involved increases in prices and the introduction of a two-tiered system: a low price within a certain monthly consumption quota and a regular price for extra volumes. A direct money subsidy was introduced

to compensate for consumers' losses. Most recently, in 2016, the subsidy was revoked for wealthier families, though this was partly due to a tougher budget policy in view of declining oil revenues.

Cars and housing are the object of long-term consumer investment. In addition to locally manufactured automotive products, the central streets of major cities feature glossy Mercedes, BMWs and Porsches. Over 70% of Iranians own their own homes, with middle-class families typically living in spacious flats, which can accommodate extended three-generation families. The upper classes will opt for houses; in some regions it is popular to maintain a second residence in the countryside or mountains to which they escape to avoid the hot summers.

As in most other emerging markets, education is still a strong differentiator in life opportunities, so no effort is spared in getting the best possible one, or providing it to children. It is not uncommon to find people with Western university degrees in spheres ranging from medicine to business administration. The local educational industry is also on a rise with the growing importance of private sector in both the secondary and tertiary segments. Private schools try to be on the frontier of modern technologies with heavy use of PCs – or most recently of portable devices like iPads. They also have a strong focus on extra-curricular activities, including sport<sup>20</sup>. Their pricing targets the broadly understood middle class, with tuition fees of several thousand USD per year.

The tense political relations with the West do not translate into consumer attitudes. International brands are seen as being of superior quality and are sought after. One international comparative study found back in early 2000s that Iranians demonstrate less animosity towards Western, including

<sup>18</sup> <http://www.tradingeconomics.com/iran/consumer-spending>

<sup>19</sup> <http://www.irantalent.com/home/index.php>

<sup>20</sup> E. g. a leading private secondary school for girls maintains a year-round skating rink, obviously an investment provided the climate. As the girls are somewhat restricted in opportunities for street sports, extensive school facilities – which also include two gyms, dancing classes and an Olympic-size swimming pool – are an important competitive point

American, goods, than customers from some markets with a history of political alliance with the US<sup>21</sup>! Surprisingly some consumer goods multi-national giants, like Unilever, Coca Cola and PepsiCo, never left the market and their products are widely available. One can also spot familiar beer brands, though in a 100%-alcohol-free legal environment they can sell only non-alcoholic “malt drinks”. Overall, consumer spending on FMCG alone is expected to grow at a rate of almost 30% CAGR in the coming decade. This is not surprising, considering the fact that 60% of the population is younger than 30 and has not acquired a full adult income.

#### Consumer market: a digital boom

Iran is participating in the global boom of digital technologies, especially in consumer markets. Iran was the second country in Middle East to officially switch to the internet, as early as in 1993, a somewhat unexpected move for a country which was perceived to be seeking a degree of ideological isolation. But there was a program of “national clean internet” proposed in 2005 and partly implemented. A foreigner will find many favourite sites, including most of the international social media platforms, unavailable in Iran. Yet the barriers are easily circumvented by locals who have mastered the use of VPNs (Virtual Private Networks). As of 2013, 90% of all of internet traffic was going outside of the country<sup>22</sup>. Three-fifth of the Iranian on-line population uses Facebook (which is officially unavailable). Over 69% of young Iranians reported using anti-filtering systems when going online<sup>23</sup>. The fact is openly admitted even by state media or religious officials, not all of whom are genuinely concerned with this behaviour<sup>24</sup>.

As a result e-commerce is already at a significant stage of development, with the

volume in 2015 estimated at USD 17.4bn (ca. 2.5% of nominal GDP), and over 20,000 operating e-stores. There is on-line banking available (Saman Bank was the pioneer in this). Iran was also among the international pioneers of legal regulation in the sphere. The Electronic Commerce Law was introduced in 2004 with the aim of both promoting the development of the sector, and of establishing rules for consumer protection. A recent Startup World Report put the value of Iran’s biggest company in the area, DigiKala, at USD 150m<sup>25</sup>.

#### Consumer market: in the middle of a vast region

Another relatively well-developed sector is consumer electronics and home appliances, where a wide range of products is manufactured by Iranian companies, often in cooperation with, or under license from, companies like Samsung, LG or Hyundai. For this category the country’s position in the middle of the turbulent region appears to be an asset, as Iranian companies operate in the markets like Iraq or Afghanistan, which attract few of the international majors for the reasons of security. Customers there are often catered for by suppliers from Iran, and they make a significant contribution to sales. For example, Barfab<sup>26</sup>, a leading private supplier of home appliances including fridges, air conditioners, washing machines, etc., derives up to 60% of its revenue from Iraq and Afghanistan.

This type of interconnection with the region is helped by a relatively strong logistics infrastructure. Iran is connected to its neighbours by means of highways, railroads or sea, and in many cases by all three at once, and it is actively seeking to leverage these connections for the sake of business. A favourite saying of the local business people is “we are the

21 Mahmood Bahae, Michael J. Pisani: ARE IRANIAN CONSUMERS POISED TO “BUY AMERICAN” IN A HOSTILE BILATERAL ENVIRONMENT? – Kelly School of Business, Business Horizons, (2009) 52.

22 Invest In Iran. <http://www.investiniran.ir/en/filepool/267redirectpage=%2fen%2febook>

23 [https://en.wikipedia.org/wiki/Communications\\_in\\_Iran](https://en.wikipedia.org/wiki/Communications_in_Iran)

24 In the Network readiness index (by World Economic Forum) Iran is #96, below Egypt and Dominican Republic and above Lao PDR and Kyrgyzstan. In the ICT Development Index (by ITU) Iran is on the 91st position out of 167 (up from 99th in 2010) in the neighborhood of Panama (#89), Ecuador (#90), Jordan (#92) and Tunisia (#93).

25 [http://www.worldstartupwiki.org/page/Internet\\_Hall\\_Of\\_Fame](http://www.worldstartupwiki.org/page/Internet_Hall_Of_Fame) the figure triggered extensive discussion in Iran, some observers pointed that the multipliers relative to the volume of operations are substantially lower than for comparable businesses in Turkey: <https://medium.com/iran-startups/is-digikala-really-worth-150m-usd-7bb67e34131b#.k2vpb7pnl>

26 <http://barfab.co/>

key to a market of 300 million people”, and this outlook is increasingly shaping their aspirations and ambitions. Actually, for a country which was isolated to varying degrees from the world for nearly 40 years, Iranians consistently demonstrate a surprisingly open and integrative mentality

### **Business market: privatisation drives investment opportunities**

One major source of business opportunities is the long-term program of privatisation of the government holdings in the economy. This is part of the trend of moving away from the quasi-socialist management of the economy to a system which will be driven mostly by private initiative. The first moves to decrease the role of state date back to the period of the Rafsanjani government at the beginning of the 1990s. However, the development was quite slow. By 2006 some 70% of the Iranian economy was still owned by the state.

Part of the problem was on the ideological side, some political forces were slow to acknowledge whole-heartedly the necessity of a private presence in large companies, which led to the creation of significant technical barriers to privatisation. The situation was such that the Supreme Leader himself used his authority to call for the speeding up of privatisation, stating that: “ceding 80 per cent of the shares of large companies will serve to bring about economic development, social justice and the elimination of poverty”. This led to a breakthrough: between 2005 and 2009 the government property worth some USD 63bn was privatised (about half of government holdings at that date).

The privatisation scheme used to be quite complex. On the one hand, there were designated “justice shares” which were distributed at special price to the poorer strata of society, including the villagers and nomads. These cannot be resold within a certain period of time and thus decrease the effective

outstanding stake for potential strategic investors (see the section on Iranian Stock Exchange for more details). At the same time, there were numerous allegations that the semi-government organizations like the Revolutionary Guards were active participants in privatisation and have accumulated substantial stakes in the economy<sup>27</sup>, however it is likely that these holdings will be put on the market one day, provided the purchase offer is attractive. This would be a very reasonable strategy as most of Iranian industry is in need for radical modernization.

### **Business market: the need for modernization of industry**

The industrial assets in general are in need of a significant overhaul. In some areas the facilities of the pre-Revolutionary era are still in operation. Even the more modern equipment purchased from European suppliers in the 2000s needs upgrades which were long delayed due to international sanctions. This still sometimes encounters obstacles due to problems with international bank transfers. The goal of expanding the production in automotive, electronics, pharmaceuticals and chemicals and to diversifying export revenues by selling their products to the neighbouring “market of 300 million people” requires purchasing top-notch production assets to sustain competition from the Chinese, who are increasingly penetrating the region. Interestingly, China is keen to become the key supplier to Iranian industry, yet the local managers would prefer the higher quality of the European brands, and are ready to pay the relevant price.

Applying modern IT technologies to business management is also important for keeping up with international competition. Iran’s anti-Americanism is a strong challenge here, as much modern corporate software is produced by US companies. Their European rivals are not quick to come to the market (due to global business exposure and associated

27 E. g. see discussion on the issue in <http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>

risks) and, unlike the situation with hardware, the gap cannot be easily filled by suppliers from China or other emerging markets.

Iran is consistently maintaining a ratio of investment to GDP in the range of 30%<sup>28</sup>, meaning that there is a USD 140bn a year opportunity in the development of fixed assets and infrastructure. The latter is definitely an area requiring extensive development. While the geography of the country potentially puts it at a crossroads of the trade flows of the “Big Eurasia” (which includes parts of Africa and Australasia), exploiting this potential requires extensive construction of highways, railways and ports. Currently, the country is in the 96th position in the Logistics Performance Index, between Columbia and Cote d’Ivoire, and Bosnia and Herzegovina and Russia with the score of 2.6 (=49.6% of the score of the highest performer). Infrastructure is recognized as an area of relative strength (#72), set back by customs (#110), timeliness (#116) and tracing and tracking (#111).

#### **Business market: massive investment in infrastructure**

The Ministry of Roads and Urban Development envisions for the coming decade an expansion of the railways by almost 200% and of highways by almost 130%, with five-fold and two-fold increases in the volumes of transit respectively. On a regional scale, the development of inter-Caspian flows, especially between Iran and grain-rich Russia and Kazakhstan, could be a game-changing factor for the country’s food market. However, this would

require expansion of the ports of Astrakhan (Russia) and Aktau (Kazakhstan).

From a pan-continental perspective a few important links are to be built to create routes going by rail and road from Western Europe all the way to the Iranian ports in the Persian Gulf and Indian Ocean<sup>29</sup>. This will require investment in the range of USD 10bn. This could meet with the China-sponsored corridor through Pakistan to the internal regions of China and further to the still-booming industrial cities of its eastern provinces. At the same time improved port facilities in the Indian Ocean<sup>30</sup> will create a vital trade route to India, Indochina and East Africa, opening new export and transit opportunities.

#### **Takeaway for international business**

A country of 80 million consumers and with a GDP of over 1 trillion dollars is always an interesting market. Iran has a growing middle class which is increasingly consumerist and cosmopolitan in its lifestyle, eager both to spend for pleasure and invest in self-development. In most market segments (apart from traditional food and clothes) a Western brand stands for quality and thus commands a strong price premium. The same is true for the industrial markets. Despite strong interest from suppliers from China, the managers of Iranian companies prefer to accept the financial and logistical difficulties of bringing in the best quality equipment from Europe. Some of Iran’s industries are underdeveloped by international standards and thus present considerable areas of opportunity (see four ideas of such industries in our report).

28 [http://www.economywatch.com/economic-statistics/economic-indicators/Investment\\_Percentage\\_of\\_GDP/](http://www.economywatch.com/economic-statistics/economic-indicators/Investment_Percentage_of_GDP/) 29 [https://www.unece.org/fileadmin/DAM/trans/doc/2015/wp5-eatl/WP5\\_GE2\\_1st\\_informal\\_session\\_Iran\\_Mrs\\_Karimnezhad.pdf](https://www.unece.org/fileadmin/DAM/trans/doc/2015/wp5-eatl/WP5_GE2_1st_informal_session_Iran_Mrs_Karimnezhad.pdf)

29 [https://www.unece.org/fileadmin/DAM/trans/doc/2015/wp5-eatl/WP5\\_GE2\\_1st\\_informal\\_session\\_Iran\\_Mrs\\_Karimnezhad.pdf](https://www.unece.org/fileadmin/DAM/trans/doc/2015/wp5-eatl/WP5_GE2_1st_informal_session_Iran_Mrs_Karimnezhad.pdf)

30 Currently the key port of Bandar Abbas has limitations for the ocean-class ships

## Future outlook\*

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### **The prospects are bright**

A foreigner on the streets of an Iranian city receives a lot of enthusiasm from passers-by. People wave at you, ask for permission to make a joint selfie or even invite you to a meal at home. In contrast with the tourist experience in some other countries of the region, where signs of sudden friendship from locals are often a way into doing a not-so-mutually-beneficial deal, the manifestations of feelings from Iranians are genuine and safe. The people feel a strong need to be accepted into the world in all spheres of life and are sincerely interested in the way life goes in Europe or the USA. Some of the local youth achieve very impressive levels of command of foreign a language (usually English, though French and German are also quite frequent options) just by watching satellite TV.

The country has come a long way from the immediate post-Revolutionary system that rejected any Western influence and tried to impose tight ideological control on every sphere of life (up to banning private lessons of traditional music). Some external observers may say that the speed of change was not quick enough and there were periods of setback (many regard the recent Ahmadinejad presidency as one of those), yet inwardly Iranians would rather stress achievements and promote an optimistic outlook for the future.

It looks like Iran is developing some of the most educated, dynamic and rationally cosmopolitan middle classes among the global emerging markets. The ideological powers already have some concerns over this issue. In April 2016, the Supreme Leader addressed an audience of Iranian youth leaders with a message about the potential perils of West-leaning consumerism. This echoes the example of the old Soviet bloc, where the aspirations towards the cosmopolitan consumption style were among the strongest motives for rejection of the political ideology. Yet, putting

aside speculations over the possible political outcome, the business outlook is bright in almost any imaginable market.

Iran is definitely one of the developing countries with very high level of ambition, be it cultural, political or technological. The ideological system under which modern Iran was built and is currently run makes the ambitiousness unavoidable. The country needs to demonstrate that the path set by the Revolution is the path to a success which could not be achieved by other means. It strives to be the regional power capable of granting a degree of military protection to allies all across the Middle East, from Syria to Yemen. It sees itself as an important and diversified economy exporting not just natural resources but modern products and services. It sets great store by expanding the educated and affluent element of the population, and seeking to provide elements of modern quality of life even to dwellers of distant villages and to nomads.

The optimistic scenario of development is defined by the sixth five-year development plan (2016 – 2020), which calls for annual GDP growth of 8%. The figure looks challenging in the present-day context, but if such a rate could be sustained just for three years in a row it would boost GDP by 26%, thereby surpassing Saudi Arabia and Turkey at the top of the Middle East economies, which is clearly the key to fulfilling the other ambitions. Yet the country is sure to meet with fierce competition. The list of rivalries goes from the permanent political clash with Saudi Arabia to the increasing pressure of Chinese products on Iranian manufacturers. To realise its ambitions in such a competitive context, Iran needs an adequate level of modernity across all spheres of life.

The area where the modernization will probably bring most fruits, and at the same time pose the most challenges to the country's status quo is human development. Iran is enjoying a real boom in education. Tertiary enrolment in 2014 was over 4 million

\* With contribution by Nino Begovic, Research Fellow of Skolkovo IEMS

students, which means that roughly one in 20 Iranians is studying at the moment. This has led some observers to speak of “over-education” (leading to lack of quality job opportunities for degree holders)<sup>31</sup>. This compares to less than 100,000 students under the Shah and just over half a million in 1990. Technology and science are the preferred professional choice, yet humanitarian studies are also on the rise with the Western scientific discourse regaining ground from the ideology-driven approaches<sup>32</sup>. On the one hand, this trend promises a bright future for the country, provided it is in line with economic development and the creation of attractive job opportunities. On the other hand, as the events of 2009 showed, when urban youth was a core social bases of protest after alleged manipulations with elections results, the ideology of the state will have to transform itself if it is to relate to the increasingly self-reliant and globally-minded population. While some of the leaders of the religious branch think that they can manage that, others seek the instruments to tighten the as is approaches to ideological control. The outcome is difficult to predict, yet there are growing positive signs that it might be defined by an open and peaceful political process.

### External challenges and risks

It is impossible to analyse the future of Iran’s economy and the business opportunities without reference to the important challenges and risks which are outside, in whole or in part, the country’s control.

First, Iran borders some of the most turbulent areas of the world, and is involved directly in three regional wars: in Syria, where it is firmly supporting Assad’s regime, in Yemen, where it is on the side of Zaidi/Houthi forces and in Afghanistan, where it is opposing the Taliban. In the first two cases, it is on the one hand in direct opposition to Saudi Arabia, some other Persian Gulf countries and

the broadly understood West, and on the other hand fighting recognized terrorist groups like ISIS and Al-Qaeda. This extremely complex political and military situation with a set of equally probable different outcomes introduces significant uncertainty into the country’s regional standing in the medium term. The broader geopolitical context is also increasingly defined by the involvement of Russia in the Syrian conflict (with an agenda shared by Iran) and complex relations with Turkey (which is in firm opposition to Assad, yet is seeking ways to maintain good relations with Iran).

Secondly, Iran has a “rogue” reputation in the West which was built up by the media and politicians for decades and will be slow to change, even in the most optimistic scenario. The country’s standing on the existence of Israel (the right of which to exist is officially denied) does not help. The involvement of Iran with anti-Israeli organizations like Hezbollah has led to designation of it as a “state sponsoring the terrorism”, and the Corps of Revolutionary Guards recognized as a terrorist organization, by the USA. Thus Iran’s international fortunes are significantly exposed to political developments in the Western world, particularly in the USA, where a side-effect of the coming Presidential election could be a tightening of the approach to the sanctions issue, including attempts to utilise the provisions of the Iran Sanctions Act of 1996 against the third-country businesses.

The sanctions against Iran have some 40 years of history. They were introduced by various parties for various reasons throughout the period since 1979 and now represent a complex web. While some of the sanctions were lifted in January 2016, others remain in place (or may be even strengthened) and it is vitally important for international business people to understand how to navigate through the system, what actions are legal and what

<sup>31</sup> Nader Habibi: Iran’s Overeducation Crisis. Brandeis University Middle East Brief # 89.

<sup>32</sup> Nematollah Fazeli: *Politics of Culture in Iran*, Routledge, 2015

are not. There is also a de facto “grey zone” of business relations with Iran, actions which are legal under formal international agreements, but are perceived as too risky for Western parties to engage in. This is especially true of the area of finance and banking: though the EU banks can now freely deal with Iran under the P+1 agreement, they refrain from transactions relating to the country due to the sanctions existing in the US (which in theory refer only to American banks).

The sanctions were historically introduced independently, or in coordination, by the following parties for a number of specific reasons:

- The USA: nuclear proliferation, ballistic technology proliferation, support of terrorism, violation of human rights<sup>53</sup>;
- The European Union and its member countries: nuclear proliferation, ballistic technology proliferation, support of terrorism<sup>54</sup>, violation of human rights;
- The United Nations: nuclear proliferation.

The sanctions can target either individuals, business entities, organizations (like the IRGC or the Ministry of Defence), certain industries or certain groups of products.

Basically the sanctions lifted in January were those imposed on the grounds of violation of nuclear non-proliferation by the UN and the EU. The other groups of EU sanctions remain in place and virtually all the US sanctions are in force. While the remaining EU sanctions concern specific industries (defence), products and technologies (for military and police use and nuclear- and missile-related) and entities (IRGC), they do not interfere with most business activities<sup>55</sup>.

The scope of US sanctions is much broader and can affect regular business activity of almost any kind. The most important restrictions are in banking, which is a very globalised industry with high risks associated with non-compliance with the US legislation (with possibility of legal actions in the US on the grounds of operations in

third countries). The position is summarized in the US Department of Treasury’s Statement Relating to the Joint Comprehensive Plan of Action “Implementation Day” of January 16, 2016<sup>56</sup>. As these sanctions relate to issues like human rights or terrorism support, these sanctions are likely to stay in place for the foreseeable future.

Overall, there is strong recommendation for international business people planning to trade with or invest in Iran to have specialized legal advice on the issues of compliance with the regulations of the US and the EU.

The two areas of risks – the regional military situation and the poor image with the Western political elites and media – which support the broad web of international sanctions may influence the decisions of many Western companies about dealing with Iran in the near future. After the group of enthusiasts have had their say in 2016, the “adopters” may be slow to follow. This definitely opens up opportunities for the more adventurous business people from the adjacent emerging markets like Russia, Kazakhstan, India or Armenia. These countries have never actually severed their economic ties with Iran. They have a lot of commonalities in business culture and practices and may be willing to take risks provided the size of potential returns justifies them. Probably the full re-integration of Iran into global economy will happen in waves, with achievements followed by temporary setbacks, with those investors who combine a nose for immediate opportunity with long-term strategic patience benefiting the most in the end.

### **A likely development route**

In one important aspect Iran is clearly different from the Eastern European markets of the early 1990s: it is unrealistic to expect the same speed of political change. More likely will be gradual development in the “Chinese style”, with economic liberalization going far ahead of ideological transformation. Some



symbolic breakthroughs are possible. One day we may see the now compulsory women's hijab declared a matter of personal piety. Some setbacks are possible too. The Supreme Leader has demonstrated that he personally has no regard for the growing cosmopolitan consumerism of Iranian youth.

The major uncertainty for business is in the speed of the global re-integration of Iran, rather than its overall direction which is not in serious doubt. There is a complex interplay of internal and international media discourse, with sceptics on both sides effectively reinforcing each other's positions. A lot of mistrust is still in the air, and will stay for years if not decades.

On the other hand, the Iran leadership has demonstrated considerable economic pragmatism. It was reasonably quick to negotiate the nuclear deal and end of the related sanctions, much quicker than most of the ideology-driven regimes of the modern world. Unlike, say, Cuba or North Korea, the Iranian government sees the promotion of well-being and the modern quality of life in the country as a key priority. There are some ideological trenches which will not be surrendered (unfortunately the stance on Israel is currently among them), but apart from those almost any development is possible.

On the Iranian side it is well understood now that the country is in the spotlight of international attention, and there is a clear desire to derive all the possible benefits from the situation. The purchase of a fleet of Boeings a few months after the signing of the impressive contract with Airbus is an impressive demonstration of these tactics. While there are many opportunities for market success, none of them should be taken for granted on the grounds of historical ties or cultural sympathies. Iranian consumers and business managers plan to enjoy in full the competition of foreign corporations and brands to get the best quality for the best price.

Despite a few potential pitfalls, from the Presidential elections in the USA in November 2016 and the Iranian Presidential elections in May 2017, an international business person should be able to plan a long-term Iranian strategy with a reasonable degree of assurance. The size and the quality of the opportunity are unique. Many industries have been out of touch with international know-how for a decade or more, and are ready to accept an international agenda for modernization and restructuring. Thus, think big in your plans, as nothing is impossible.

<sup>33</sup> US officially considers the Corps of Revolutionary Guards a terrorist organization on the grounds of its involvement with such groups as Hezbollah, Hamas and Islamic Jihad in Israel. Iran officially does not recognize Israel's existence as a state. <https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>

<sup>34</sup> EU generally follows the US attitude towards the Revolutionary Guards, but does not officially label it as terrorist organization

<sup>35</sup> See: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0267&from=EN>; <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:088:0001:0112:en:PDF>; Council Regulation (EU) 264/2012 and <https://www.gov.uk/government/publications/doing-business-with-iran/frequently-asked-questions-on-doing-business-with-iran>

<sup>36</sup> <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/iran.aspx>

## A hint on opportunities: some beyond the obvious industries ripe for international business

When discussing business opportunities in Iran, the international media tends to focus on oil and gas, machinery or consumer goods. Those are indeed significant markets, yet they are already relatively well developed, with established partnerships and supply chains – and therefore high levels of competition. However there are some fields which are still maturing, almost untapped by international heavyweights and with local players often lacking the resources or competences to perform to develop quickly to the international level. Here are three of these fields.

### Insurance

While the banking sector is relatively strong in assets, products and branch networks, and is also heavily dominated by state-owned players, the insurance market is small and limited in scope. The insurance spend (premiums) are still around 1% of GDP, which compares to an OECD average of almost 10%<sup>37</sup>. In addition, over half of the market is car insurance, with life insurance having less than 10% of the market, compared with an OECD average of around 50%. The market is comprised almost exclusively of private companies, which hold a 60% share<sup>38</sup>.

With life insurance penetration of a mere 0.28% of population, the opportunity is huge. The segment is knowledge-intensive, as it requires complex statistical modelling of demographic trends for its development. For this reason, local players tend to resort to the more easily-managed products in cars and health. At the same time, the outlook for Iranian financial markets in the context of extensive privatisation suggests strong possibilities for generating high investment returns for customers, competitive with banking or direct investment opportunities. The current practice

of middle-class Iranians saving in gold or investing in real estate provides a potential pool of ineffectively used consumer finance. A benchmark case might be the success of international companies like MetLife or Aviva in Russia, which came to dominate the underdeveloped life insurance market.

### Retail

Travelling between Iran urban centres can be a surprisingly modern experience, with quality freeways and a lot of traffic being good cars. Yet one feature would probably strike a foreigner in the suburbs of Tehran or Isfahan: there are virtually no shopping malls, so popular both in developed and emerging markets. Equally limited are petrol stations along the highways. In the cities a modern-type supermarket is a rare sight. Most of the trade in electronics goes through small independent shops. The fast food outlets are very creative in mimicking global brands – you can see Pizza Hat or ZFC, but none of these represents a strong national network.

The demography of the country – with 70% of the population currently below 25 years of age – offers a bright outlook. Even with very modest scenarios of growth, consumer spending will be booming for a couple of decades. There are estimates of the growth of FMCG sales in Iran at CAGR 24.7% for the coming decade<sup>39</sup>.

Even stronger opportunities lie in qualitative development: introducing an international level of the consumer experience, consolidating supply chains and logistics. The country is very well positioned for all types of shipments, there is infinite potential for modernizing domestic production in agriculture and consumer goods. Some big shopping malls, which include recreational facilities, have started to appear in the urban centres, however the opportunities in suburban development are totally untapped. Once again, the case of Russia, where the

<sup>37</sup> Source: OECD library, [http://www.keepeek.com/Digital-Asset-Management/oeed/finance-and-investment/oeed-insurance-statistics-2014/international-comparisons\\_ins\\_stats-2014-6-en#V-ysjfmLQYo#page3](http://www.keepeek.com/Digital-Asset-Management/oeed/finance-and-investment/oeed-insurance-statistics-2014/international-comparisons_ins_stats-2014-6-en#V-ysjfmLQYo#page3)

<sup>38</sup> <http://www.samaninsurance.com/Pages/Index/300>

<sup>39</sup> Mordor Intelligence: Analysis of Retail Sector in Iran (2015 – 2020)

appearance of suburban malls in the 2000s has completely redefined shopping and recreational routines to the benefit of players like IKEA or Mega, as well as some local groups, is a possible benchmark.

There is a number of local players in Iran like Proma (operating large malls<sup>40</sup> in the three biggest cities), Refah (with a network of 160 branches dealing in groceries and convenience goods) or Shahrvand (31 branches in Tehran). The international giant, Carrefour, owns a chain called Hyperstar. Further development would need not just the financial resources required for construction, but first of all competences offering a modern Iranian consumer the top class retail experience. It is this need for know-how that represents a massive opportunity for experienced retailers from outside. Some unexpected players could emerge to leverage their experience in emerging markets with a comparable level of maturity in retail. For example, Shahrvand has since 2008, partnered a Russian company, Neva-Rus, to get access to modern retailing competences.

Another opportunity is investing in the booming e-tailing in Iran. The number of online shops stands at amazing 15,000 (or possibly 20,000)<sup>41</sup>, as young middle-class Iranians seek better deals and wider product choice. Market consolidation will inevitably follow, requiring not only financial resources for M&A, but once again know-how, especially in marketing and logistics.

### IT consulting and services

It is a matter of pride for Iranians that the number of people employed in the IT sector surpassed those working in oil and gas in 2014. There is a boom in the development of digital applications and localizing international software products. Yet the enterprises of Iran were long restricted in their access to the modern systems essential for running a competitive corporation, like

ERPs (enterprise resource planning), CRM (customer relationship management), PDM (product development management), etc. The international market for this class of software largely belongs to American companies like Oracle, Microsoft or IBM, which are likely to be restricted in their Iranian operations for quite a long time to come (see the analysis of sanctions in the present report). Some other big international players, like SAP or Dassault, come from Europe and are in theory more open to the operations in Iran.

However, the implementation of enterprise-class software projects requires not only the availability of software, but a developed ecosystem of consultants, capable of analysing a company's business processes, fine-tuning solutions for them, training the users and administrators, trouble-shooting and upgrading the system alongside business development. All this requires not just class-room training, but hands-on real-life experience in relevant projects. Such competences are relatively slow to build. Iran has an excellent pool of computer-literate talent, however international expertise is also required to produce market-ready specialists for large enterprise-class IT projects. Currently none of the major global companies specializing in IT consulting has a direct presence in the country – not even the ambitiously expanding Indian businesses like Tata Consultancy Services (TCS). Some locals seek to fill the niche (e. g. Mammut Services, established in 2011 which has experience with implementing SAP All-in-one product in the country<sup>42</sup>), yet the window of opportunity for foreign players is still wide open. With the estimates of Iranian IT services market being worth almost USD 3bn in 2020<sup>43</sup>, the opportunity is well worth considering.

### Stock market

By the standards of the region the stock exchange in Iran is relatively young: the central

<sup>40</sup> E. g. 420 000 sq. m. in Mashad

<sup>41</sup> PwC, <https://www.pwc.com/gx/en/retail-consumer/publications/assets/pwc-r-and-c-trendwatch-cuba-and-iran.pdf>

<sup>42</sup> <http://www.msystems-co.com/en/organization/detail/About-Us/2/view/>

<sup>43</sup> By TechSci Research, <https://www.techsciresearch.com/news/496-iran-it-services-market-to-touch-us-2-8-billion-by-2020.html>

one, in Tehran, was established in 1967, almost a century after Dersaadet Securities Exchange was founded in the Ottoman Empire (1866). That was followed by the Alexandria (1883) and Cairo (1903) exchanges. The operations of 1970s were in bonds only, government and corporate. The Islamic Revolution brought the work of exchange to a standstill, as interest-based products were seen as incompatible with the principles of Islamic economics. However, when the first privatisation drive was launched in 1989, the exchange was re-opened to trade in stocks of the privatised companies (Islam actually encourages taking profit as long as it is accompanied by the risks of trade).

The development of the market was quite turbulent with both long rallies and sharp drops, like 2005-6 when the value of the market went down by 34%, or 2008, when it dropped by 38%. The most breathtaking development was the period of 2013-2015 when the market first skyrocketed in value, multiplying by 350% in one year, and then collapsed due to a drop

**Table. Market capitalization to GDP ratio of the key markets of Middle East, Central and South Asia**

	Country Name	Market Cap to GDP, %, 2014
<b>1</b>	Qatar	88,46
<b>2</b>	India	76,30
<b>3</b>	Jordan	71,33
<b>4</b>	Israel	65,60
<b>5</b>	Bahrain	65,19
<b>6</b>	Saudi Arabia	64,09
<b>7</b>	Arab World	55,80
<b>8</b>	United Arab Emirates	50,47
<b>9</b>	Oman	46,25
<b>10</b>	Turkey	27,51
<b>11</b>	<b>Iran, Islamic Rep.</b>	<b>27,42</b>
<b>12</b>	Egypt, Arab Rep.	23,25
<b>13</b>	Kazakhstan	10,10

**Table. Market capitalization of the key markets of Middle East, Central and South Asia**

	Country Name	Market cap in 2015	Change 2015 vs. 2014
<b>1</b>	India	1 516 216 710 000	-42 082 980 000
<b>2</b>	Saudi Arabia	421 060 070 000	-62 055 440 000
<b>3</b>	Israel	243 903 680 000	43 378 690 000
<b>4</b>	United Arab Emirates	195 874 110 000	-5 724 820 000
<b>5</b>	Turkey	188 861 890 000	-30 900 670 000
<b>6</b>	Qatar	142 556 460 000	-43 303 820 000
<b>7</b>	<b>Iran, Islamic Rep.</b>	<b>89 428 040 000</b>	<b>-27 210 410 000</b>
<b>8</b>	Egypt, Arab Rep.	55 191 870 000	-14 891 780 000
<b>9</b>	Morocco	45 927 920 000	-6 818 880 000
<b>10</b>	Oman	41 123 170 000	3 292 680 000
<b>11</b>	Kazakhstan	34 891 880 000	11 918 440 000
<b>12</b>	Jordan	25 452 410 000	-102 450 000
<b>13</b>	Bahrain	19 251 070 000	-3 722 370 000

44 Mofid Securities, <http://www.emofid.com/media/10182/iran-top-40-companies.pdf>

45 Turquoise Partners

46 All other things equal, the higher P/E ratio indicates that the shareholders are relying on the future growth of the company's market capitalization

in the price of oil. But even more striking developments are possible. In the spring of 2016, on the wave of enthusiasm after the lifting of sanctions, stocks of Iranian automotive companies tripled in value within a couple of months.

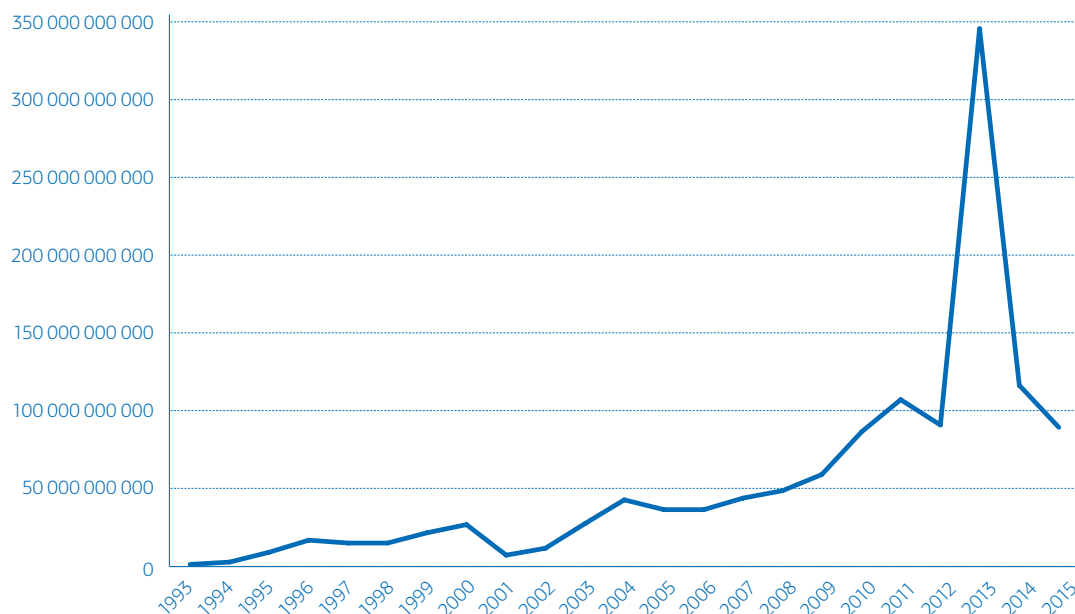
A sign of the diversification of the Iranian economy is that while the total number of traded companies is not very large (339), they come from 37 industries, the biggest variety among the stock exchanges of the MENA region. The top 40 listed Iranian oil companies come from 12 industries with petrochemical companies accounting for some 35% of capitalization, followed by banks (13%), basic metals (11%), conglomerates and telecoms (each 8%). In the autumn of 2015 their combined value exceeded USD 75bn. The most valuable company in Iran was the Persian Gulf Petrochemical Industry Group (market cap USD 8.236bn, followed by Marun Petrochemical (USD 4.178bn), Tamin Petroleum and Petrochemicals Investment Co (USD 3.345bn) and Mobile

Telecommunications of Iran (USD 3.028bn)<sup>44</sup>.

It might be difficult for investors to deal with the top companies, as they tend to have quite a small free float (8.6% on average), which can lead to market manipulation and excludes the possibility of using stock exchange for building up a really significant stake in many interesting players.

On the other hand, not surprisingly the financial analysis of the listed companies suggests significant future opportunities. The average Iranian public company operated in 2010 at a gross profit margin (13%) almost twice as high as a Fortune-500 company of the period (6.9%)<sup>45</sup>. The P/E ratio of Iranian companies fluctuating around 6, which is about a third of the current NYSE figure, revealing the high cost of the current insecurity for investors<sup>46</sup>. Another indicator is that, though Iran is in the middle of the region's ranking of market capitalisation, the ratio of market cap to GDP is at the lower half of the table.

Graph. Iran market capitalization history 1993-2015



# Armenia: a key interface to Iranian business



The re-integration of Iran into the global economy and the development of its infrastructure connections with neighbours open new perspectives for the Transcaucasian countries. In particular Armenia is in a historical and geographical position to become a key interface between international and Iranian businesses.

The length of historic ties of the two nations is probably unprecedented in the world's history, going back to the complex interactions of the 6th century BC. The modern territory of the Armenian state was part of the Persian Empire up to 1828 (when it was ceded to Russia following the Russian-Persian war). Iran is still home to up to 200,000 of Armenians, who constitute its largest official religious minority. It is the only one with two designated seats in the Parliament and is the only minority with official Observing Status in the Guardian and Expediency Discernment Councils. Armenians traditionally were heavily involved in arts, crafts and trade of Iran, contributing to its economic development and commercial links with the neighbours.

With the independence of Armenia from the USSR (1991), a new era of bilateral relations dawned. Iranian neutrality in the Armenia-Azerbaijan war allowed the country to provide a vital land link for supplies, including the much-needed fuel. Iran made wholehearted efforts to mediate in the conflict, though the effect of the Tehran Communiqué of May 1992 was short-lived.

Currently, the countries enjoy a flourishing bi-lateral trade, with a turnover in excess of USD 300m, a significant figure for the compact Armenian economy. The strategic plan is to boost the figure three-fold in the near future<sup>47</sup>. To facilitate this growth, plans for free-trade zone were announced<sup>48</sup>. The development will be supported by a number of cross-border infrastructural projects including the construction of a railroad link, and the expansion of electricity grid connections. (Iran

exports electric power from Armenia.) The two countries also have extensive tourist exchanges, with Iranians already constituting about 10% of the foreign travellers who visit Armenia.

The potential for expansion of cooperation is high. For one thing, Armenia is the only country in the Eurasian Economic Union (an alliance of some ex-USSR countries) with a land border with Iran, which naturally opens the markets of ex-USSR countries to Iranian exporters. At the same time, Armenia has built competences and skills in doing business in Iran which can be offered as a service to the international companies who see a direct presence in the country as being too risky for the moment. The global Armenian Diaspora, with its influence and financial resources, could be particularly useful in drawing the attention of the international business community to the opportunities of doing business with and in Iran.

<sup>47</sup> <http://www.iran-daily.com/News/167835.html>

<sup>48</sup> <http://www.iran-daily.com/News/167835.html>

# Iran timeline





## 1979

**16/01/** Shah flees the country, Ayatollah Khomeini returns from exile 01/04/1979 Islamic Republic proclaimed

**June** All banks are nationalized and banking operations are put on the interest-free basis in compliance with Islamic finance concept

**04/11/** radical Muslim students storm the US embassy and take hostages over 60 US citizens (diplomats and staff). 52 people remain captive for 444 days. USA freezes \$ 12 bln in Iranian assets

## 1980

The exploration, production, sale, and export of oil were delegated to the Ministry of Petroleum.

**25/01/** First Iran Presidential elections take place, independent candidate Abolhassan Banisadr wins with over 78% of votes

**22/9/** Iraqi troops invade Iran, the longest war of the 20th century starts

## 1981

**20/1/** US hostages released on the day of Ronald Reagan inauguration

**21/6/** President Banisadr is impeached by Majlis following his disagreements with influential clerics; Banisadr fled first Tehran, than the country

**24/7/** Mohammad-Ali Rajai from Islamic Republican Party (Prime Minister under Banisadr) is elected President with 91% of votes

**30/08/** Mohammad-Ali Rajai and the Prime Minister Mohammad Javad Bahonar are assassinated by a bomb by the leftist party of People's Mujahedin of Iran

## 1984

Universities re-open after being closed for three years

## 1988

**8/8/** UN resolution 598 becomes effective ending the war. No material gains for either side; loss of over 1 million lives and complete economic devastation on both sides of the front line. The Budget Act re-establishes the activities of Tehran Stock Exchange

**July 3:** the American Cruiser USS Vincennes shoots down an Iranian airliner, killing all 290 people on board.

## 1989

**03/06/** Ayatollah Khomeini dies. Ayatollah Khomeini is elected as Rahbar

## 1993

Iran becomes the second country in the Middle East to be connected to the Internet.

KIA Motors (Korea) and Saipa start joint production of 2 versions of KIA Pride under the names Saba and Nasim

## 1994

First mobile telephone network established with the capacity of 9200 phones. Central Bank authorizes the creation of private credit institutions

## 1995

**March 15:** US President Bill Clinton vetoes a billion-dollar investment by the US major Conoco in the Iranian oil-industry, ending the prospect of renewed energy ties between the two countries.

Contract for finishing the Buser nuclear plant (construction started in 1975) is signed with Russia

## 1996

**05/8/** Iran and Lybia Santions Act in the US imposes sanctions on any company dealing with Iran or Lybia

**August 6:** President Clinton signs the Iran-Lybia Sanctions Act into law, awarding the US the right to impose sanctions on non-US companies doing business with Iran (the provisions concerning Lybia were later removed).

## 1997

Iran had successfully designed, constructed, and tested its first fighter aircraft.

Two leading presidential candidates set up websites for election campaigns, the first demonstration of the importance of the Internet in the country

**1998**

Foreign banks are allowed to run full-service subsidiaries in free-trade zones

**1999**

**7-13/7** A week of violent protests by students after the closure of a liberal newspaper. Several students were killed and over a 1000 detained

**2000**

Iran Space research Center established. Azarakhsh fighter jet had reached mass-production stage

**2001**

Banking licenses issued to 2 new private banks for the first time since the Revolution

**2002**

Unified foreign exchange rate introduced for rial and most of the currency exchange restrictions are eliminated

**2003**

Tehran Metal Exchange launched.

Renault Pars company established with shares held by Renault of France (51%) and Iran's Industrial Development and Renovation Organization, IKCO and Saipa (jointly 49%)

M. Ahmadinejad appointed mayor of Tehran

The IAEA launched an investigation into Iran nuclear program after a dissident group revealed undeclared nuclear activities

**2004**

Iran space agency established. China signed a major agreement to buy oil and gas from Iran, as well as to develop Iran's Yadavaran oil field.

Majlis adopts Electronic Commerce Law

**2005**

Russian Kosmos-3 booster rocket launched Si-nah-1. The launch made Iran the 43rd country to possess its own satellite. The concept of "National Internet" is introduced

**2006**

Tehran Metal Exchange and Tehran Agriculture exchange merge to form Mercantile Exchange

July Supreme leader Ali Khamenei issued an executive order to privatize 80 percent of the public sector

**2007**

Swiss energy company EGL, signed a 25-year LNG export deal with Iran's National Iranian Gas Export Company.

Saeqeh fighter jet tested successfully

Chery Automobile (China) entered into a US\$370m joint venture with Iran Khodro.

June: Government announces increase of petrol prices to 12 cents/litre and the imposition of fuel rationing

**2008**

Environment 1, a joint research satellite of Iran, China and Thailand was launched on a Chinese carrier rocket.

Russian state gas company Gazprom announced a deal to establish a joint venture company to develop the offshore Iranian South Pars gas field.

3 newly formed Investment Banks (AminIB, Novin and Pasargad Bank) will take share subscriptions and act as an intermediary between the Privatization Organization and the stock exchange, helping Iran divest state-owned enterprises

**2009**

Over the counter market for securities and other financial instruments, the Farabourse is established

**June 2009 – February 2010:** 7 months of mass protests against the alleged manipulation of the results of presidential elections; several dozen protesters were killed, thousands detained and arrested

## 2010

ISA launched a Kavoshgar-3 (Explorer-3) rocket with one rodent, two turtles, and several worms into sub-orbital space and returned them to Earth alive.

**January** Subsidy reform plan was passed by the Iranian Parliament "to rejuvenate Iran's economy, increase productivity, give it a new footing and bring it out of the slump it has been in for so long"

**December** The first stage of subsidy reform plan is introduced

## 2011

First reactor at Buser nuclear plant is officially launched

## 2012

**23/01/2012** EU agreed to an oil embargo on Iran, effective from July, and to freeze the assets of Iran's central bank

February 2012 the US froze all property of the Central Bank of Iran and other Iranian financial institutions, as well as that of the Iranian government, within the United States.

**17/03/2012** All Iranian banks identified as institutions in breach of EU sanctions were disconnected from the SWIFT, the world's hub of electronic financial transactions

**July 2012** EU oil embargo against Iran takes force

**October** 179 of 240 members of parliament voted in favor of pausing the subsidy reform because of the mounting inflation

## 2013

A monkey was sent into space and returned safely aboard the Pishgam capsule, after having reached a height of 120 kilometers

## 2015

**26/3/2015 to 2/4/2015** Series of meetings of foreign ministers of Iran and international powers in Lausanne, Switzerland, leading to the framework for comprehensive nuclear deal.

**14/07/2015** The Joint Comprehensive Plan of Action between Iran and the P5+1 and EU, a comprehensive agreement based on the April 2015 framework, was announced.

**20/07/2015** United Nations Security Council Resolution 2231. Sets out a schedule for suspending and eventually lifting UN sanctions, with provisions to reimpose UN sanctions in case of non-performance by Iran, in accordance with the Joint Comprehensive Plan of Action.

**July 2015** President Hassan Rouhani published an open letter to First Vice President Eshaq Jahangiri, declaring his intention to undertake "structural reforms" in the Iranian economy

**23/8/2015** British Embassy in Tehran and Iranian Embassy in London re-opened

## 2016

**18/1/2016** Iran Khodro Group and Daimler AG sign an MoU on establishment of 2 JVs

**28/1/2016** Iran Khodro and Peugeot Citroen sign a deal to organize a 50/50 JV for production of three new car models

**April** Majlis approves cut of cash subsidies to ca. 24 million of Iranians, including civil servants, military personnel, and some others.



# THERE IS ALWAYS AN EMERGING MARKET

**The Moscow School of Management SKOLKOVO** is one of the leading private business schools in Russia and the CIS, was founded in 2006 by members of the business community. The school's founding partners are 10 Russian and multinational firms and 11 individuals, each a leader of Russian business. The educational offerings of the Moscow School of Management SKOLKOVO include programmes for businesses at any stage of development – from startups to major corporations entering international markets. The Moscow School of Management SKOLKOVO also serves as a hub of expertise drawing those who place bets on Russia and work in markets with fast-changing economies.

**SKOLKOVO Institute for Emerging Market Studies (IEMS)** is a member of a global IEMS network, which is sponsored by EY and includes research institutions in Moscow, Shanghai, Hong Kong and Hyderabad. SKOLKOVO IEMS addresses the fields of strategy and innovation, global markets and institutions, sustainable development, Asian studies and digital technology. The mission of the institute is to promote Russia's multidimensional and seamless integration into the world economy. The institute helps the international business community better understand Russia as a market and as a global player, and supports the efforts of Russian businesses to attract investors and enter international markets.



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