

A stylized, light-colored illustration of a plant with several leaves and a cluster of small, round fruits or berries, positioned on the left side of the slide.

IRAN ECONOMIC DEVELOPMENT NEW OPPORTUNITIES AND CHALLENGES FOR IRAN'S POST- SANCTIONS ECONOMY

The 4th Korea-Iran Cooperation Forum
“New Opportunities and Challenges for
Cooperation between Korea and Iran in
the Post-Sanctions Era” , May 2016.

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Iran in the World Today

- 18th Largest economy by PPP : 1,334.3 (GDP Millions of Int\$, IMF)
- 29th in the world and 2nd largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia, with an estimated Gross Domestic Product (GDP) in 2014 of US\$404.31billion.
- 2nd largest population of the region after Egypt, with an estimated 78.5 million people in 2014.

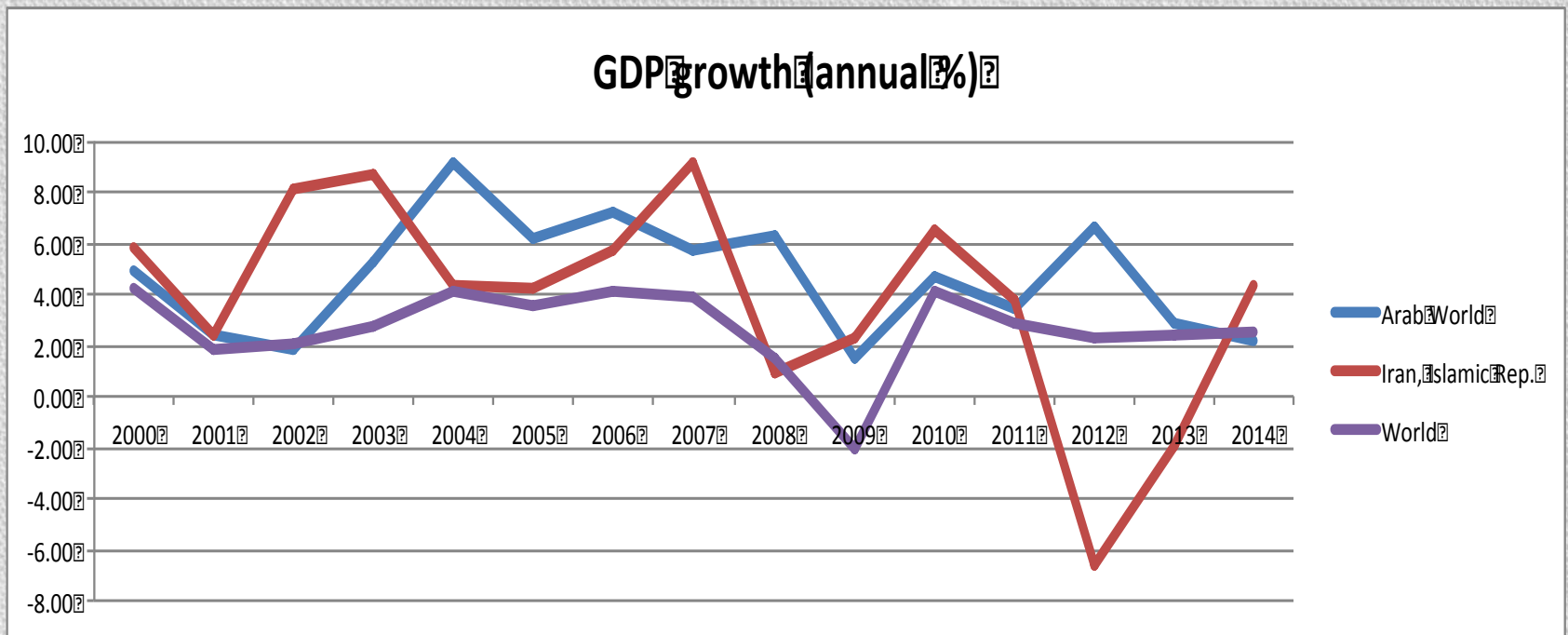
GDP(PPP)	GDP(nominal)	GDPpercapita(PPP)	GDPpercapita(nominal)
\$1,334.31billion	\$404.11billion	\$17,114	\$5,183

Exports	Imports	Trade
\$95.71billion	\$61.21billion	\$156.91billion

Population	HDI
78,192,200	0.742

Recent Economic Performance

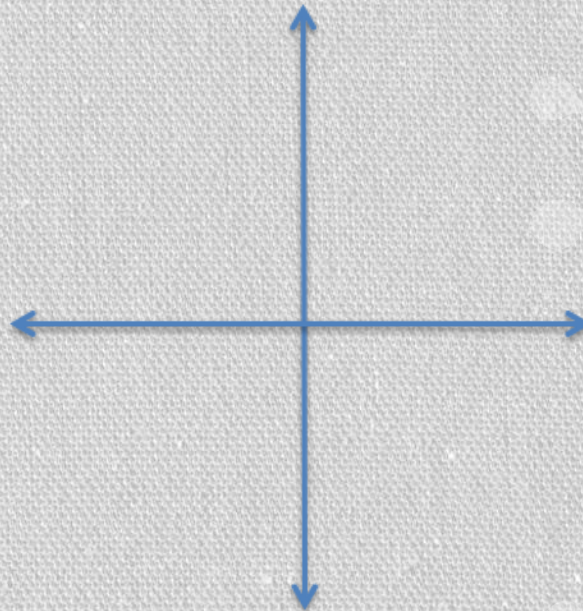
- The Iranian economy grew three percent in 2014, after shrinking 6.6 percent in 2012 and 1.9 percent in 2013.



Diamond model conceptual framework

Firm structure and Rivalry: determinant of competitiveness, The way in which companies are created, set goals and are managed is important for success.

Factor condition: are human resources, physical resources, knowledge resources, capital resources which are vital for production.



Demand conditions: in the home market can help companies create a competitive advantage, sophisticated home market buyers pressure firms to innovate faster and to create more advanced products than those of competitors.

Related and supporting factors: These factors provide cost-effective inputs, but they also participate in the upgrading process, thus stimulating other companies in the chain to innovate

Diamond comparison

Firm structure and Rivalry:

- Openness
- Ownership

Factor condition:

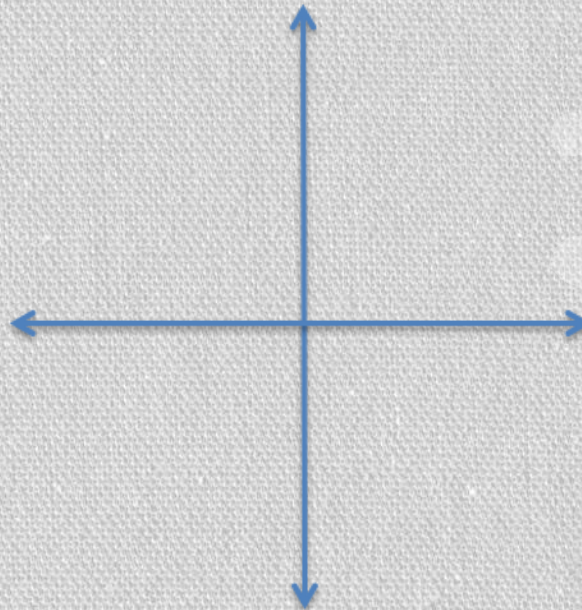
- Human capital
- Knowledge capital
- R&D capital
- Natural resources

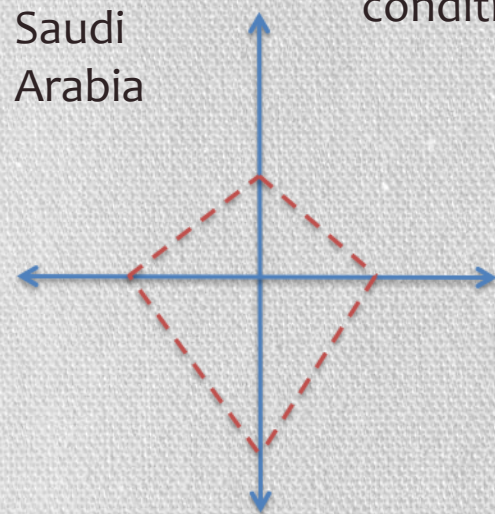
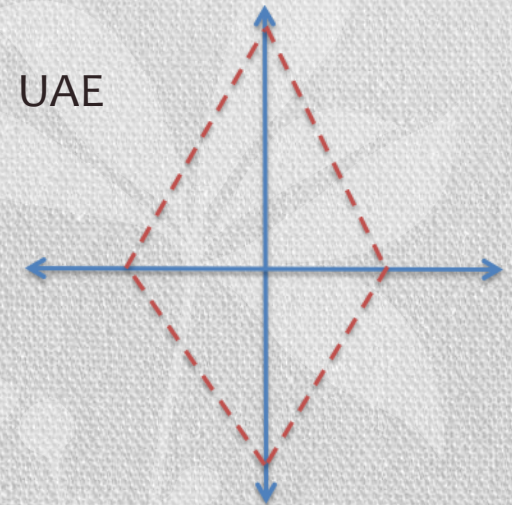
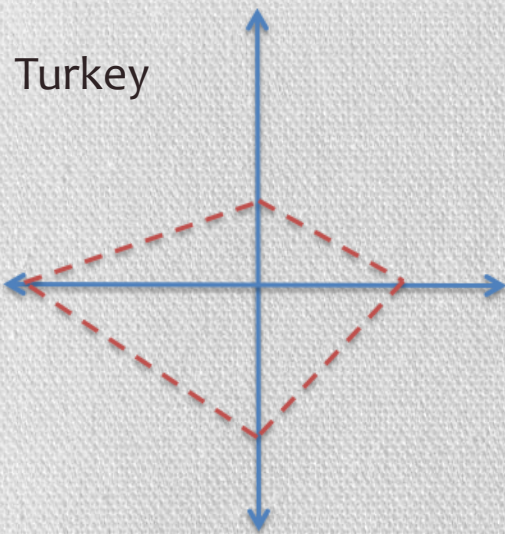
Demand conditions:

- Market size
- Market sophistication

Related and supporting factors:

- Infrastructure
- Easy of doing business
- Macro instability





Factor
condition

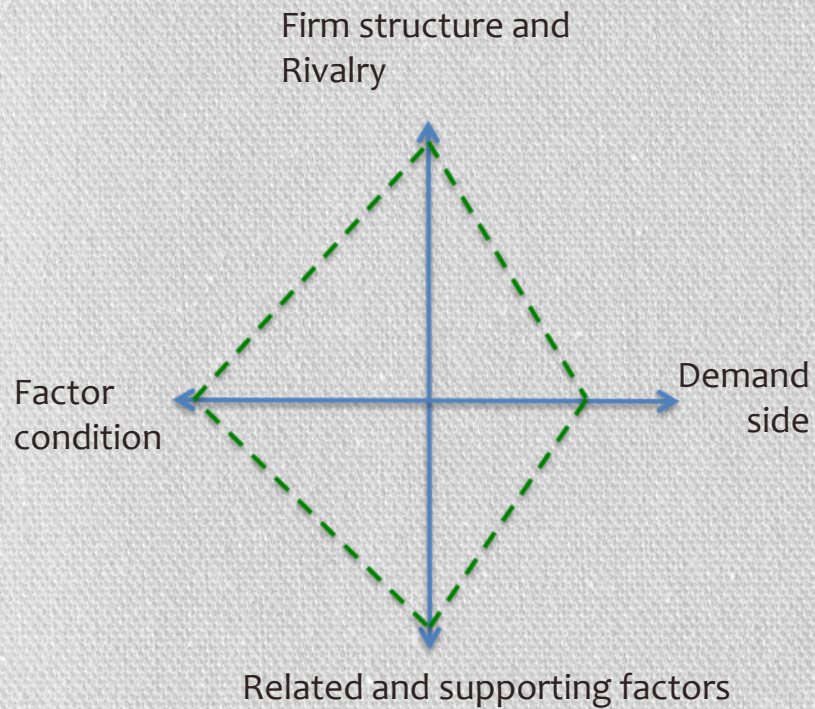
Firm structure
and Rivalry

Demand
side

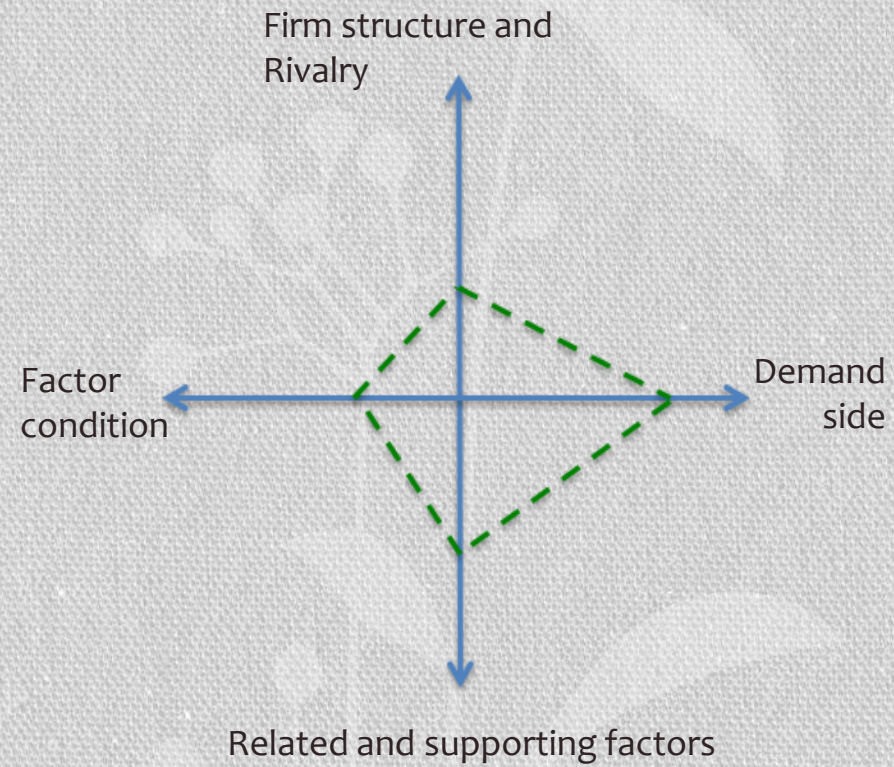
Iran

Related and supporting factors

South Korea



Iran

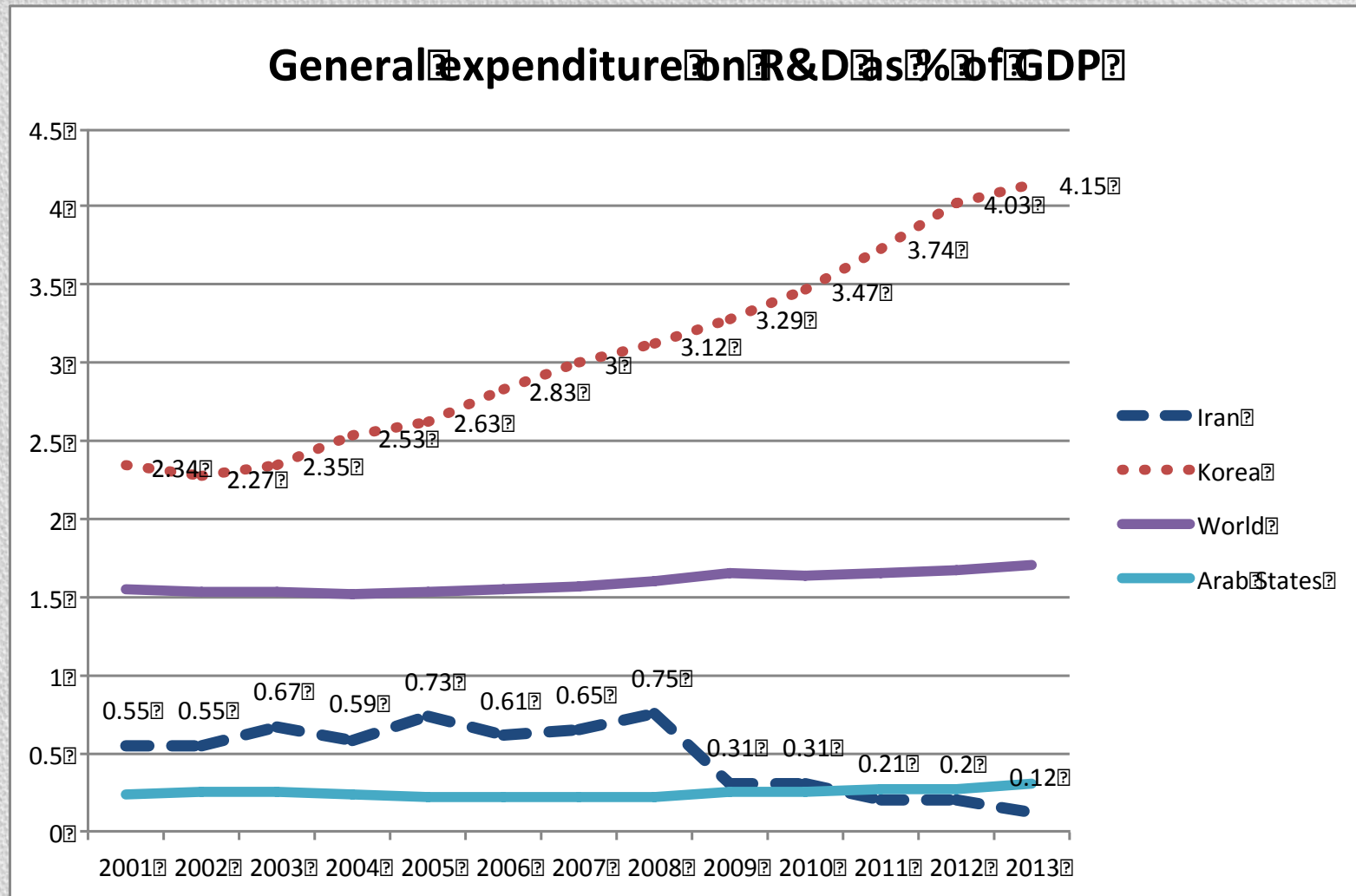


Factor Condition

Challenges and Opportunities

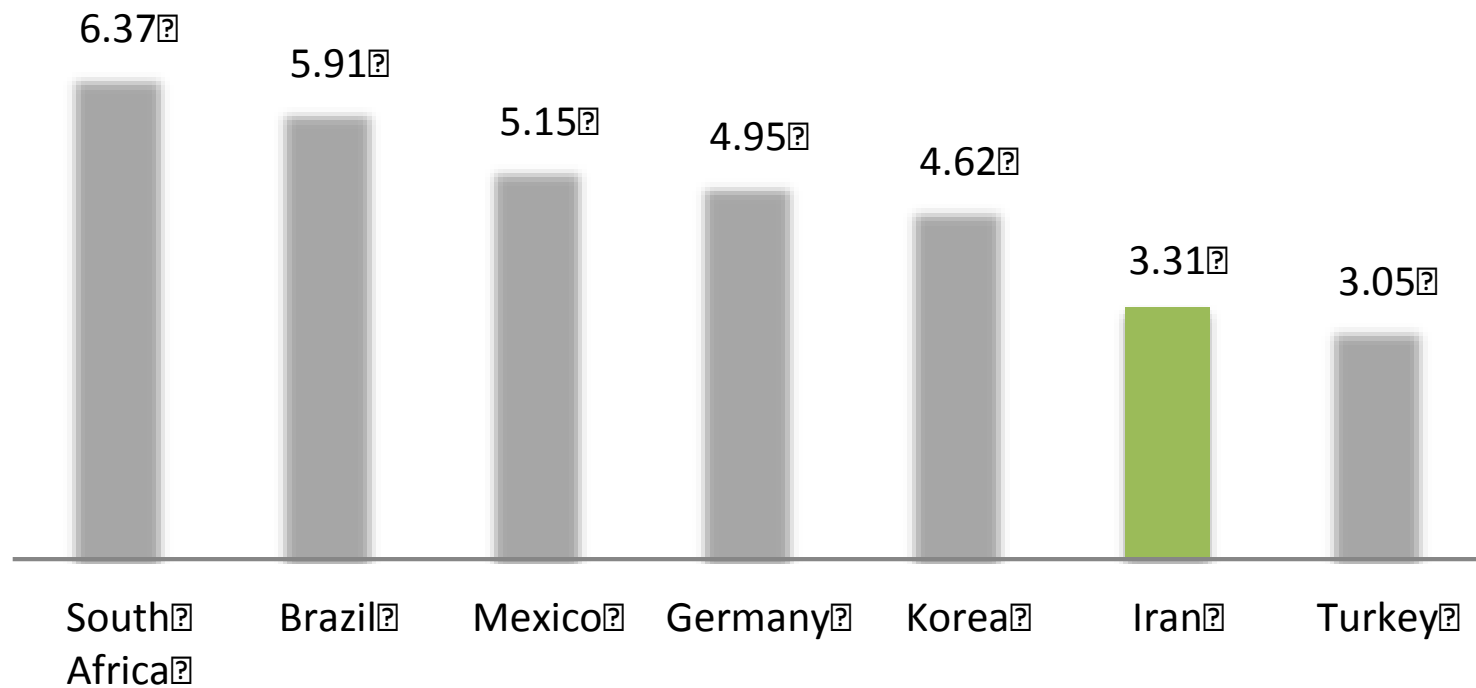
- Human capital
- Knowledge capital
- R&D capital
- Natural Resources

R&D capital (Challenge)



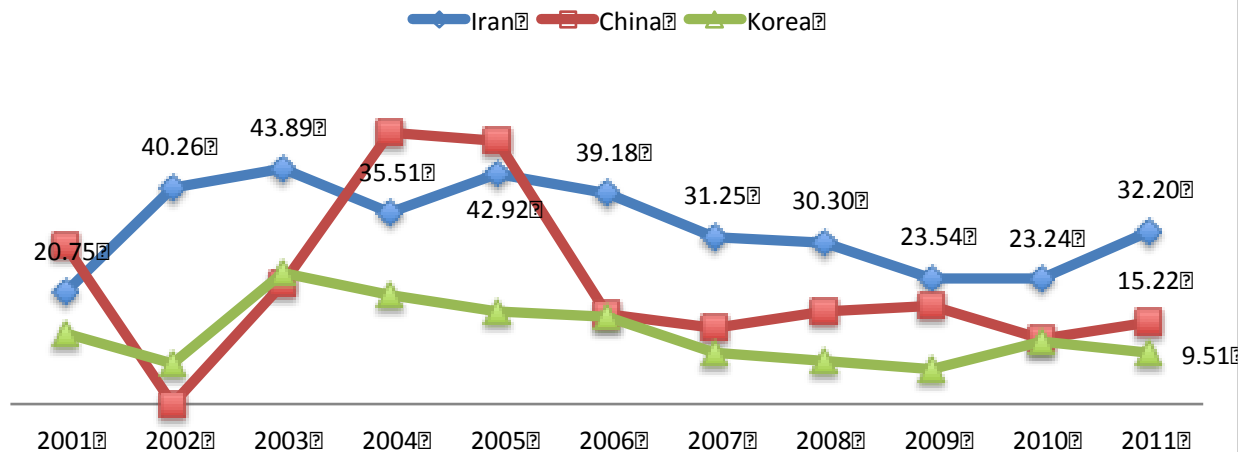
Knowledge capital (Challenge)

Expenditure on education as % of GDP, selected countries



Knowledge capital (Opportunity)

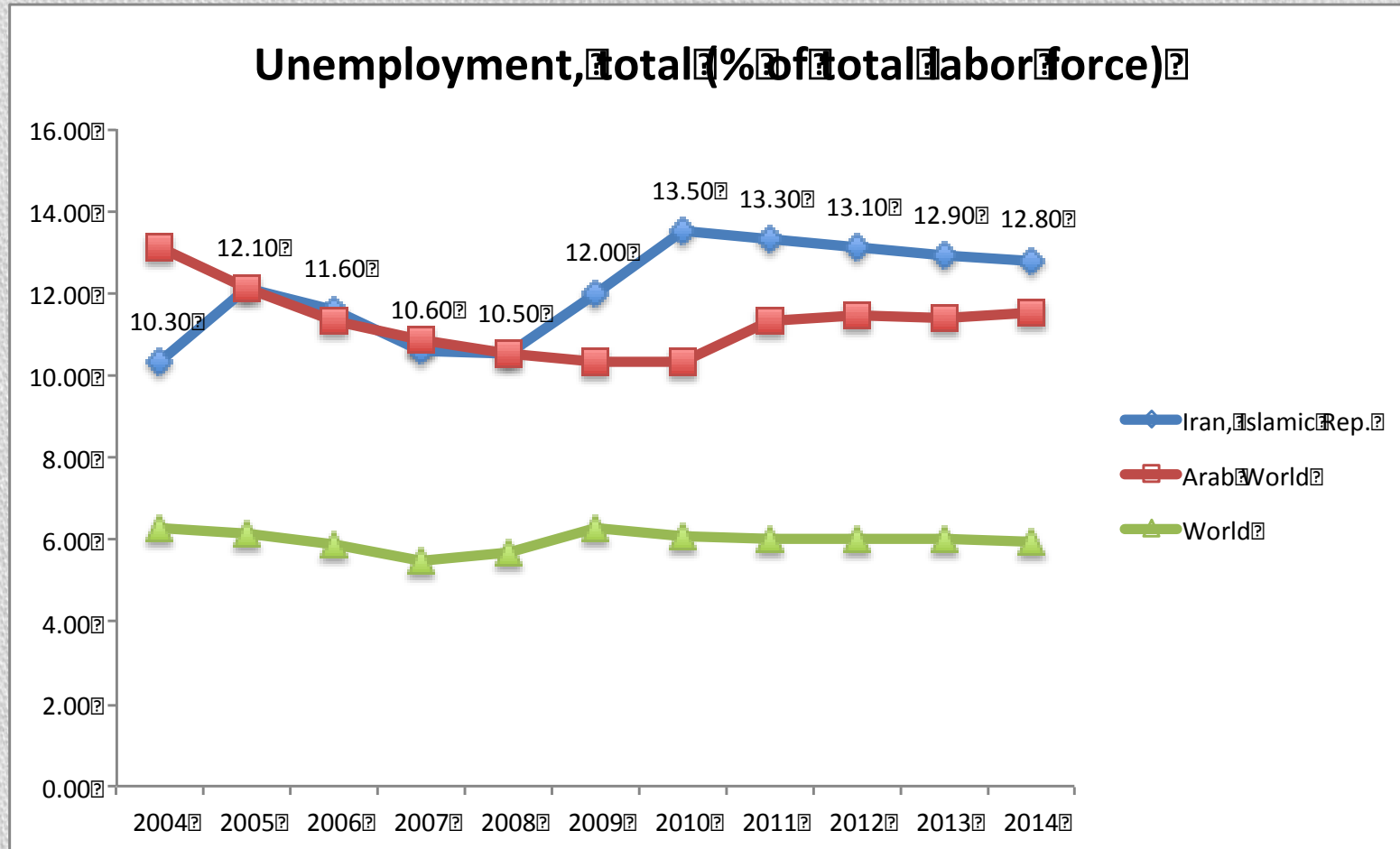
Science production growth rate



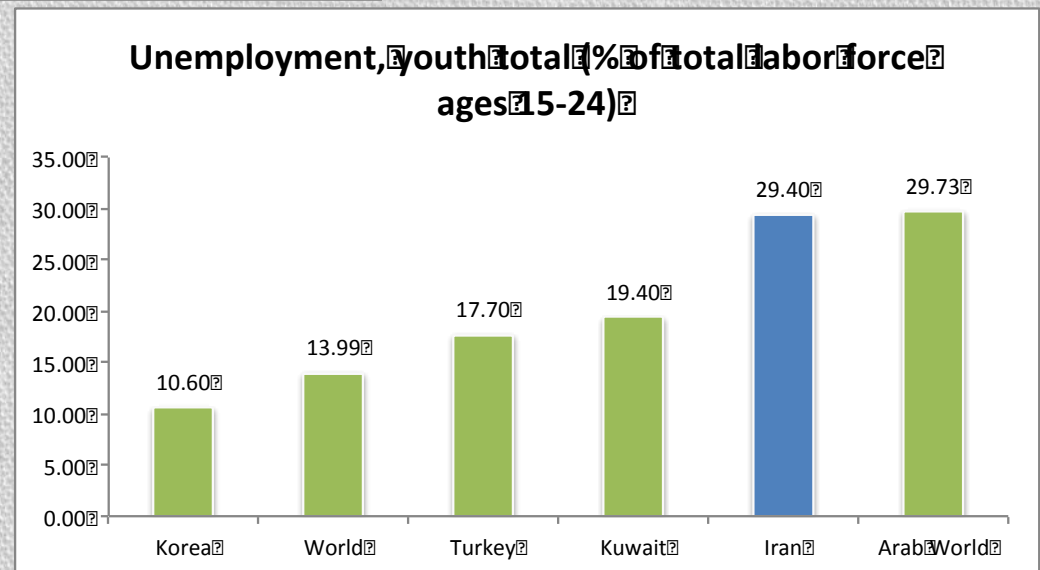
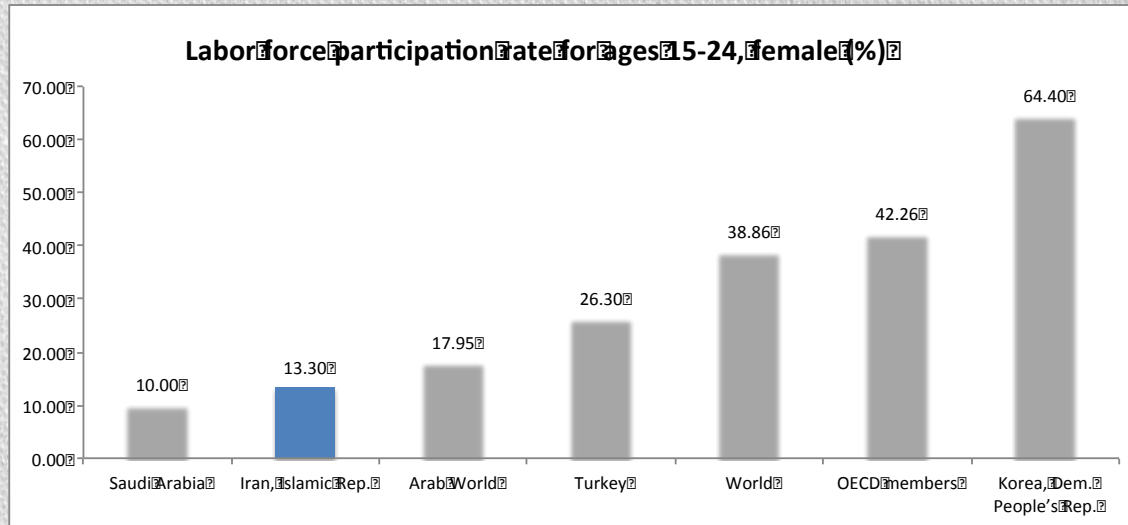
Science production rank, Source: SJR



Human capital (Challenge)



Human capital (Challenge)



Human capital (Opportunity)

The Countries With The Most Engineering Graduates

Top countries for graduates in engineering, manufacturing and construction*



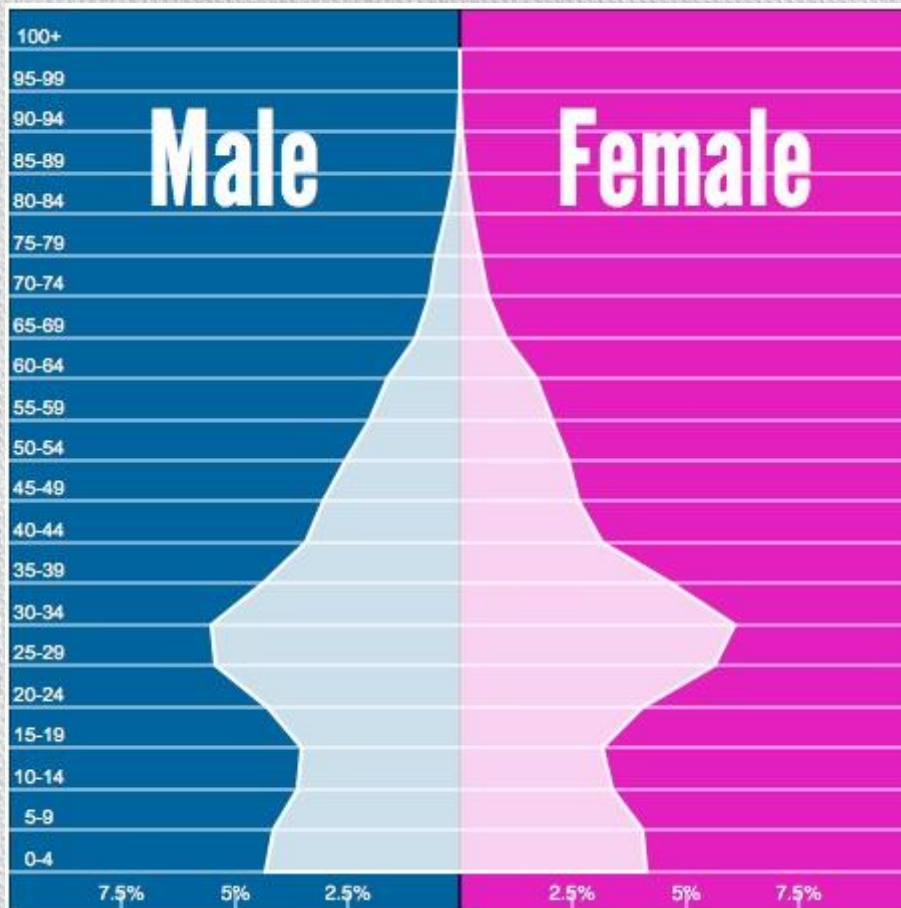
* 2015 rank out of 124 economies. No data available for China, India



Sources: World Economic Forum 2015/UNESCO
Institute for Statistics

Forbes statista

Human capital (Opportunity)



Youth literacy
rate,
population 15-
24 years,
female (%)

98

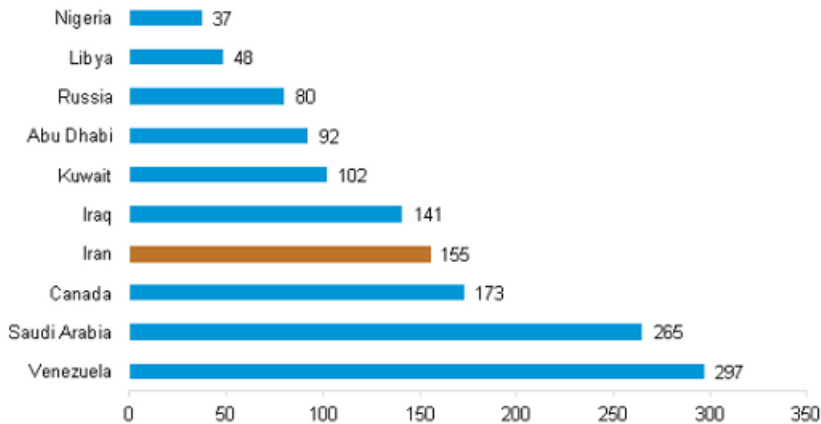
Youth literacy
rate,
population 15-
24 years, male
(%)

98

Natural resources : "energy superpower" (Opportunity)

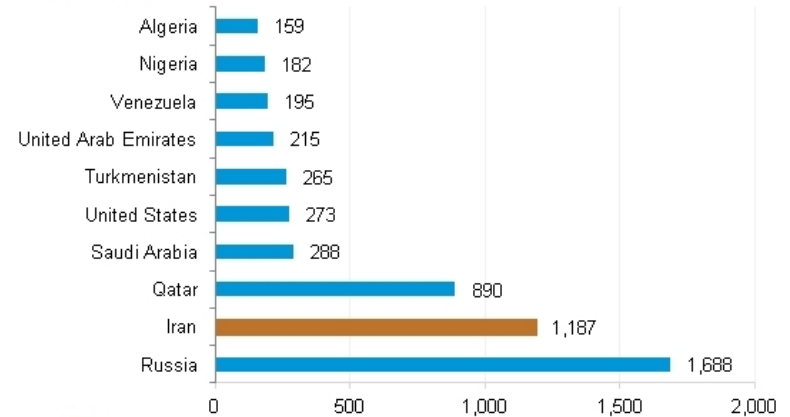
- Iran's economy is characterized by a large hydrocarbon sector, small scale agriculture and services sectors, and a noticeable state presence in manufacturing and financial services.
- The economy of Iran is dominated by oil and gas production, with 10% of the world's proven oil reserves and 15% of its gas reserves.

Largest proven reserve holders of oil, January 2013
billion barrels



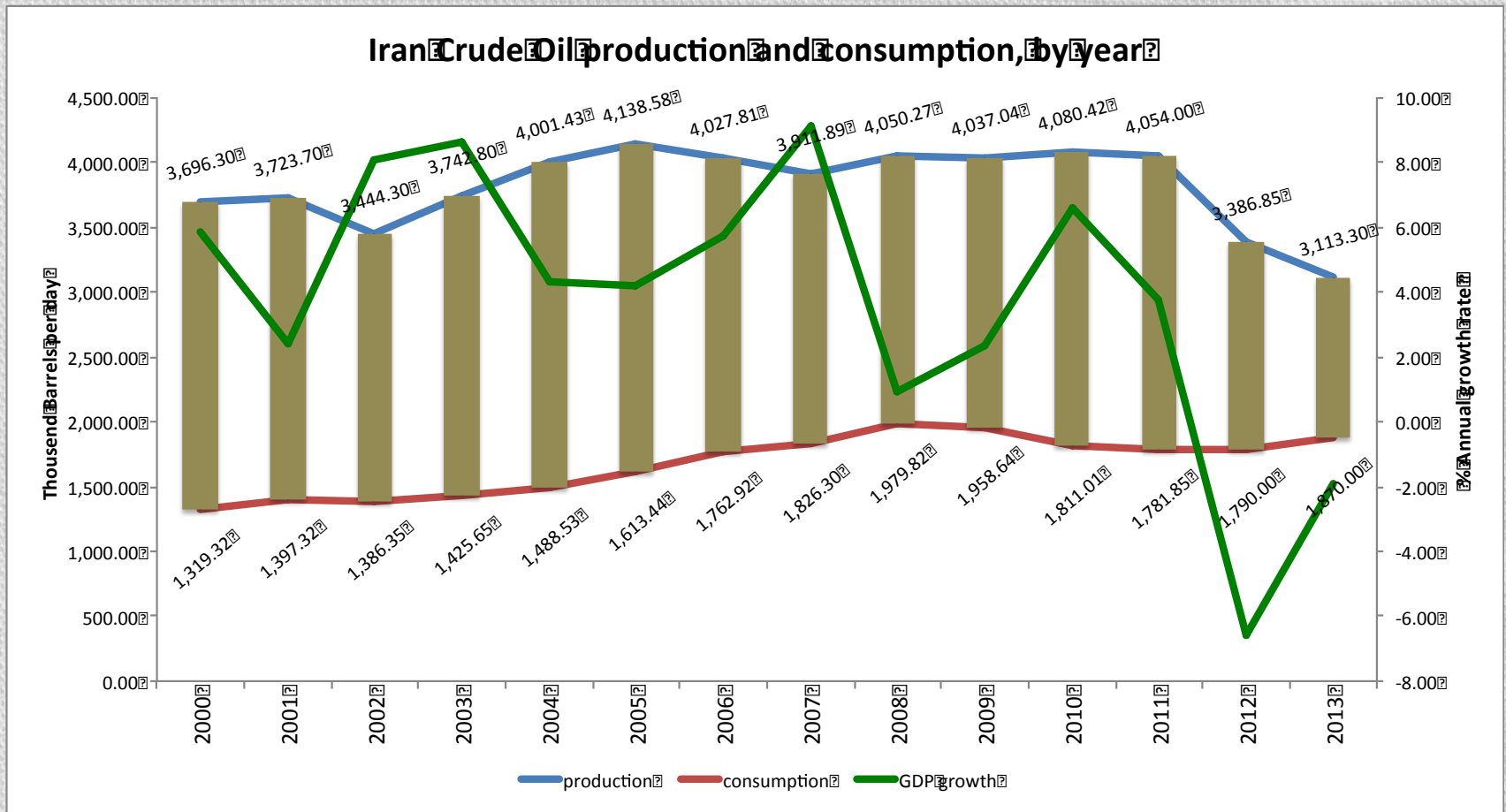
Source: Oil and Gas Journal

Largest proven reserve holders of natural gas, January 2013
trillion cubic feet



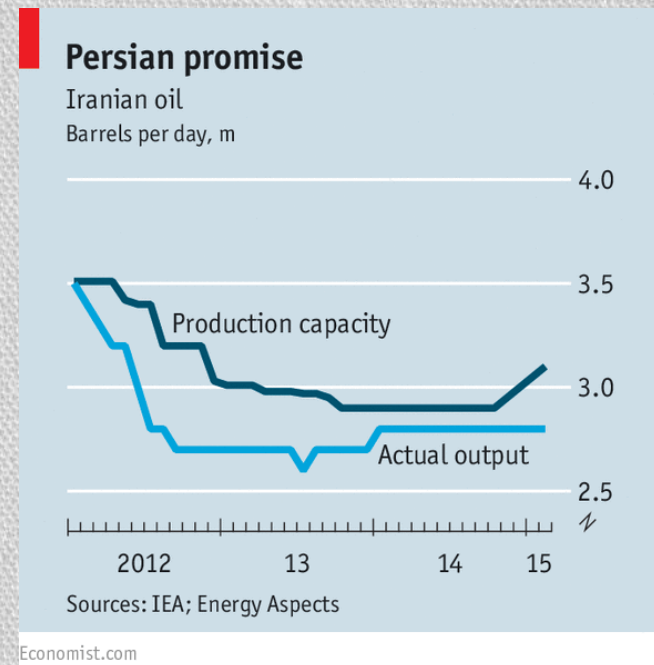
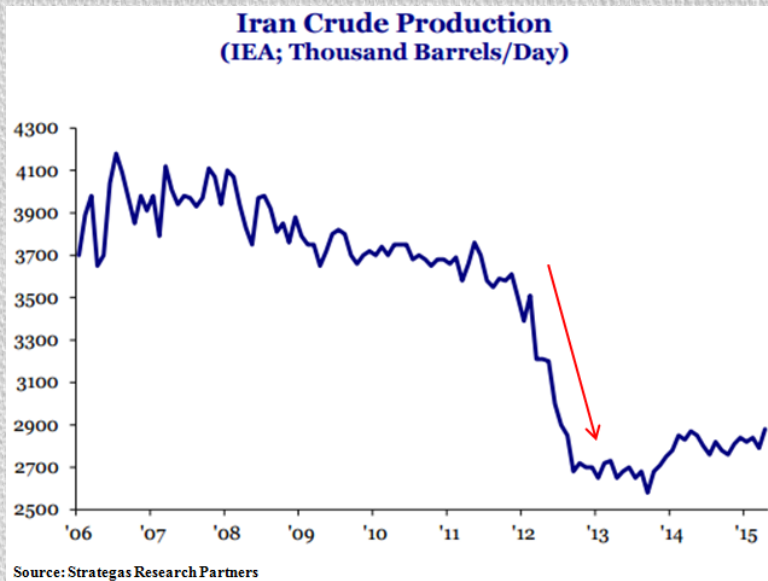
Source: Oil and Gas Journal

Natural resource dependency (Challenge)



Reliance on oil-export revenues (Challenge)

- In the economic arena, the most significant weakness is Iran's unhealthy **reliance on oil-export revenues** as the mainstay of its economy. Although not the largest sector, oil accounts for more than 80 percent of annual foreign-exchange earnings and nearly 70 percent of annual state finances.



Economy diversification (Opportunity)

The Iranian Government plans to increase the capacity of its core industries within the next 5 years through :

- Enhancing productivity through adoption of advanced and world class technologies
- Focus on innovation-driven manufacturing
- Diversifying its economy from O&G to focus on high value-adding downstream segments
- Increase the contribution of medium and high technology manufacturing to overall manufacturing
- Enhance export contribution to over 30 per cent of domestic production
- Set up joint venture manufacturing plants in the region to decrease the cost of export and make an easier access to the global market

More than oil (Opportunity)

Midstream and Downstream :

- The country produces a wide range of petrochemicals, roughly 100 different products, ranging from acetic acid to mixed xylenes.
- low-cost feedstock and access to major markets: Iran has the world's fourth-largest supply of proven oil reserves and the second-largest supply of conventional natural gas reserves, much of which is rich in ethane, a major petrochemical feedstock. This is significant given that chemical feedstock availability in other countries such as Saudi Arabia, Kuwait and Oman, has become more limited.
- FLNG: Iran has access to water so it could use LNG. Developing a liquefaction facility for Iran has always been very challenging, another alternative is floating LNG for exports.

From Oil-economy to Knowledge-base-economy (Opportunity)

Iran boasts of high manpower capacity to develop knowledge-based

- 75 percent of the country's revenues were made from sales of crude and other raw materials, but now the figure has fallen to 20 percent and this is a great achievement.
- Following the implementation of (JCPOA), many foreign companies came to Iran to conclude cooperation deal in the fields of **nanotechnology and biotechnology**.
- 'Iran is now one of the successful countries in the region in many modern sciences, including Nano, as currently some 20 countries are involved in the field'

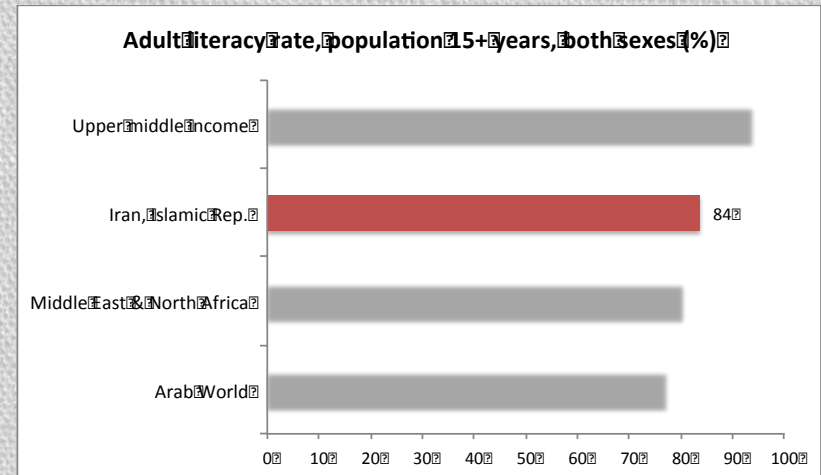
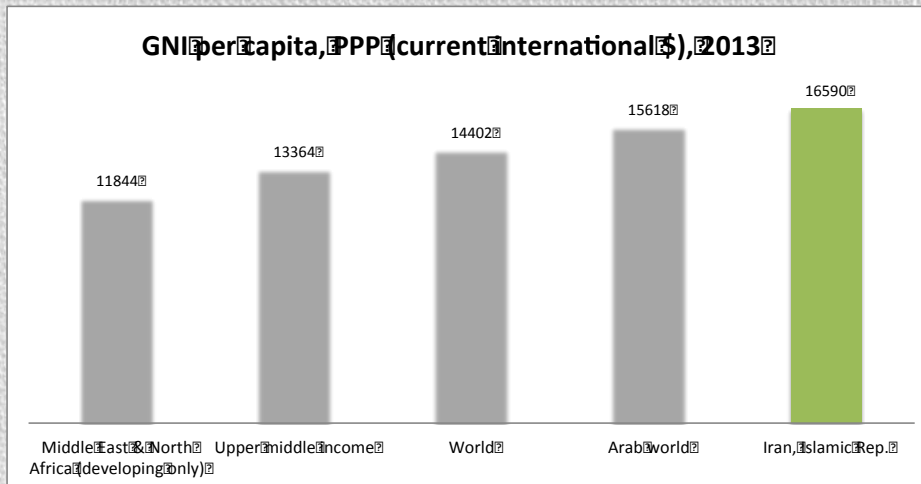
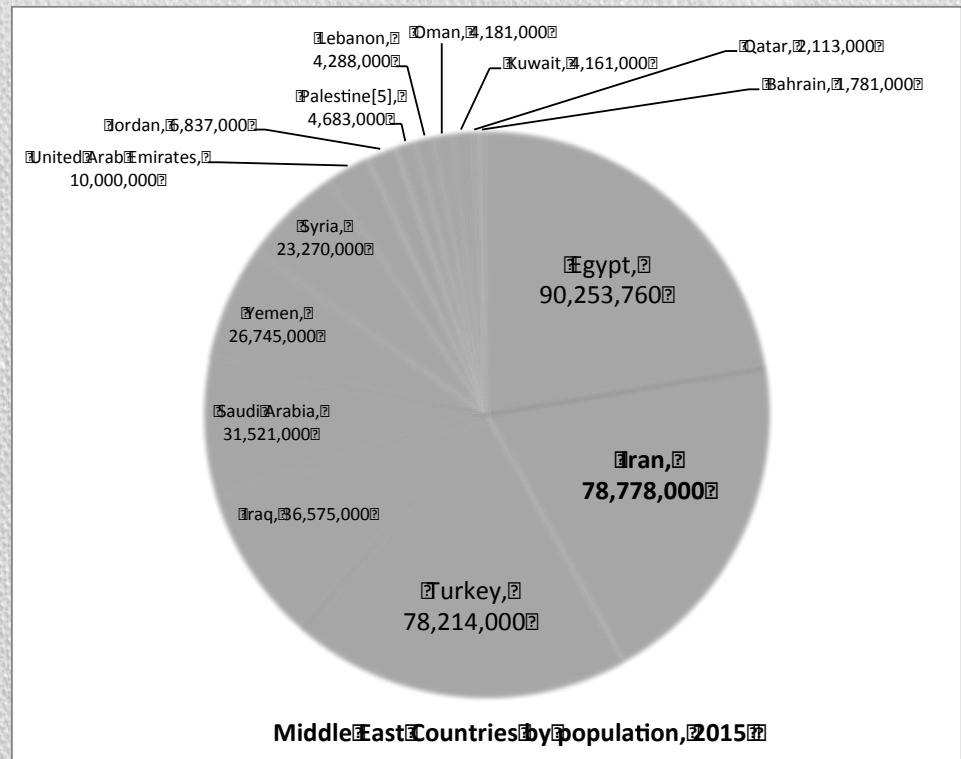
Demand Condition

Challenges and Opportunities

- Market size
- Market sophistication

Market (Opportunity)

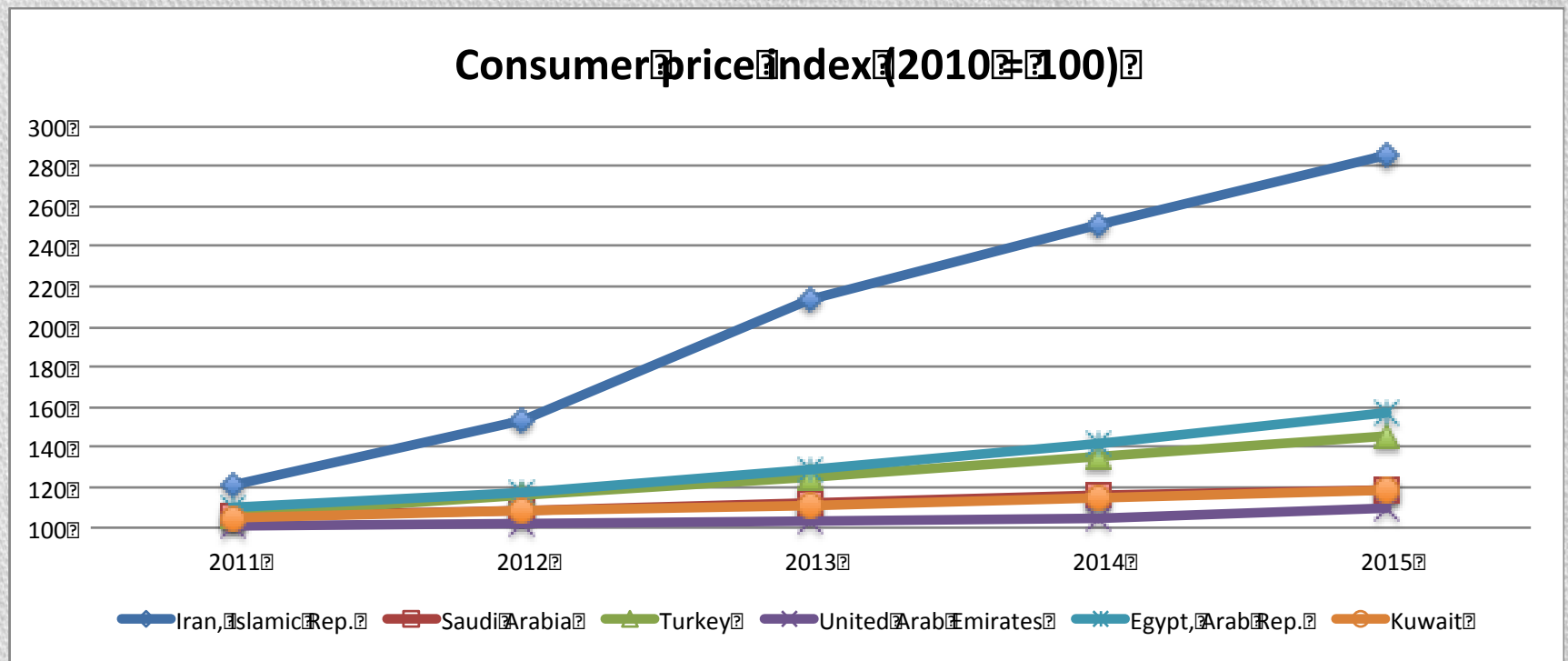
- Big market
- Rich market
- Sophisticated



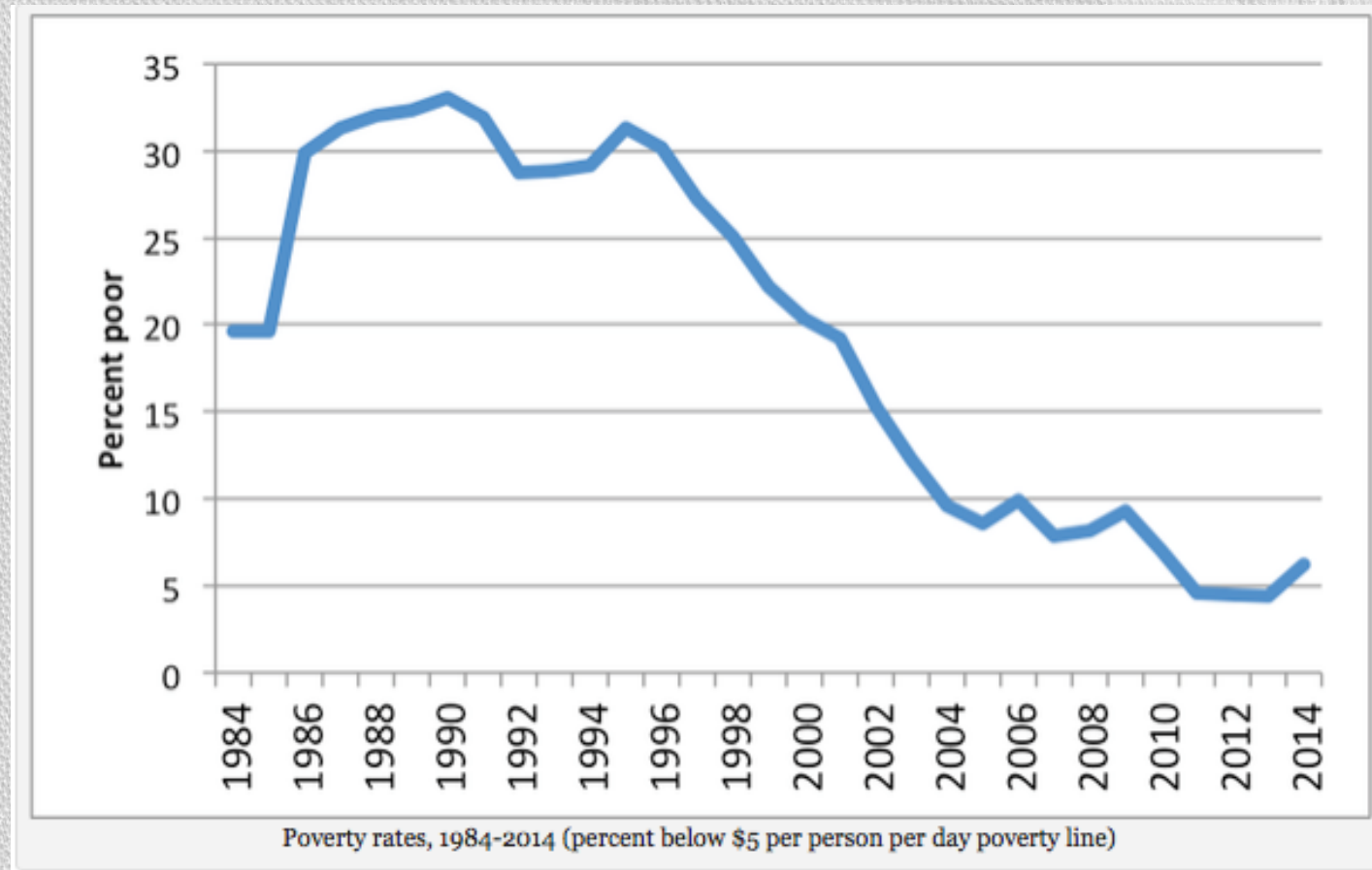
Market (Challenge) – Purchasing power

- The subsidy-reform program: **Necessary but painful**
 - was intended to deal with the distortions created in Iran's economy by a long history of artificially low food and energy prices by turning the program into a direct social- assistance effort for Iran's poorest citizens.
 - The program involves letting prices on food and energy rise but compensating for the resulting impact on the poor by creating a direct cash-transfer program.
- **Resulting in decreasing the purchasing power of households.**

Market (Challenge) – Consumer price index (CPI)



Market (Challenge) – Poverty and Inequality



GINI Index (World Bank estimate)	2005	2009	2013
	38.34	42.02	37.35

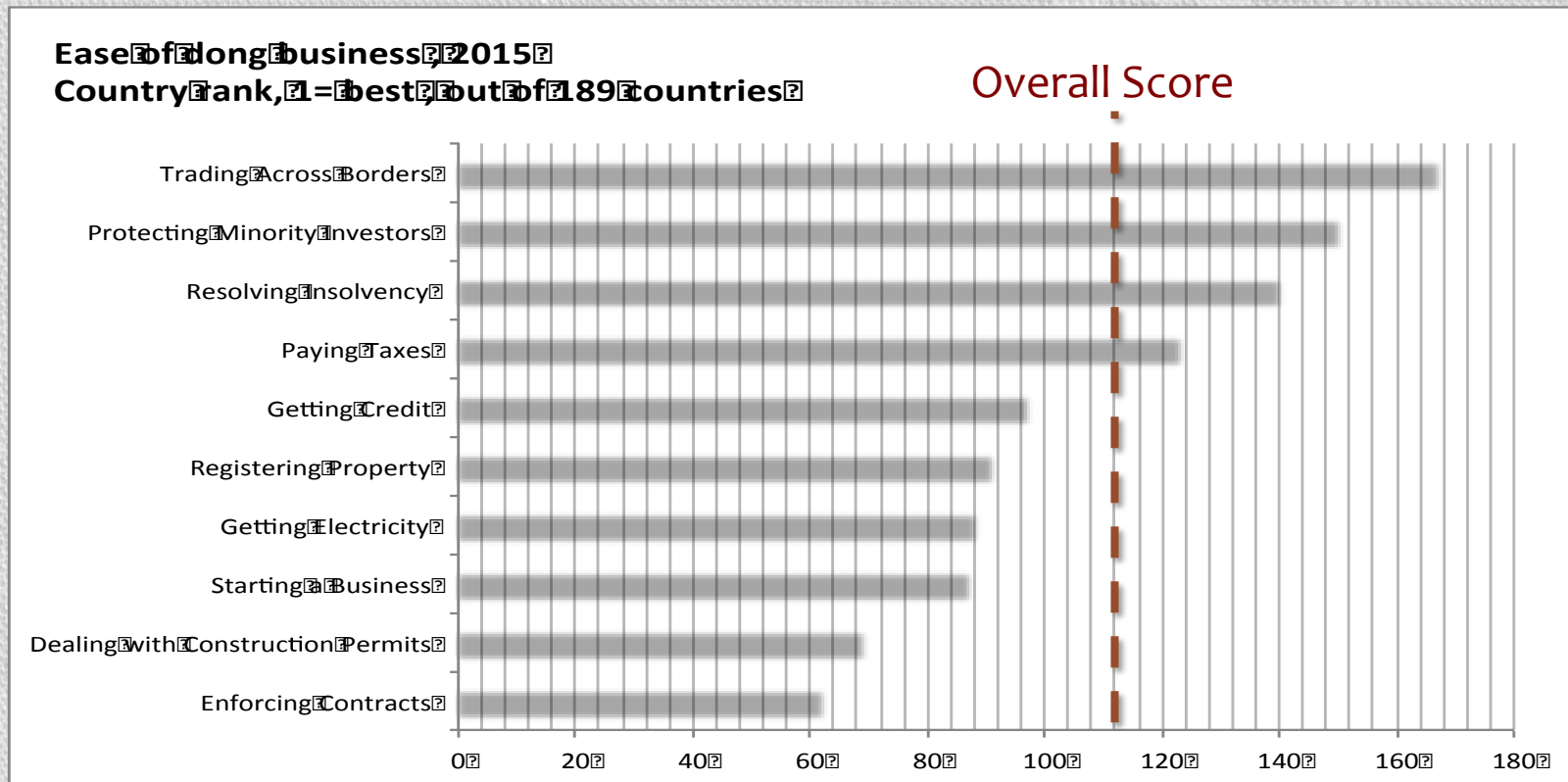
Related and Supporting factors

Challenges and Opportunities

- Easy of doing business
- Supporting industries (banking)
- Macroeconomics instability
- Infrastructure

Easy of doing business (Challenge)

A Labyrinthine Bureaucracy



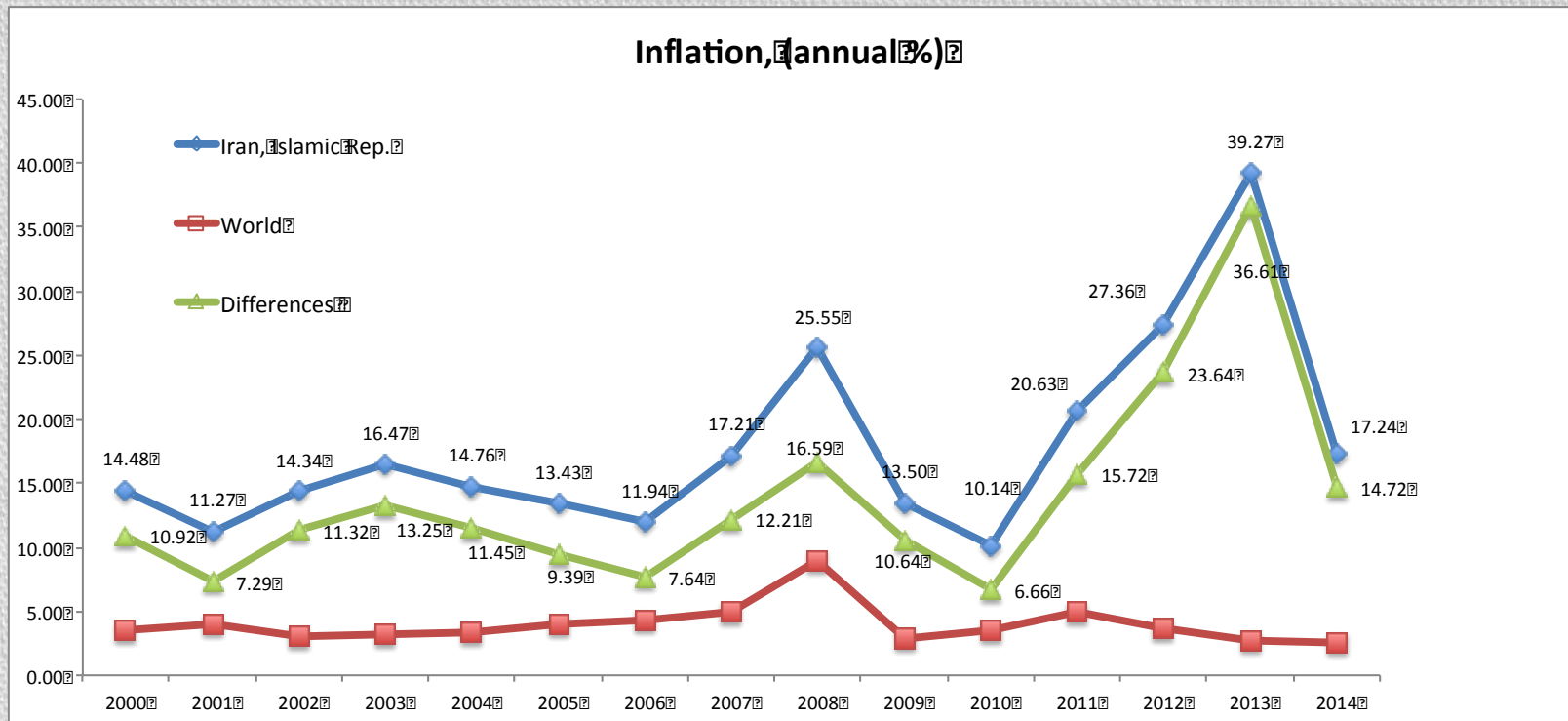
Banking and financial sector (big Challenge)

- Iran's **banking and financial sector**, responsible for facilitating one-third of the total domestic product, is highly inefficient.
- Most of banks are financially undercapitalized; they suffer from too many money losing branches and semi-idle employees, and too few initiatives.
- Interest rates paid on deposits and charged on loans are arbitrarily dictated by the government, often in total disregard of prevailing economic conditions.

Term of Deposits	Five-year Deposits	Four-year Deposits	Three-year Deposits	Two-year Deposits	One-year Deposits	Special Short-Term Deposits
Provisional Profit Rate for 1390 (2011) (%)	15	14.5	14	13	12.5	12.5
Provisional Profit Rate for 1387 (2008) (%)	15-18.5	15-18.5	15-18	15-17.75	17-17.5	15-17.25

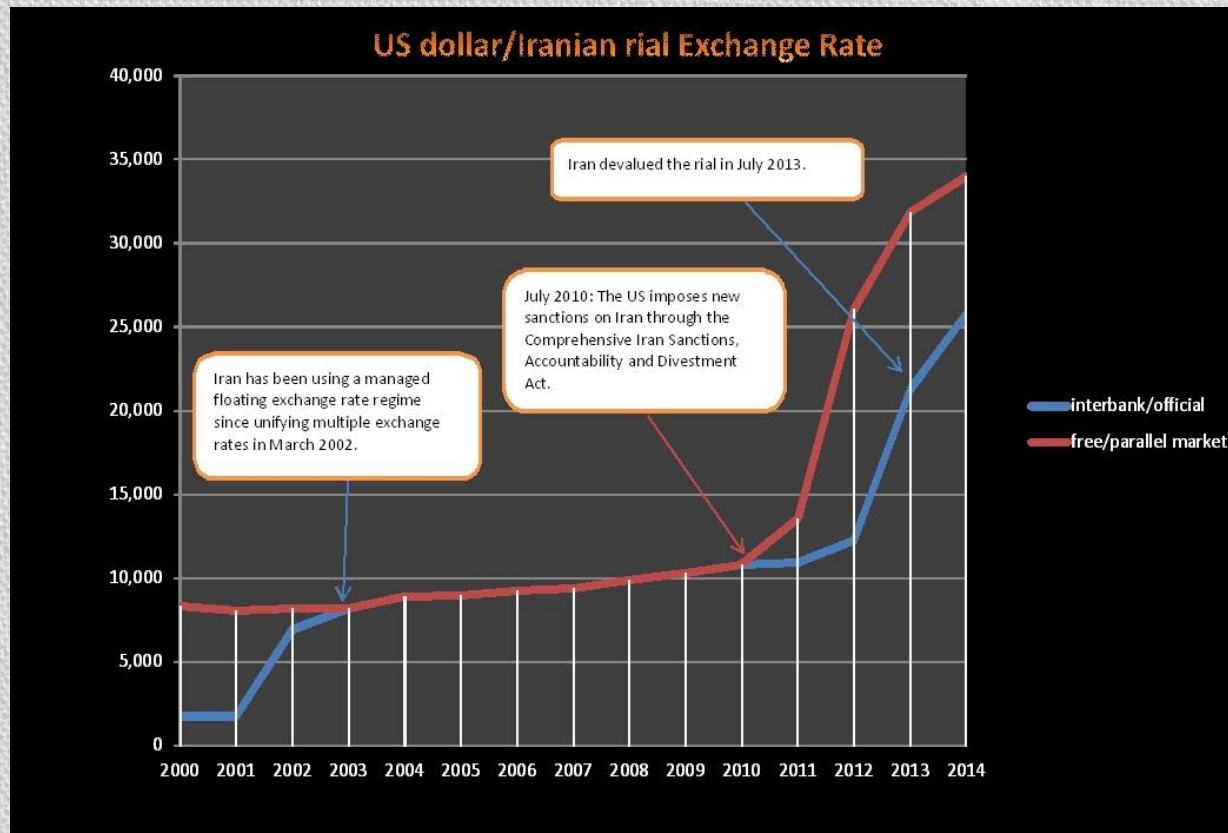
Macroeconomics instability (Challenge)

- **Price stability:** The inflation rate dropped to 15.6 % by March 2015, down from 40% two years ago
 - ✓ Maskan Mehr
 - ✓ Subsidy reform
 - ✓ Monetary policy
 - ✓ Sanction



Macroeconomics instability (Challenge)

- Exchange rate system:
 - Equilibrium exchange rate Vs. Efficient exchange rate



Infrastructure

Iran infrastructure condition, by 2014, World bank	
Internet users (per 100 people)	39.35
Rail lines (total route-km)	8560
Mobile cellular subscriptions (per 100 people)	88
Air transport, registered carrier departures worldwide	155,261
Container port traffic (TEU: 20 foot equivalent units)	3,178,538
Electric power consumption (kWh per capita)	2,899



Infrastructure (Opportunity)

- **Power :** Iran plans to increase this capacity to 96,000 MW by 2022.
- **Telecommunication :** According to the Statistical Center of Iran (SCI), the average income for an urban-dwelling Iranian family in 1392 (March 2013- March 2014) was 17,030,000 IRR (~637 USD), suggesting that a majority of Iranians spend at least 1.5% of their monthly income on internet access.
- **Transportation :**
 - The International North–South Transport Corridor is the ship, rail, and road route for moving freight between India, Russia, Iran, Europe and Central Asia.
 - Islamic Republic of Iran has targeted in transit sector in a way that it shall reach to figure of 40 million tons of goods by the end of Fifth Economic Development Program (2015)

Infrastructure-ICT (Opportunity)



- The secretary of the Information Technology Supreme Council expressed that: “In the 6th development program, 7 articles are directly addressing ICT issues, but there are also 40 others based on ICT’s revolutionary effects.”
- Iran’s mobile phone penetration is 129%, representing the fact that many Iranians have more than one phone or subscriber identity module (SIM).
- In terms of revenue, it is the fourth most lucrative market, in the region of \$9.2 billion. Its estimated growth rate of 6%- 7% per annum puts it among the top-five countries in the world.
- Digital market:



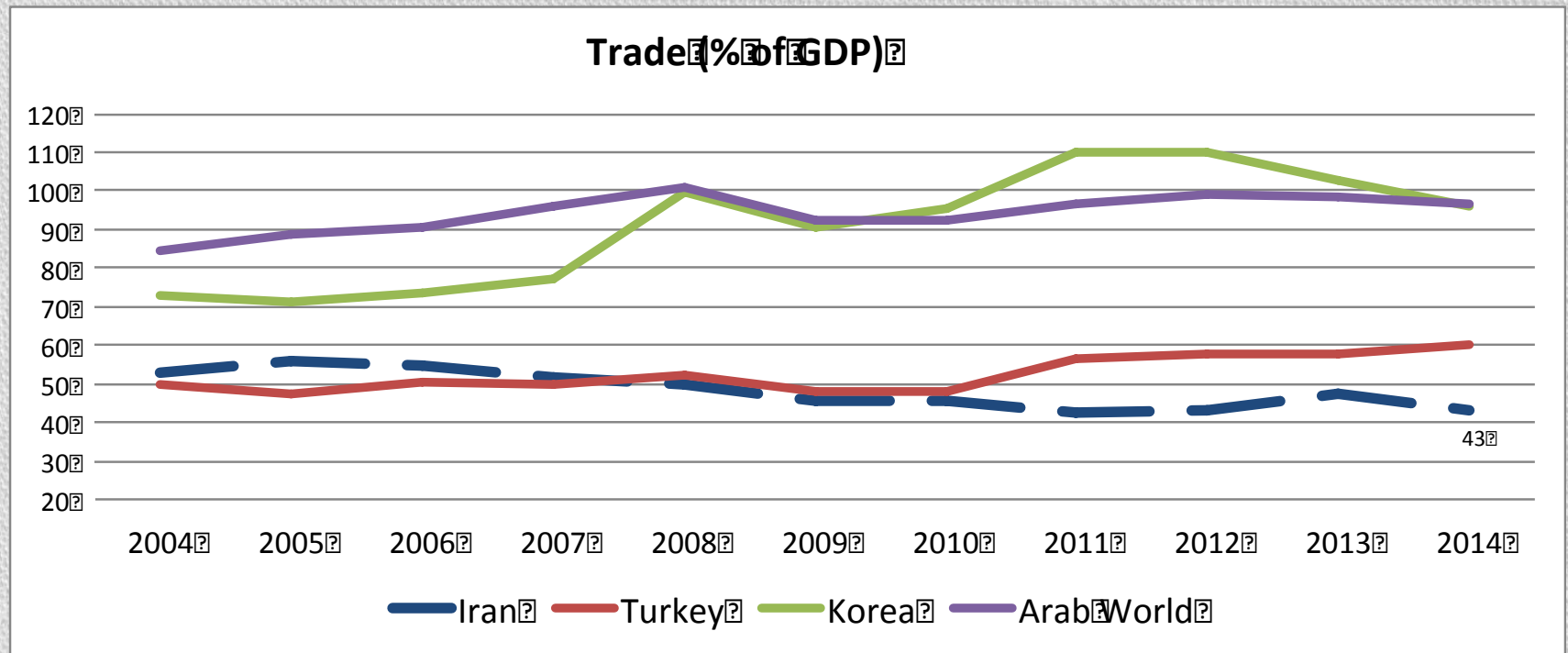
Firm Structure and Rivalry

Challenges and Opportunities

- Openness
- Ownership

Openness (Challenge)

- Lack of Competition in Iran market cause several problems and remain some industries as infant for several years.



Import substitution Vs. Export orientation (Big challenge)

- As the industrialization based upon IS proceeded, the new industrial organization tended to rely on capital intensive technologies and the import of components for assembling industries.
- The heavy reliance on modern technologies remained alien to the prior domestically-oriented economy, which remained dominated by traditional and largely low productivity methods of production.
- Thus, the linkages between traditional input suppliers and the enclave modern capital intensive industries, rather than increasing in the process of industrialization, kept on diminishing.



Privatization (Challenge - Opportunity)

- The main objectives of Iran's privatization program which were defined in various five-year development plans: restructuring of the Iranian economy, reducing the government's role and promoting the private sector's role in economic activity.
- **“justice shares,”** that is, shares of public entities that were transferred to vulnerable social classes.
- governmental companies are transferred to the **semi-governmental sector** as a debt repayment mechanism and not as a logical process of privatization.

Privatization (Challenge - Opportunity)

- **Iran decided to pursue a slower pace of privatization**
- Privatization proceeds peaked in the year ending on March 20, 2013, totaling \$18 billion, but in 2014 Iranian year, privatization proceeds have so far amounted to \$1.4 billion, which is both a reflection of government policy as well as investor disinterest
- For the next Iranian year, the administration has projected some \$38 billion in privatization proceeds (both in transfer of shares as well as sale of financial assets) that can only be achieved if some of the lucrative state companies are privatized.

Privatization (Opportunity)

- Iranian carmakers, which form the second biggest sub-sector of the economy behind oil, should cooperate closely with foreign companies to improve the quality of their products, President Hassan Rouhani said.
- The 100% government owned Iranian flag carrier, Iran Air, is set to sell the majority of its stocks.

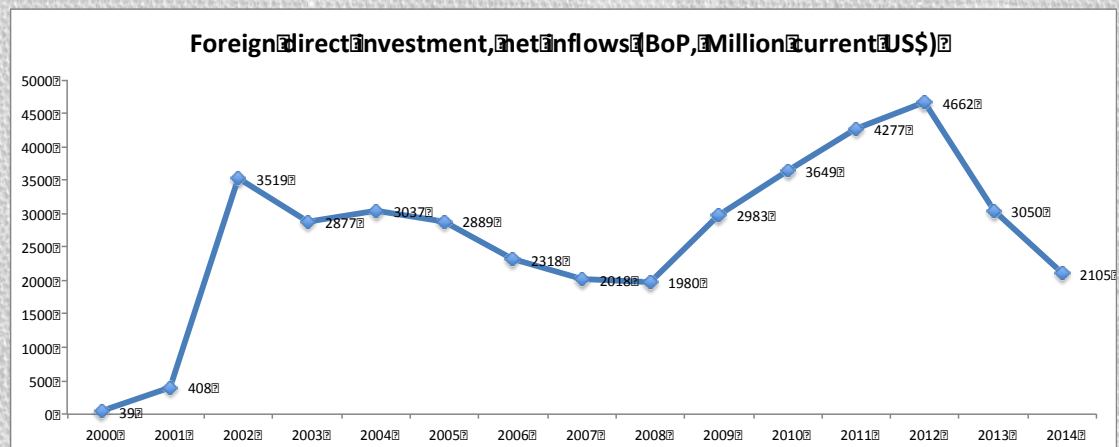


Concluding remarks

- The sixth five-year development plan (2016-21) is targeting an 8% annual growth. "Resistance Economy"
- Iran needs \$30-50 billion in foreign investments to achieve the 8% growth,

Keys:

- ❖ Endogenous growth
- ❖ Improving investment climate
- ❖ Appropriate Industrial policy



Questions and Comments

Thank you

