Iran from the Inside

With a youthful population and a growing middle class, the country is a prize catch for Western labels

by Niloofar Abolfathi

It is «the biggest new market to re-enter the global economy» according to British trade officials (1). Attention to Iran has never been like before following its nuclear deal with the United States, the European Union, China, France, Germany, Russia, and the United Kingdom. The subsequent easing of sanctions, effective from 16th January 2016, has paved the way for Iran to reconnect with the global economy and to attract foreign investors. «The legs of Iran's economy are now free of the chains of sanctions, and it's time to build and grow», President Rohani tweeted just a day after international sanctions were lifted. With roughly 82 million people and a growing GDP, Iran is «the last gold mine on Earth» (2) discovered by Westerners. What does this new window of opportunity mean for international entrepreneurs and business owners? This article sheds light on several important aspects of doing business in Iran.

A once-in-a-generation opportunity

Following the deal, Iran might be the largest economy to enter global markets since the breakdown of the Soviet Union, about a quarter century ago. Iran, however, is quite different than the Eastern Europe market. It is a large country with a young population (more than 60 per cent under 30 years old), highly educated (with almost a quarter million engineering graduates each year, almost the same number as the US), and urbanized (more than 70 per cent) that offers ample opportunities for entrepreneurs, investors and alike. Recent estimates show that with an annual gross domestic product over 400 billion dollars, the country has the potential to add one trillion dollars extra to GDP and create nine million jobs by 2035 (3). Iran has been historically well-known for its large oil

(1) A. McSmith, «Iran Is World's Biggest Emerging Market Since Collapse of Soviet Union, Says Lord Lamont», *Independent.co.uk*, 24.1.2016.
(2) R. Wright, «Iran Is Back in Business», *NewYorker.com*, 25.1.2016.
(3) McKinsey Global Institute, *Iran: The $1 Trillion Growth Opportunity?*, June 2016.

and gas reserves which will remain the key sources to boost the country's economic growth in the next years. While the oil and gas sector gets the most attention, however, Iran's economy is much more diverse than expected. In this regard, the oil and gas productions account for less than one-quarter of the country's total gross value added – much lower than other oil-rich countries such as Iraq, Saudi Arabia, Kuwait, and Qatar.

Some other sectors that deserve consideration include agriculture, financial services, retail, tourism, transport, real estate, and construction that together make a much larger size of the economy in comparison to oil and gas (4). Iran has been a major exporter of agricultural products, such as pistachios and saffron, and is among the top producers of a range of crops including eggplants, quince, and figs. To make the most out of its potentials, Iran needs to raise its productivity in both labor and water resources by using new technologies. The country has a plentiful of natural resources and considerable mineral wealth such as copper, lead, and zinc and is a net exporter of electricity to its neighbors. The banking sector, which is the largest Islamic banking in the world, has more than 500 billion dollars in cash and continues to grow particularly through the entry of newly licensed private banks.

The retail sector which comprises a considerable size of the Iranian economy is growing rapidly. With a growing consumer class, Iran has above-average retail sales per capita. Indeed, after adjusting for purchasing power, the country's retail sales per capita are higher than those in Turkey, Malaysia, or Mexico. In the recent years with an increasing penetration rate of mobile services and the popularity of social media platforms, producers of consumer goods and services have been successful in targeting a wide customer base at a low cost.

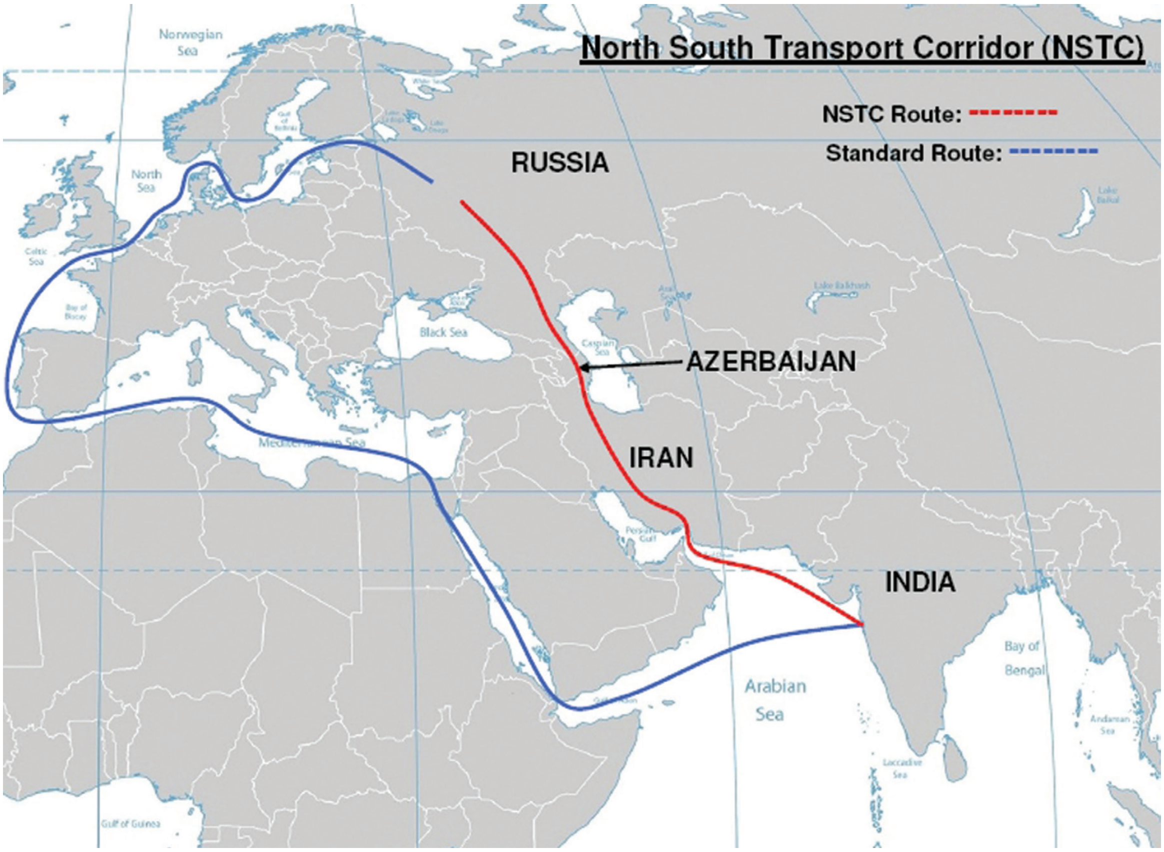
In tourism, Iran hosts fewer than five million international tourists per year, mainly visitors to Mashhad – one of the most important religious cities for Shi'as. Given Iran's place among the top ten countries with the highest number of UNESCO World Heritage cultural sites (21 sites in total), there is a great potential to attract other types of tourism to its outstanding historical and archaeological sites. Iran's mountains, that are not well-known yet higher than some in the Alps, could become a popular destination for international adventure seekers. To fulfill the goal of becoming a popular turist destination, the country must update the necessary infrastructures to international standards and open new facilities and hotels especially through attracting foreign investors. While in the past decades there was a lack of investments from international hotel chains, this is poised to change with the luxury hotel brand Melia's announced opening of a five-star hotel on the shores of the Caspian Sea.

Transportation, still underway, could become one the key strengths of Iran considering to its strategic location in the region to serve intercontinental trade. At the moment, Iran's road and rail networks are being upgraded, and several ports plan expansions. In rail, Iran has aimed to be a nexus for both East-West and North-South travel and transport. At the moment, almost 20 per cent of oil trade goes through the Strait of Hormuz, the narrow waterway off the Persian Golf and one of the world's most strategic transit points. Also, through the International North-South Transport Corridor (INSTC) (5) Iran will become a key connection in linking India, Central Asia, and Russia (Figure 1). At the same time, Iran's role as part of China's revived Silk Road (6) – particularly with the new rail connections (7) – could enhance trade between these countries to 600 billion dollars. This increased ease of transportation can help lucrative export and investment opportunities elsewhere in the region, such as exploiting mineral reserves in Afghanistan, as well as exporting natural gas to emerging markets such as India, Pakistan, and Turkey.

Iran's diverse economy is also reflected in the recent international business deals with different parties. More than 75 per cent of the deals signed after the nuclear agreement are in sectors other than oil and gas. In transportation, for example, Airbus and Boeing have signed deals to sell hundreds of aircrafts to Iranian carriers. Adding to this, Ferrovie dello Stato has taken on an agreement to build two high-speed railways in Iran. In chemicals, BASF plans to invest four billion dollars in petrochemical facilities. In metals,

(4) See the data in IHS Global Insight; McKinsey Global Institute, *op. cit.*
(5) See the INSTC website, www.instc-org.ir/Pages/Home_Page.aspx.
(6) K. Dengan, «China's Silk Road Revival Steams Ahead as Cargo Train Arrives in Iran», *Theguardian.com*, 15.2.2016.
(7) S. Rachamandran, «Iran, China, and the Silk Road Train», *Thediplomat.com*, 30.3.2016.

figure 1 | map of the North-South Transport Corridor vs. Standard Route from India



source: Zbk1 – modified version of «1-12 Grey Map World» & CIA Maps, public domain, https://commons.wikimedia.org/w/index.php?curid=37645439

Danieli Group has signed an agreement with a value of more than six billion dollars to produce steel, and Mittal Steel signed a contract worth more than one billion dollars to produce iron in Iran. In retail, LG Electronics – with a considerable presence despite the sanctions – is planning to open up a manufacturing plant to make more than one and a half million refrigerators, televisions, and washing machines annually (8). Renault has been able to assemble about seven times more cars than in 2015 thanks to the lifting of sanctions. Novo Nordisk is taking advantage of its presence in the Iranian market by doubling local staff as well as adding another 76 million dollars in making a new plant (9).

The Iran we don't see

Iran has been quite an isolated country during the past four decades and for this reason, perhaps is a country that is particularly mischaracterized in Western eyes (10). Now that the door is open to discover and explore, it is crucial to have an accurate portrait of the country. Iran is a unique country because of its location in the Middle East: a non-Arab country in the heart of the Arab world. Similar to its economy, Iran has a pluralistic nature with the coexistence of various ethnicities, cultures, and languages. While the main ethnic group remains Persians, other groups such as Azerbaijani Turks, Kurds, Lurs, Baluchs, and Turkmen constitute a substantial part of the population. This diversity, of course, is evident in existence of a wide array of consumer tastes and preferences.

It is also important to better understand the new generation of Iranians as they make up more than half of the population. Iranian youth, particularly those living in big cities, are no more different than the «cool kids» in other international Metropolitans. As a new CNN post puts it:

(8) See http://denmark2iran.com/what-to-know-about-doing-business-in-iran/.
(9) M. Spivack, «What to Know About Doing Business in Iran», *Hbr.org*, 5.5.2016.
(10) C. Thornton, «The Iran We Don't See: A Tour of the Country Where People Love Americans», *Theatlantic.com*, 6.6.2012.

«With their stylish clothes, effortless English, and modish hair, the young people relaxing in this park in north Tehran would give New York or London hipsters a run for their money» (11).

Tehran, the capital of the country, is well-known for offering several cultural and recreational activities. With a population of about 15 million including its larger metropolitan area, the city has plenty of trendy spots to hang out with family or friends – from exhibitions and museums to restaurants, cafes, and parks. The newly-build Nature Bridge, an award-winning pedestrian overpass designed by a 26 years old Iranian architect Leila Araghian, hosts many people every day come there to walk over the capital's highways and enjoy several dining areas. The coffee shop culture is also quite notable in Tehran as well as in other large cities as the new generation is interested in making an intellectual conversation while sipping a hot drink.

Iranians have a strong tradition in science and technology. The list of distinguished Iranian scholars starts from influential thinkers such as Avicenna and Nasir al-Din Tusi to more recent scientific figures like Maryam Mirzakhani and Firouz Naderi (12). The country is among the top ten countries in the world with the highest university graduates, above the United Kingdom, France, and Germany. Having a young population, it is not surprising to know that Iran has recently opened the world's largest bookstore, Tehran Book Garden, offering more than 400,000 titles for kids alone (13).

Like almost every other nation with a youthful population and widespread access to the Internet, the social media have an important weight in everyday life. Indeed, the statistics show that Iranians are social-media savvy with having over 47 million active Internet users (14). While it has not always been easy, Iranians always managed to get hold of what they wanted. For example, they have replaced Facebook and Twitter, which are not easily accessible in Iran, with platforms with similar functionality, such as Instagram (15) and Telegram. Or since Silicon Valley is banned from serving the market due to the US sanctions, Iranians got the chance to benefit from services recreated by domestic start-ups. This recreation process has not been straightforward since the necessary infrastructure (e.g., payment methods via credit cards) were not always available. Still, Iranian entrepreneurs have overcome the challenges and introduced services that match the domestic market: Snapp instead of Uber, Digikala instead of Amazon, and Pintapin instead of Booking.com.

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«Iran's start-up spring» (16) has been successful as these new companies are run by young Iranians, who are better educated than any generation before. Passing through the highways in Tehran, it is impossible to ignore large billboards that have been recently rented by Iranian start-ups. For instance, Snapp and its key rival, Tap30, are aggressively advertising to attract new users and recruit new drivers to expand their coverage. With having almost five times as many taxis as New York city, Tehran is an interesting market to serve for such ride-hailing services (17). To further nurture young scientists and build capabilities at home, the Iranian government effectively invest in the research and development (R&D) in different areas such as nanotechnology, biotechnology, stem-cell research, genetics, aerospace research, laser communication systems, computer science, and electronics. Certainly, a big challenge for the government has been to keep the talent at home and to create an appropriate environment for bringing back young visionaries and scholars (18).

Things to keep in mind for Italian businesses

Italy and Iran had historically enjoyed close trade ties, before the

(11) M. Krever, «Tehran's Teens: Iran Isn't What You Think It Is», *CNN.com*, 25.2.2016.
(12) See http://www.ranker.com/list/famous-scientists-from-iran/reference.
(13) J. Glum, «Huge Bookstore, Tehran's Book Garden, Opens in Iran Despite Government Censorship», *Newsweek.com*, 7.7.2017.
(14) M.R. Azali, «It's Official: Iran Has More Than 47 Million Social Media Users», *Techrasa.com*, 13.7.2017.
(15) M.R. Azali, «Infographic: Instagram Usage Statistics in Iran», *Techrasa.com*, 21.7.2017.
(16) V. Walt, «Iran's Start-up Spring», *Fortune.com*, 28.4.2016.
(17) Z. Alkhalisi, A. Daftari, «Snapp: Iran's Answer to Uber Is Growing Fast», *CNN.com*, 31.7.2017.
(18) J.A. Khalek, «6 Trends Shaping Iran's Tech sector», *Weforum.org*, 6.8.2015.

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ramping-up of EU and US sanctions in 2012. In the wake of the nuclear agreement, Italian businessmen and entrepreneurs willing to (re-) enter the Iranian market must bear in mind not only political and institutional but also cultural aspects.

It is important to make a personal touch when approaching Iranian business owners and entrepreneurs. Making a pleasant conversation should not be that difficult between the two parties as Italians and Iranians share several cultural similarities. Both countries represent ancient civilizations that have long been interested in the each other from a historical, literary, and archaeological point of view. There is a significant influence of history and poetry on different life aspects in both counties. Using poetry taken from some old scrape, for instance, is quite common to provide some finer words. For instance, Iranian foreign minister and nuclear negotiator, Javad Zarif, recently quoted in his speech: «A thousand years ago, the Iranian poet Ferdowsi said, 'Be relentless in striving for the cause of good / Bring the Spring you must. Banish the winter you should» (19). Understanding, acknowledging, and building on such cultural similarities certainly can help the negotiation processes.

Being a large market, Iran offers numerous opportunities for entrepreneurs and producers. With a youthful population and a growing middle class, the country is a prize catch for Western labels, considering sagging home market. Italy is already one of the most important European trade partners of Iran and can continue this tradition through further cooperation and building on the existing cultural and economic ties. ■

In sintesi

- Con la riapertura dei rapporti commerciali in seguito all'accordo sul nucleare, l'Iran rappresenta secondo alcuni osservatori la più grande economia a (ri)entrare nel mercato globale dai tempi del crollo dell'Unione Sovietica. **Si tratta di un'economia ampia e diversificata, in cui le risorse naturali (petrolio, gas, ma anche rame e zinco) hanno un peso significativo ma non totalizzante.** Un settore molto promettente è quello delle infrastrutture, in virtù della posizione strategica del Paese lungo alcune delle più importanti direttrici del commercio globale (inclusi la nuova Via della Seta e l'International North-South Transport Corridor). Anche il turismo, al momento di natura prevalentemente religiosa, offre numerose opportunità di sviluppo, visto l'enorme patrimonio storico-artistico del Paese.
- Per gli investitori e le aziende straniere, il mercato iraniano appare particolarmente interessante in virtù della presenza di una popolazione molto giovane, istruita e fortemente urbanizzata, con una marcata propensione al consumo: a parità di potere d'acquisto, le vendite pro capite sono più elevate rispetto a Paesi come la Turchia, il Messico o la Malaysia. La penetrazione di Internet è massiccia (l'Iran vanta oltre 47 milioni di utenti Internet), con una forte diffusione dei device mobili e dei social media. **A seguito delle sanzioni statunitensi, sono fiorite numerose start-up e aziende iraniane che operano nel settore digitale offrendo servizi di e-commerce** o app dedicate. Il settore beneficia in particolare dell'ampia disponibilità di competenze tecnologiche visti gli elevati livelli di istruzione, specie in ambito scientifico e ingegneristico.
- Gli imprenditori italiani che volessero sfruttare le opportunità offerte dal Paese dovranno tenere conto non solo di fattori politici e istituzionali, ma anche delle **specificità della cultura persiana, che si contraddistingue nell'area mediorientale per non avere una matrice araba.** La centralità di storia, arte e poesia può essere un elemento comune di vicinanza tra la realtà italiana e quella iraniana.

(19) N. Jahromi, «Poetry and Politics in Iran», *Newyorker.com*, 14.7.2015.