

DRAFT

Iran as an Emerging Market? Opportunities and Threats

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I. What are BEMs? Common Characteristics:

Jeffrey Garten, dean of the school of management at Yale and one of the best known scholars in this field, identified ten developing countries as critical to the world economy and to US interests. He called them Big Emerging Markets, a phrase coined by the State Department.

The so-called ABig Ten \cong are, according to Garten:

- < In the Western hemisphere: Argentina, Brazil, and Mexico;
- < In Central Europe-Eurasia, Poland and Turkey;
- < In Asia: India, Chinese Economic Area (China and Taiwan) and Indonesia (plus its ASEAN trading neighbors Thailand, Malaysia, Singapore);
- < In African: South Africa.

Common characteristics of emerging markets, according to Garten, include the following:

1. Each is a powerhouse in its region by virtue of size, including large population, resource base and market.
2. They are bursting onto the world economy, seeking economic growth, market share, latest technology, and demanding their share of the global economic pie.
3. They are critical participants in the major political, economic and social drama taking place on the world scene.
4. They are the world=s fastest expanding markets, responsible for much of the explosive growth in world trade.
5. They are all trying to liberalize and rationalize their economies, including balanced budgets and privatization .

In its World Economic Outlook of May 1997, subtitled *Globalization: Opportunities and Challenges*, the International Monetary Fund measures the success of transitional economies, i.e., the former communist countries, by three criteria: Openness to trade, credit rating, and FDI per capita. It presents a sobering analysis of trade liberalization, integration into the world financial system, and concludes that:

A[Transition] economies face the prospect of achieving quite high growth rates, provided they persevere with policies of macroeconomic stabilization and structural reforms, including opening up to the world economy. Increasing trade and international financial flows will be essential to bring about the growth that will allow these countries to realize their aspirations. (IMF, 1997, p. 111)

And the European Union, in its most recent round of initiatives intended to lead to a more fully integrated European Union, established the Maastricht criteria in 1992 for its members. These are:

- < Low inflation (not to exceed the lowest three members by 2.7%)
- < Low Government deficit (not to exceed 3% of GDP)
- <

These are dramatic steps, tough criteria, dynamics and characteristics. How does Iran fit the description outlined above?

II. Iran: An Emerging Market?

In this section, we briefly describe the modern history and experience of Iran with economic development, the dislocations which were brought about after the Revolution, and the tortuous evolution toward moderation and economic rationality during the last few years.

a. Background: Iran before the revolution:

Iran's experience with modern economic growth dates back to the 19th century. The discovery of oil and the gradual spread of modernization throughout the non-Western world had its impact on Iran. Yet after World War II, the economy was still primarily backward, agrarian, feudalistic, and rural. Oil revenues, which flowed in fits and starts during the ensuing forty years, remained the main source of foreign exchange and government revenues. Five consecutive five-year development plans were meant to transform Iran into an increasingly modern, industrial, urban, and literate if not politically democratic society.

By the time of the revolution, there had been enough interaction between Iranian economy and the rest of the world to create a ratchet effect. Many light industries, including automotive, consumer goods, and food processing, as well as heavy industries, such as steel and machine tools, had begun. Some of these were spearheaded by the Government, under the lead sector and growth poles arguments. Some were joint ventures with US, European and other foreign firms. The experience with technology transfer was, on the whole, a positive one in the sense that these technology transfer experiences created a ratchet effect, some becoming diffused into the industrial fabric and leaving a lasting imprint.

Despite the positive impact, the experience was not a shining example of successful international technology transfer. [See my article 19 and thesis, 1979].

b. How Iran fits into the model

If we were to apply the standard criteria by which one would classify a country as an emerging market, to include Iran in such a group would be a major stretch.

c. Case Studies:

1. Kooroshi data
2. IDRO
3. IMI

4. The Bonyads
5. Imam Khomeini Petrochemical plant
6. Mobarekeh Steel
7. Executives attending IMI Strategic Management and Executive MBA programs
8. IAP (Iran Auto Parts - Mashad)

III. Conclusion

Propositions:

Iran's century old experience with industrialization has, cumulatively, resulted in an economy poised for take-off

A SWOT Analysis:

Strengths:

past history and experience with industrialization (ratchet effect)

human resources: Large population, educated labor force

Large internal market

Existing firms: IDRO, ISO-9000 recipients, Mobarekeh and IAP as examples

natural resources: oil and gas

Geographic location: Between east and west, plus Central Asia

Weaknesses:

Lack of consensus on a development paradigm and foreign policy

Inadequate physical and communications infrastructure

Closed economy

Power center not accountable to central government

A Reality problem

Opportunities:

Continued expansion of the global economy

Central Asia

Honeymoon possibilities

Oil revenue upswing

As oil prices plummet, those favoring strong government intervention, distortions, and the privileged class gain upper hand.

IV. References

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Tables

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Table : Development Diamond

Source: World Bank, World Development Indicators 1997 CD-ROM edition (World Bank, 1997)

Table : External Debt

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Table : Structure of Merchandise Imports

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