

# We Don't Understand Iran's Economy

By Esfandiyar Batmanghelidj

## Abstract

*Even as the US and Iran find themselves on the brink of a military conflict, this article suggests that until policymakers are empowered with the insights generated by more business reporting, more academic research, and more transparent corporate communications, they will find their foreign policy and national security strategies inadequate to the task of securing peace.*

Give officials in the United States and Europe a simple quiz about the Iranian economy and they will fail. They will fail to answer fundamental questions: What is the composition of the Iranian economy? Who sets economic policy and who influences the policymakers? How do monetary and fiscal policies explain Iran's economic resilience? How does Iran use its foreign exchange reserves? Is Iran's trade with China growing at the expense of its trade with Europe? What does the Iranian public think about the state of the economy?

As they grapple with the quiz, the officials, including those few individuals who are tasked to track economic developments for the benefit of their colleagues, will respond to the questions with references to macroeconomic data and anecdotal accounts — but the complete answers will elude them.

The disappointing grade that the officials would receive on the quiz reflects the fact that economic diplomacy remains an afterthought of foreign policy. But considering that the US is engaged in an “economic war” with Iran, and considering the impact of this economic war and its sanctions on the multilateral nuclear deal and security in the Middle East, the inability to adequately answer these questions is remarkable and a concerning instance of the “fog of war”.

The aggressor in this economic war — the US — is implementing its sanctions policy on the basis of a very crude understanding of Iran's economy. Should the goal of that policy be to simply cause havoc, a crude understanding will suffice. But if the US is serious about using sanctions as a tool to coerce Iran to change its behaviour, or by extension, if the US decides to one day use economic inducements to incentivise Iran to change its behaviour, a nuanced understanding of Iran's economy will have a direct bearing on the probability of success. A similar determination must be made about those countries belatedly seeking to defend their economic ties to Iran in the face of US secondary sanctions — a poor understanding of Iran's economy has comprised their defence.

US President Donald Trump's economic war on Iran has had at least one positive impact. It has helped policymakers in the US, Europe, and even Iran to realise the fundamental role that the economy plays in shaping how the foreign policies and national security strategies of Iran and global actors intersect. These actors are now scrambling to develop a more sophisticated understanding of Iran's economy, calling upon the expertise of those individuals in Iran, Europe, and even the US who do possess important insights. But if a deeper understanding of Iran's economy is to truly underpin policymaking, institutional efforts that improve how knowledge about Iran's economy is produced and disseminated in three areas – business and financial journalism, academic research, and corporate communications from companies active in the market – will be required.

## Business and Financial Journalism

The world's leading media outlets extensively report upon Iran and there remains an experienced and productive corps of foreign correspondents based in Tehran. But the overwhelming editorial focus of foreign reporting from Iran is the politics, rather than economics, of the country. This bias extends even to Bloomberg and the Financial Times, the powerhouses of global business journalism. While it is common to see reports on issues such as currency devaluation or rising inflation, particularly with regard to the impact of sanctions, these reports tend to present a vox populi view of economic issues. There remains remarkably little reporting about economic policy in Iran or developments in either financial markets or industrial sectors. The lack of detailed coverage on these topics from the world's leading publications is perhaps best illustrated by comparing reporting on Iran to that on Russia and Turkey.

Cognisant of the limitations of foreign reportage on Iran's economy, there have been efforts by Iranian publishers to increase the availability of English-language reporting on Iran's economy. Iran's leading financial newspaper, Donya-e Eqtesad operates the English-language Financial Tribune. While useful for presenting business and economic news in English, the analytical content that makes Donya-e Eqtesad a formidable resource is largely absent from the output of the Financial Tribune. Sector-specific publications have been somewhat more successful, particularly in the case of the startup sector where several publications have emerged sharing detailed news and analysis about specific companies and market trends.

Of course, the lack of journalistic focus on Iran's economy is itself a product of the country's economic isolation. One of the main commercial drivers of financial reporting is demand for information from international investors — who have no real footprint in Iran. But if the intention of the current editorial focus on Iran is to inform global readers about phenomena driving Iran's political decisions and security strategy, it is a significant oversight not to examine economic precursors in more detail. More effective reporting on Iran from a “world affairs” perspective requires grappling with the complex narratives of the Iranian economy.

## Academic Research

If the purpose of business and financial journalism is to explain the outputs and outcomes of the complex machine that is Iran's economy, the role of academic research is to reveal how that machine works, and thereby to provide some predictive analysis.

There is a small contingent of professional economists in the US and Europe who work on Iran's economy. These individuals are overwhelmingly of Iranian heritage, and tend to look at Iran's economy as just one part of their research focus, due to a lack of institutional and financial support available for Iran-specific research that is focused on the economy rather than on political or security issues. Though informally connected for decades, these economists have recently sought to formalise into a research community through the creation of the International Iranian Economists Association (IIEA), which holds an annual conference that enables participants to exchange notes on research projects.

Importantly, the IIEA also seeks to build bridges with economists from Iranian institutions, especially by providing younger Iranian academics opportunities and support to publish and present their research internationally. Whereas the study of the Iranian economy by economists based outside of Iran remains relatively ad-hoc, governed less by a shared research agenda and more by the personal curiosities of the individual economists, there has been a more organised approach to research within Iran, where there is a tendency to apply analytical models developed abroad to test hypotheses about the Iranian economy, often in a comparative framework. Economists within Iran

have also sought to demystify economic policymaking within key Iranian institutions such as the Central Bank of Iran.

But the originality and quality of the external research on Iran's economy has not been married with the comprehensiveness of the internal research. Complicating matters, both external and internal researchers struggle with the lack of quality data about the Iranian economy — many of the most valuable contributions to the field have centred on the creation of new datasets.

Moreover, both groups of researchers struggle to communicate their findings to non-specialist audiences. Economists within Iran enjoy more platforms to share their analysis for non-specialist audiences than those based abroad — in part because of the editorial blind spots described above. But regrettably, few economists focused on Iran have made themselves available to journalists as a matter of priority, and as a result, the conception of the Iranian economy tends to lag behind research findings. For example, Iran is widely perceived to have an oil economy, when in fact oil accounts for around 20 per cent of gross domestic product (GDP) — a result of trends that began more than a decade ago and which have been the subject of extensive study.

If academic research is to inform the wider understanding of Iran's economy — empowering policymakers and commercial operators as well as the general public — it will require stronger institutional support for the study of Iran's economy. Greater funding must be made available so that economists with an interest in Iran can gainfully pursue an Iran-focused research agenda. Cross-disciplinary outreach is necessary to help demonstrate the salience of economic insights to the political and sociological study of Iran, as well as more topical research areas such as the growing body of academic work on sanctions. Finally, the research findings of economists working on Iran should be much more proactively translated into insights for non-specialist audiences through the publishing of research notes, provision of commentary to journalists writing on Iran's economy, participation in public and private meetings for non-academic audiences, and the use of social media to reach interested audiences.

## Corporate Communications

If academic research helps explain how the complex machinery of Iran's economy works, then it is the role of enterprises and investors to build that machinery. We can therefore learn a great deal about Iran's economy from the companies' own outreach and explication. But the discipline of corporate communications remains under-developed in Iran.

On one side, Iranian companies have yet to adopt best practices when it comes to corporate communications and investor relations. Many large and important enterprises have little more than a website and an occasional interview by a senior executive to shed light on their role in their sector and developments in the sector at large.

On the other side, the foreign companies active in Iran, which better understand the importance of corporate communications, have been deterred from sharing information about their operations in Iran due to the reputational risks associated with sanctions campaigns. While many companies have maintained entirely legitimate and remarkably successful business operations in Iran in the sanctions period, most of these operations are essentially invisible for those outside of Iran. There is little content published about the scale and nature of multinational operations in Iran and almost no active engagement of business and financial journalists, contributing to the dearth of journalism on corporate affairs. In the absence of such information, US officials have had a free hand to characterise Iran's economy as unusually opaque and corrupt, when it is probably only as opaque and corrupt as other developing economies — a reality understood by the foreign companies that stubbornly operate in Iran.

These dynamics had shifted somewhat during the period immediately following the implementation of the nuclear deal. Several of the European large corporations active in Iran began to engage in communications activities to highlight their market activities, in part to demonstrate to Iranian stakeholders a kind of pride about their market presence or market entry. But with the re-imposition of sanctions by the US, companies are once again skittish. It is often the case that the only information proactively provided by multinational corporations active in Iran is contained in the regulatory disclosures required of companies publicly listed in the US.

For both Iranian and foreign companies, corporate communications are often intermediated by organisations such as chambers of commerce. The Tehran and Iran Chambers of Commerce have significantly increased their use of in-house publications to share the consensus of member companies about economic matters in Iran. Notably, the chamber has used surveys to draw out insights about business sentiment on the economy and on government policy. Bi-national chambers and industry associations are somewhat less sophisticated in these areas due to a lack of resources, but it is not uncommon for the leadership of these organisations to provide interviews to journalists whereas most executives of leading Iranian companies would not.

As a result of these shortcomings in corporate communications, an understanding of the most important commercial enterprises in Iran, the nature of their ownership, their product offering, and the general status of key industries and sectors is really only available to those individuals or organisations with a presence in Iran who enjoy access to business networks. For this reason, corporate Iran remains a black box for both journalists and economists alike. The dominant narratives on Iran's economy and the main areas of research are remarkably devoid of company-level insights.

## Conclusion

As Iran and the US find themselves on the verge of a military conflict, it may seem ridiculous to suggest that developing a more sophisticated understanding of the Iranian economy is essential to finding a pathway to diplomacy. But this moment of crisis emerged from the failure of sanctions relief following implementation of the Joint Comprehensive Plan of Action (JCPOA), the hardship of the economic war now being waged by Mr Trump, and the inability of the remaining parties of the nuclear deal to meet their basic economic commitments to Iran. Until policymakers are empowered with the insights generated by more business reporting, more academic research, and more transparent corporate communications, they will find their foreign policy and national security strategies inadequate to the task of securing peace.

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## About the Author

**Mr Esfandiyar Batmanghelidj** is the founder of Bourse & Bazaar, a media company which supports Iran “business diplomacy” through publishing, research, and international events. He is the organiser of the Europe-Iran Forum, the leading international business conference on Iran, with editions in London (2014), Geneva (2015), Zurich (2016, 2017) and Paris (2018).