



Lubomír Čech
D.Sc. (History), Associate Professor,
Head of the Department of International Political Relations,
Faculty of International Relations, University of Economics in Bratislava
1/b Dolnozemska cesta Str., Bratislava 5, 852 35, Slovak Republic
lubomir.cech@euba.sk
ORCID ID: <http://orcid.org/0000-0002-8406-9480>



Rudolf Kucharčík
PhD (International Relations), Dean,
Faculty of International Relations, University of Economics in Bratislava
1/b Dolnozemska cesta Str., Bratislava 5, 852 35, Slovak Republic
rudolf.kucharcik@euba.sk
ORCID ID: <http://orcid.org/0000-0002-6131-9491>

The Islamic Republic of Iran and its efforts to reintegrate into the regional and global economic structures

Abstract. Signing of the Iran nuclear deal and subsequent lifting of sanctions has led to changes in international economic relations and posed a new challenge especially for Iran itself. Consequently, a new debate emerged over Iran's readiness to reintegrate into the global economic and financial structures and over the possibilities and limitations resulting from this new situation. This paper attempts to contribute to this debate. Based on the current business environment in the country, it focuses on defining the determinants of Iran's economic reform and the goals and objectives set out in «Iran's Sixth Five-year Development Plan for the 2016-2021 period», which promises changes resulting in liberalisation of the country's economy. Besides the problems that the Islamic Republic of Iran has to deal with, the paper points to positive aspects that can make this country a significant global economic player.

Keywords: Iran's Economy; Business Environment; Economic Reform; Iran's Sixth Five-year Development Plan for the 2016-2021 period; Oil and Natural Gas

JEL Classification: F63; O33; Q43

DOI: <https://doi.org/10.21003/ea.V167-02>

Чех Л.

доктор історичних наук, доцент, завідувач кафедри міжнародних політичних відносин, факультет міжнародних відносин, Економічний університет в Братиславі

Кухарчик Р.

кандидат політичних наук, декан факультету міжнародних відносин, Економічний університет в Братиславі

Ісламська Республіка Іран і її зусилля щодо повернення в регіональні та світові економічні структури

Анотація. Підписання угоди про іранську ядерну програму та подальше скасування міжнародних санкцій стали передвісниками змін у міжнародних економічних відносинах, що перш за все виявилось викликом для самого Ірану. Одночасно з цим у професійних колах розвивалася дискусія про ступінь готовності Ірану повернутися в світові економічні та фінансові структури й про те, які ліміти й обмеження пов'язані з новою ситуацією. Метою статті є внесення вкладу в цю дискусію, виходячи з поточного стану підприємницького середовища. Робиться акцент на визначенні детермінант, що обумовлюють реформу іранської економіки, а також конкретних заходів Плану розвитку Ірану на період 2016–2020 років, який обіцяє привнести деякі зміни в бік лібералізації економіки країни. Окрім проблем, які необхідно вирішувати Ісламській Республіці Іран, у статті визначено й позитивні аспекти, що дозволяють країні зайняти важливе місце в сучасній світовій економіці.

Ключові слова: іранська економіка; ділове середовище; економічна реформа; Шостий п'ятилітній план розвитку Ірану на період 2016–2020 років; нафта і природний газ.

Чех Л.

доктор исторических наук, доцент, заведующий кафедрой международных политических отношений, факультет международных отношений, Экономический университет в Братиславе

Кухарчик Р.

кандидат политических наук, декан факультета международных отношений, Экономический университет в Братиславе

Исламская Республика Иран и ее усилия по возврату в региональные и мировые экономические структуры

Аннотация. Подписание соглашения по иранской ядерной программе и последующая отмена международных санкций предзнаменовали изменения в международных экономических отношениях, что прежде всего стало вызовом для самого Ирана. Одновременно с этим в профессиональных кругах развивалась дискуссия о степени готовности Ирана вернуться в мировые экономические и финансовые структуры, и о том, каковы лимиты и ограничения, связанные с этой новой ситуацией. Целью статьи является внесение вклада в эту дискуссию, исходя из текущего состояния предпринимательской среды. Акцент сделан на определение детерминантов, обуславливающих реформу иранской экономики, а также конкретных мер Плана развития Ирана на период 2016–2020 годов, который обещает привнести некоторые изменения в сторону либерализации экономики страны. Кроме проблем, которые необходимо решать Исламской Республике Иран, в статье обозначены и положительные аспекты, позволяющие стране занять важное место в современной мировой экономике.

Ключевые слова: иранская экономика; деловая среда; экономическая реформа; Шестой пятилетний план развития Ирана на период 2016–2021 годов; нефть и природный газ.

1. Introduction

Iran has always had a special position in the global economy, politics and culture. The Islamic Republic of Iran is a

self-confident descendant of one of the greatest empires in the ancient world, the cradle of agriculture and the successor of literary culture. It managed to overpower even the raiders

who took control of it (Axworthy, 2009) [1]. Nowadays Iran is a huge market of 78 million educated and dynamic people. Despite occasional political ambivalences, this country is capable of playing an important role in the regional and global structures of the world's economy and politics. This capability and potential were first discussed in July 2015, when the 5+1 countries agreed on a framework deal over the nuclear programme of Iran. The main reason for the deal was the lifting of economic sanctions against Iran that had been imposed due to its nuclear ambitions (Levčenko, 2016) [2].

Since then there has been a great deal of discussion about Iran's readiness for accession to the world's economic and financial structures and about the possibilities and limitations of this new situation. Following the current business environment, we will define the determinants of reforms and the steps that the Iranian government is taking to adopt these reforms.

2. Brief Literature Review

The paper studies the current Iranian economy that we will assess on the basis of several primary and secondary literary sources. Our aim is to provide readers with an objective opinion on possibilities and limitations of Iran's integration into the international economic structures. That is why we consider the sources written by experts who have been concerned with the issues related to the Middle East and Iran for a long time within their research or teaching practice as the main sources for writing of our paper. These experts are P. Magri and A. Perteghella [5] from the Italian Institute of International Political Studies, S. Bazoobandi from Regent's University in London [7], N. Habibi from Brandeis University in the USA [10] and A. Bassiri Tabrizi from King's College in London [25]. We also found interesting information needed to analyse the current situation in Iran in terms of political and energetic factors in the sources written by the American experts K. Katzman [19], R. Nephew and D. Salehi-Isfahani [21] and K. Johnson [23]. Other important sources include the study by S. Vakhshouri [22] and data provided by some non-governmental organisations and think tanks [15-18; 27]. M. A. Axworthy and M. Amin [1; 4] help us explain the issues related to theocracy and development of political economy in Iran.

The information from the papers written by D. Lipton, the First Deputy Managing Director of the International Monetary Fund [6], H. Horská, who works for Raiffeisenbank [9], and A. Shahine [11] help us explain the financial aspects connected with Iran's accession to the current world economy.

We assessed the possibilities and limitations of the current Iranian economy (2016- 2020) on the basis of the information provided by B. Khajehpour [15], who holds an important post in the Vienna-based international arm of the Atieh Group of Companies which offers strategic consulting services to Iranian companies.

We also found useful information in papers and publications written by experts from the Central and Eastern Europe that were concerned with Iran's transition to a more liberal economy and the oil sector in connection to energy and geo-political issues. These were particularly the papers written by A. Levčenko [2] and Tretiakov [21], T. Habánik from the Ministry of Foreign and European Affairs of the Slovak Republic [13], M. Dabrowski [3], who is an internationally recognised expert from Poland, the Czech experts R. Tůma from the Institute of International Relations in Prague [8] and B. Turečka from the Centre for Middle Eastern Studies at Metropolitan University in Prague [25].

3. Purpose

The business environment in Iran is a long-term problem, which restricts its adaptation to global markets. According to the data released by the World Bank in its 2016 annual ease of doing business measurement, Iran ranked 118th among 189 countries [3]. The private sector in Iran is still largely controlled by the state through various restrictive regulations. As a result, economic activities of small and medium-sized enterprises in the country are very limited. The nuclear-related sanctions against Iran had an adverse impact especially on small enterprises as they were not able to face increased costs,

the sluggish economy and the low purchasing power. Even though Rouhani managed to reduce the inflation rate dramatically during his first term as president, the unemployment rate increased considerably (Amin, 2017) [4]. Consequently, the standard of living was declining because it could be no longer compensated by subsidies as it was during Ahmadinejad's presidency (Magri, Perteghella, 2015) [5].

The paper aims to present the determinants of the Iran's economic reform in the near future, implementation of which will considerably influence the country's further development and progress (Lipton, 2016) [6].

4. Results

4.1 Requirements related to Iran's economic reform

Iran's economy has to meet several key requirements that will influence its further progress as soon as possible.

- 1) *It will be necessary to find a suitable way of using Iran's financial assets frozen abroad due to its previous nuclear programme.* There are many opinions on the value of Iran's frozen assets abroad and on how these assets can be used in the future. It has never been easy to calculate this value owing to a lack of transparency in the financial sector. Tahmaseb Mazaheri, the former governor of the Central Bank of Iran, claimed the frozen assets were worth between USD 20 billion and USD 25 billion (Bazoobandi, 2015) [7]. Other officials talked about the sum of about USD 125 billion (Tůma, 2016) [8]. According to the World Bank, Iran's frozen assets abroad are worth approximately USD 107 billion (Horská, 2016) [9]. After the sanctions were lifted, the Central Bank of the Islamic Republic of Iran announced that the freed assets were worth USD 29 billion (Habibi, 2015) [10]. The value of these assets is calculated differently in every statement made by Iranian officials.
- 2) *It will be important to fund imports.* Rouhani and his Cabinet promised to improve people's living standard. He can keep this promise by supporting imports of important goods such as pharmaceuticals, industrial installations, raw materials and consumer goods.
- 3) *Another prerequisite to Iran's economic reform is restructuring of state-owned enterprises.* The public sector plays an important role in Iran's economy. Most enterprises are controlled by the state. According to the official statistics, 30 per cent of the business done in Iran is controlled by the Social Security Organisation (SSO). It is the biggest social insurer organisation in Iran that owns assets and companies in several sectors of the economy. When Rouhani came to power, it was disclosed that the SSO and most of its subsidiaries had become bankrupt or were facing financial problems and corruption. Since this organisation is controlled by the state, it is likely that the Iranian government will use part of the assets to save the businesses that are on the brink of bankruptcy.
- 4) *The Central Bank of Iran needs to be more independent.* Rouhani's Cabinet reacted to the parliament's requirements and promised to make the Central Bank more independent. The cabinet approved the division of monetary and fiscal policies. What is more, it announced that the monetary policy would be exclusively controlled by the Central Bank, which would be able to control the quantity of money in circulation and continue reduction of the inflation rate (Shahine, 2013) [11].
- 5) *The economic reform requires also the banking sector reform.* The Iranian banking sector reform is an important step the government has to take (Alves, Felisbert, 2016) [12, 78]. The Iranian banking network is one of the biggest networks in Muslim countries. Iran has recently made a lot of changes in the banking and financial sectors, and it focuses on the support of private banks (Habánik, 2017) [13]. Private banking in Iran began with the establishment of new financial institutions and privatisation of state-owned banks. Nowadays, most Iranian banks are officially private. However, in reality these banks are owned by the elites closely linked to the government. This is probably one of the factors that limits the growth of Iran's private sector. There are concerns that owners of big enterprises would like to transfer their economic power to politics.

6) *It is important to stabilise the Iranian rial exchange rates.* Fluctuations in the value of the rial was common during the presidency of Mahmoud Ahmadinejad, especially in final years of his term. Foreign currencies became more expensive literally from one day to another and sometimes even on an hourly basis. When Rouhani came to power, the Iranian currency became more stable, and it is no longer endangered by sharp fluctuations. However, the rial's value has recently started dropping again. It was also affected by Donald Trump's victory in the American presidential election. In the last week of November 2016, one US dollar equalled to 40,000 rials. This dramatic increase in the currency rate resulted in cessation of currency trading in the free market. Many exchange offices removed the US dollar from their lists of traded currencies. Even though some experts think it was just a short-term drop, others believe that the rial needs to weaken so that it reflects its real value. The increase in foreign exchange rates is connected with the economic power. Exchange rates have been rising naturally over the past three years depending on the inflation rate. Rouhani's Cabinet's task is to weaken the rial in order to reduce the national budget deficit in the upcoming Iranian fiscal year. In other words, the Iranian government can get more rials for a dollar because oil, as the largest revenue source, is quoted in a foreign currency, and it is converted to the rial at a lower exchange rate that is official. Oil prices will play an important role. These days, it has been estimated that in 2017 the Iranian oil will be sold for USD 65 to USD 70 a barrel. However, we can predict that oil prices will not increase dramatically and will remain at USD 50 a barrel (Perteghella, 2015) [5]. Therefore, it will be necessary to increase the exchange rate in order to reduce the national budget deficit.

4.2 Goals and objectives defined in the «Iran's Sixth Five-year Development Plan for the 2016-2021 period»

When predicting development of its economy, Iran relies on its five-year development plans that are approved by the parliament and proposed by the supreme leader and the president. The aim of Iran's 6th Five-Year Development Plan (2016-2021) is an economic growth rate of 8%. This plan envisages that the average 2.5% annual growth rate can be reached only by an increase in productivity (Khajehpour, 2016) [14]. This is the most significant goal, and all experts agree that Iran needs some time to increase its productivity and efficiency in all the sectors. Article 18 of the Plan obliges the judicial bodies and armed forces to supervise the efficiency growth. This confirms the fact that individual elements of the state power are interconnected in order to reach the common goal. The eight-percent growth rate will depend also on massive investments in the latest technologies and infrastructure. The eight-percent GDP growth requires 15.4% investment growth (Habánik, 2017) [13].

New tax legislation should come into force in Iran by March 2018. The plan also aims to improve the business environment, reduce monopoly power, reduce corruption and increase transparency.

The financial sector must be ready to increase efficiency of the capital market and insurance companies in cooperation with Iranian and foreign investors and enhance regulatory power of the Central Bank over the banking sector in order to prevent further corruption. Furthermore, the Plan aims to achieve a balance in shares of the so-called «bad debts» in Iranian banks and make banks grant loans to small and medium-sized enterprises. One of the goals is to increase the stock market capitalisation to 90% of GDP, which however seems to be an unreachable goal because the current Tehran Stock Exchange market capitalisation to GDP ratio is 25% (Khajehpour, 2016) [14].

What is more, the Plan aims to boost attractiveness of the country in relation to foreign direct investment. Iran would like to attract USD 12 billion in foreign direct investment a year. If this goal is achieved, foreign investment will be much higher than it is today. However, this sum is still considerably lower than Iran's economy will need in the coming years.

The optimistic scenario supposes that at the end of this five-year period 30% of the oil revenues will be transferred to the National Development Fund, which is Iran's sovereign wealth fund. This, however, requires an annual increase in deposits by 2% (Khajehpour, 2016) [14].

The Plan also defines plenty of other objectives, such as achieving the value of the Gini coefficient equal to 0.34 by March 2021, reaching a one-digit inflation rate equal to approximately 8.9% and reducing the unemployment rate to 7%. Other major goals are to improve Iran's ranking in the annual ease of doing business measurement from the 118th to the 70th position and to reduce the country's reliance on oil revenues from the current 31.5% to 22% (Khajehpour, 2016) [14].

Furthermore, the development plan specifies the goals in the field of economy for the coming five years, especially expansion and modernisation of the rail transport, support of the value added industrial production, diversification of exports, development of the oil and petrochemical sectors, which are the key industries, and the related development of infrastructure, transport, building industry, agriculture and information technologies.

In general, the development plan provides a good basis for necessary reforms of Iran's economy. Nevertheless, history shows that insufficient business environment legal reforms might not be an issue. The problems may arise from unwillingness or inability of political elites to pass the new legislation. Therefore, the Rouhani's Cabinet must reduce bureaucracy in Iran and make space for implementation of new rules and legislation [15].

4.3 Importance of oil and natural gas for the future of Iran's economy

Iran's significant crude oil and natural gas reserves will be an important driver of economic growth in medium-term and long-term horizons [16].

Nonetheless, this sector will not avoid reforms either. Iran is using 34 oil fields, including 22 offshore fields (accounting for more than 71% of the country's oil reserves) and 12 onshore fields (2015) [17]. The country also possesses crude oil reserves in the Caspian Sea Region, but the exploration and development of these reserves were ceased due to disputes with neighbouring Turkmenistan and Azerbaijan. What is more, Iran shares the offshore and onshore oil fields with the neighbouring countries (Iraq, Qatar, Kuwait and Saudi Arabia).

Nowadays, the largest producing fields are in Ahwaz-Asmara, followed by Maroun and Gachsaran located in Khuzestan province. The Iranian Heavy crude stream accounts for most of the country's oil production at approximately 45% [18]. The crude oil reserves come mainly from offshore fields (Gachsaran, Marun, Rag-e-Safid, Ahwaz, Bangestan, Mansouri and Bibi Hakimeh) located in the south of Iran. The Iranian Light crude stream is another significant oil source coming from several offshore regions of Khuzestan. The fields in Ahwaz-Asmari, Karani and Agha make up two thirds of the Iranian Light crude stream [18]. International sanctions have caused a decline in the energy sector and led to cancellation of a large number of upstream projects. When sanctions were imposed in 2011, Iranian oil production dropped dramatically from 3.7 million barrels per day in 2011 to 2.7 million barrels per day in 2013 (Katzman, 2017) [19].

The four rounds of the UN sanctions and more severe restrictions imposed by the USA and the EU in the previous period significantly diminished Iranian oil exports. The sanctions and restrictions had an adverse impact on the whole sector, which is strongly regulated. The National Iranian Oil Company (NIOC) is exclusively responsible for all activities related to oil and natural gas production in the country. The Iranian Constitution prohibits foreign or private ownership of natural resources. However, foreign or private companies are allowed to cooperate in exploration and development of the Iranian oil industry (Tretiakov 2016) [20].

Oil and gas reserves will further have a great impact on Iran's economic growth. All assessments done by experts agree that renewed Iranian oil exports will stimulate the

economic growth, while natural gas can ensure long-term growth. During the sanction period, the Iranian oil export plummeted by more than 50% and commodity prices fell as well (Nephew, Isfahani 2015) [21]. On the other hand, the Iranian natural gas production has significantly risen in the past two decades mainly due to the largest Iranian natural gas field called South Pars, which contains 14 trillion cubic metres of natural gas. These days, most of Iran's gas is consumed domestically, which supports Iran's domestic economy. In the future, natural gas can be exported largely through gas pipelines or as liquefied natural gas. We can assume that oil and natural gas production can contribute from USD 125 to USD 375 billion to Iran's GDP and create almost 300,000 new jobs by 2035. The estimates differ substantially because we cannot predict commodity prices due to the fact that they are influenced by investment that Iran will be able to attract in order to boost its productivity.

One of the determining factors is also the technological challenge that Iran is facing, including infrastructure across the entire country. The sixth National Development Plan for the 2016-2021 period envisages USD 150 billion investment in the oil and natural gas industries. The Cabinet's priority is a tremendous production growth in the remaining deposits of the South Pars field, which was neglected during the sanction period.

The Ministry of Petroleum developed Iran's strategy related not only to oil industry but also to the entire energy sector after signing the JCPOA deal. The Joint Comprehensive Plan of Action includes the following tasks (Vakhshouri, 2015) [22]:

- 1) *Reintegration into international markets and expansion of Iran's share of the oil and natural gas market by means of refined products and petrochemicals.* This task should be accomplished through the oil-for-goods and oil-for-services strategy. Iran should offer lower prices and discounts on transit fees and create the so-called investment chains along with its partners.
- 2) *Attracting investment and new technologies,* especially by new conditions and larger stimuli. The focus will be on the petroleum refinery segment. The resources of the National Development Fund of Iran (NDFI) will be used for granting loans and project-based cooperation with foreign partners. The priority task is to merge investments in processing and petrochemical sectors in order to sell a final product to an investing company or its country.
- 3) *Production of value-added goods, reduction of the crude material export volume and increase in the non-oil export volume.* This task can be accomplished only if Iranian plants refining oil, natural gas and condensates increase their capacity. What is more, the capacity of petrochemical plants and production of value-added petroleum products should be increased as well. Natural gas will be used to produce electricity; then electricity should be exported instead of natural gas.
- 4) *Increase in the economy's resistance to changes in case of further sanctions.* The efforts will be focused on the export of refined petrochemical products and electricity instead of the export of raw materials. It will be important to obtain foreign technologies thanks to deeper involvement of foreign companies as long as investment in the petroleum refining sector is made.
- 5) *Activation of energy diplomacy tools* especially by expanding the energy export to the neighbouring countries, with the focus on the GCC countries. It will be necessary to improve economic relations with the neighbouring countries by means of investment and export of goods as well as export of goods through territories of the neighbouring countries and vice versa. Another important step will be to create a long-term partnership with the neighbouring countries, the GCC countries, the European countries, India, China and Japan by means of long-term energy supply contracts or these countries' investment in Iran's energy sector.

4.4 Positive outlooks for Iran's economic growth

A positive outlook for the Iranian economy follows from its strengths thanks to which Iran can reboot its economy,

reintegrate into the international financial system and reduce the unemployment rate (Johnson, 2015) [23].

Diversified economy is a key factor of Iran's future development. The largest natural gas proven reserves and the fourth largest crude oil reserves in the world are strong stimuli for the Iranian economy in the short and medium terms. Another positive fact is that Iran's oil and natural gas production costs belong to the lowest among the OPEC member countries. However, production in the oil sector is obsolete, especially due to a lack of investment and non-advanced production technologies. One of the priorities of the «Iran's Sixth Five-year Development Plan for the 2016-2021 period» is an increase in value added in the oil and natural gas sectors, especially refined products, transport and subsequent sale in the global markets.

Iran's economy is the least dependent on oil and natural gas production among the countries of Middle East. Government revenues from oil production have been declining for a long time due to the sanctions and low oil prices which have fallen by almost 75% since 2014. In 2014, only 23% of the gross value added came from oil and natural gas production. On the other hand, this value reached 50% in Kuwait and 51% in Qatar in the same year. At the beginning of the millennium, Iran's reliance on oil production was almost double.

The retail business, the real estate sector, the building industry and services contribute together to GDP more than oil and natural gas. More than twenty Iranian companies have revenue of more than USD 5 billion, but only six of them are oil production companies. The government's revival plan for the Iranian economy focuses mainly on supporting the industry, modernisation of production, extraction and processing of natural resources, increase in the quality of oil and natural gas products as well as their transport, value-added products, information and communication technologies, agriculture and water resources management. The aircraft and automobile industries, as well as tourism, are also becoming significant [16].

Educated people also contribute to positive prospects for growth of the Iranian economy. Education in Iran has its rich history and traditions. There are two Iranian universities included in the Shanghai Ranking, which annually publishes top 500 world universities. In comparison, India has only one university included in this ranking. Furthermore, Iran can be proud of its fast growing scientific activity, which is measured by the number of articles and papers published in reputable international journals. There are currently almost 5 million students studying at universities in Iran. In 1979, there were only 100,000 university students in the country. 45% of university students specialise in humanities, 32.5% study engineering and only 4.3% are specialised in medicine (Habánik, 2017) [13].

The problem young Iranians are facing is not their education, but their integration in the labour market. The government can create 700,000 jobs annually. However, there are 1.2 million graduates completing their university studies every year (Habánik, 2017) [13]. The youth unemployment rate is still rising and its current rate is 30%. The Iranian economy needs different graduates who will not lack managerial and business skills. Young people who cannot find a job at home go abroad. The exact brain drain rates are not known because official institutions do not provide this information. It is estimated that one third of fresh graduates leave the country every year (Tureček, 2013) [24].

One of the strengths of Iran's economy is a *high degree of urbanisation*. Also, the Iranian economy can grow due to a high number of urban population. Iran has eight cities with a population of more than one million (Tehran, Mashhad, Isfahan, Karaj, Tabriz, Shiraz, Ahvaz and Qom). The population of Tehran itself is more than 8 million. Up to three quarters of Iranians live in urban areas, which is twice as much as in India. In this respect, Iran surpasses even some European countries. However, the current infrastructure does not correspond with a high percentage of urban population. The roads, railways, airports and harbours will have to undergo a large-scale reconstruction. Tehran's GDP has a higher

purchase power parity than, for example, Berlin, Hamburg or Rome. Also, its GDP is higher within Iran.

Strategic position at the crossroads of trade routes. The legendary Silk Road, which connected East and West, traversed the territory of Iran as well. Iran's area and position can make this country a gate to the West-East and North-South trade routes. Iran shares its borders with seven countries the population of which amounts totally to 430 million. Approximately 40 million of these inhabitants belong to the middle class that should grow by 5.2% a year (Bassiri Tabrizi, 2015) [25]. At present, China is the largest Iran's trading partner accounting for 40% of its trade, followed by India and Turkey (Bassiri Tabrizi, 2015) [25]. That is why Iran will have to build new infrastructure to the neighbouring countries or connect the existing infrastructure to the international routes [26].

Numerous middle class A strong and growing middle class with increasing purchasing power is one of the important factors and common characteristics of all fast-growing economies. Approximately 56% of Iran's population belong to the middle class and their annual income exceeds USD 20,000 [27]. This is more than double that of China (24%) and India (21%) [27].

5. Conclusions

If a country wants to be successful in the contemporary global economy, it must be able to adapt to dynamic changes and the fact that foreign influence is part of this system. The

Islamic Republic of Iran is now standing at the crossroads. It must definitely answer two questions as to whether it opens up to the world and is willing to reform its economy.

Favourable business environment is the basic prerequisite for attracting investors. In this respect, Iran is trying to create a suitable entrepreneurial environment through a vast array of measures that should:

- ensure legal protection of investment;
- liberalise the market through privatisation of the remaining state-owned properties;
- help fight the corruption;
- ensure stable and trustworthy banking system controlled by the strong and independent Central Bank;
- exploit the potential that Iranians residing abroad have and that has not been used sufficiently.

Political and religious elites in the country are concerned about impacts of the reform on Iranian society. The economic reform is not an easy process and today it is difficult to foresee exactly how this reform will affect the country. If Iran wants to make use of the advantages resulting from the lifting of sanctions, it will have to find a way to persuade those who doubt the necessity of the Iranian economy reform, particularly its liberalisation. The results of the presidential election, which was held in May 2017, indicate that the transformation of Iran's economy and its reintegration into the regional and global economic structures will continue.

References

1. Axworthy, M. A. (2009). *A History of Iran: Empire of the Mind - from Zoroaster to the Present Day* (1st ed.). Prague: NLN (in Czech).
2. Levčenko, A. (2016, June 2). Iran is back to the global markets: an overview of the most significant economic sectors. *The Russian news agency TASS*. Retrieved from <http://tass.ru/pmef-2016/article/3333962> (in Russ.)
3. Dabrowski, M. (2016, July 15). Iran: from isolation to economic cooperation. *The Bruegel Newsletter*. Retrieved from <http://bruegel.org/2016/07/iran-from-isolation-to-economic-cooperation>
4. Amin, M. (2017, May 25). Iran: Rouhani's Re-Election Is Not the Key to the Country's Economic Recovery. *Gatestone Institute*. Retrieved from <https://www.gatestoneinstitute.org/10396/iran-rouhani-election>
5. Perteghella, A. (2015). What's Next for Rouhani? In P. Magri, & A. Perteghella (Eds.). *Iran After the Deal: The Road Ahead* (pp. 49-60). Milano: ISPI. Retrieved from http://www.ispionline.it/sites/default/files/publicazioni/iran_after_the_deal.pdf#edition_0.pdf
6. Lipton, D. (2016, May 17). Iran - Achieving its Potential in the Global Economy. *International Monetary Fund*. Retrieved from <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp051716>
7. Bazoobandi, S. (2015). Iran's Economy and Energy: Back in Business? In P. Magri, & A. Perteghella (Eds.). *Iran After the Deal: The Road Ahead* (pp. 25-48). Milano: ISPI. Retrieved from http://www.ispionline.it/sites/default/files/publicazioni/iran_after_the_deal.pdf#edition_0.pdf
8. Tůma, M. (2016). *Iran Nuclear Deal and its International Context*. Prague: The Institute of International Relations (in Czech).
9. Horská, H. (2016). Iran - Opportunities and Risks of the Market Reintegration. *Raiffeisenbank*. Retrieved from https://www.rb.cz/attachments/Corp/RB_Helena_Horska_Brno.pdf (in Czech)
10. Habibi, N. (2015, August 11). Iran's frozen funds: how much is really there and how will they be used? *The Conversation*. Retrieved from <http://theconversation.com/irans-frozen-funds-how-much-is-really-there-and-how-will-they-be-used-45913>
11. Shahine, A. (2013). *Iran Central Banker Says He's Undoing Ahmadinejad Policy*. Retrieved from <http://www.bloomberg.com/news/articles/2013-10-13/iran-central-banker-says-he-s-undoing-ahmadinejad-policy.html>
12. Alves, J. P., & Felisbert, M. (2016). Global reintegration of the Iranian economy after the nuclear deal. *Boletim de conjuntura*, 1(1), 1-95. Retrieved from <https://www.ufrgs.br/nerint/wp-content/uploads/2016/07/Boletim-v1n1-economicreintegrationiran.pdf>
13. Habánik, T. (2017). Economic Information on the Territory. The Islamic Republic of Iran. The Embassy of the Slovak Republic in the Islamic Republic of Iran. In *The Ministry of Foreign and European Affairs of the Slovak Republic*, 1-32.
14. Khajepour, B. (2016, June 13). Will New 5-year Plan Solve Iran's Economic Problems? *The Iran Business News*. Retrieved from <http://www.iran-bn.com/2016/06/13/will-new-5-yr-plan-solve-irans-economic-problems>
15. East Consulting (2016, September 5). *Iran: from the international isolation towards the future*. Retrieved from <http://eastconsulting.ru/iran-budushhee> (in Russ.)
16. Podnikam.sk (2015). *Ten Countries with Massive Crude Oil Reserves*. Retrieved from <http://podnikam.webnoviny.sk/10-krajiny-s-masivnymi-ropnymi-zasobami> (in Slovak)
17. U.S. Energy Information Administration (EIA) (2015). *Iran: Overview*. Retrieved from <http://www.eia.gov/countries/cab.cfm?fips=ir>
18. The Oil Exchange (2015). *Iran*. Retrieved from <https://theoilexchange.wordpress.com/country-profiles/iran>
19. Katzman, K. (2017). *Iran's Foreign and Defence Policies*. Congressional Research Service Report. Retrieved from <https://fas.org/sgp/crs/mideast/R44017.pdf>
20. Tretiakov, E. (2016). Return of Iran. *Sibirskaya neft (Siberian Oil)*, 130. Retrieved from <http://www.gazprom-neft.ru/press-center/sibneft-online/archive/2016-april/1113030> (in Russ.)
21. Nephew, R., & Salehi-Isfahani, D. (2015). *Implications of Sustained Low Oil Prices on Iran, 2015*. New York: Columbia University. Retrieved from http://energypolicy.columbia.edu/sites/default/files/Implications%20of%20Sustained%20Low%20Oil%20Prices%20on%20Iran_July%202015.pdf
22. Vakhshour, S. (2015). *Iran's Energy Policy After the Nuclear Deal*. Atlantic Council Global Energy Center. Retrieved from https://www.files.ethz.ch/isn/195141/Iran_Energy_Policy.pdf
23. Johnson, K. (2015, June 25). *The Next Iranian Revolution*. Foreign Policy Group Retrieved from <http://foreignpolicy.com/2015/06/25/the-next-iranian-revolution-oil-gas-opeec-eu-sanctions>
24. Tureček, B. (2013). *The Iranian Labyrinth, Journey into the Empire and Sources of its Resistance*. Prague: Knižní klub (in Czech).
25. Bassiri Tabrizi, A. (2015). The nuclear Deal: Exploiting its Potential. In P. Magri, & A. Perteghella (Eds.). *Iran After the Deal: The Road Ahead* (pp.13-26). Milano: ISPI. http://www.ispionline.it/sites/default/files/publicazioni/iran_after_the_deal.pdf#edition_0.pdf
26. TASR (2016, February 15). China Renewed the Famous Silk Road, the First Train Arrived in Iran *Hospodárske Noviny (Economic News)*. Retrieved from <http://dennik.hnonline.sk/ekonomika-a-firmy/536385-cina-obnovila-slavnu-hodvabnu-cestu-do-iranu-dorazil-prvy-vlak> (in Slovak)
27. McKinsey Global Institute (2016). *Iran: The 1 Trillion Growth Opportunity*. McKinsey & Company. Retrieved from <http://mahdi.hashemitabar.com/cms/images/Download/mckinsey-global-institute-report-on-iran-economy-english.pdf>

Received 14.10.2017

Research Journal
The «Economic Annals-XXI»
read at the web-portal
<http://www.soskin.info/ea>