The scenes in Tehran on July 14, after a nuclear deal was concluded in Vienna

THE IRAN DEAL AND WHAT COMES NEXT

With President Obama's nuclear deal on the verge of passing in the US, the sanctions that froze Iran out of the global economy will be lifted and international businesses can enter the world's biggest frontier market. But what are the opportunities and how should both sides go about the process of reintegration? **BY ALI BORHANI**

Say the word "Iran" and people are quick to repeat the mantras of "the world's largest proven gas reserves" and "the world's fourth-largest oil reserves". But while these statements are true, they come with significant caveats. The energy sector is a complex business that is highly cyclical and also dependent on major international oil companies. This macro-economic play is beyond the realm of average consumers and its economic impact is a discretionary dividend.

Iran must identify instead with the mistakes of emerging markets and remember the (paraphrased) words of Rumi's famous poem: "Beyond oil, gas and hydrocarbons there is a bright economy and I shall meet you there!"

So let's look at what Iran can offer beyond oil and gas.

Iran is a vast nation with a landmass equal to half of India. Most of its neighbouring countries are landlocked, which provides enormous potential in logistics and transportation. In all four directions Iran can play a pivotal role in economic development, from shifting energy and linking the GCC countries with Turkey, to moving products from India to Afghanistan or from Russia to the Middle East.

And it won't just be a transit hub. Growth in domestic production will only deepen trade between Iran and its 15 neighbours. As an example, the trade between Iran and Afghanistan is currently \$2bn — a figure that is bound to grow. The resulting flow of goods and access will cut the cost of products and services for Afghanistan's reconstruction, which will be a major boost to the struggling nation.

But perhaps the country's biggest capital is its people — a projected 100 million consumers by 2030. There is also an extremely well-educated, tech-savvy, and in most cases, financially well-established diaspora.

This untapped demand and fluid human capital, combined with the arrival of international companies, know-how and investors, could reap rewards in multiple sectors. Upstream opportunities include ITC (information, technology and communication), capital markets, water infrastructure, agriculture and construction.

Looking further downstream, retail banking, the stock market, food and beverage manufacturing, domestic sales and exports, fashion and retail, logistics, distribution and transportation, aviation, hospitality and tourism are just some of the myriad sectors ripe with growth potential.

All this probably explains why Tehran has hosted more trade delegations and visits by dignitaries in the past three months than in the entire 37 years of the Republic's existence. Every one of these visitors knows that Iran's GDP currently hovers around \$500bn. This is against a backdrop of the harshest sanctions that any economy has endured, an overnight devaluation of 50 percent from its currency, and almost no foreign direct investment of significance. If Iran can liberalise its consumer-centric sectors and provide the necessary incentives to foreign investors, a GDP of \$1.2tn to 1.4tn by 2030 is not inconceivable.

As with any frontier market, the challenges to doing business will be considerable. The morning after the final deal there will be a considerable number of headaches among multinationals and their Iranian counterparts.

One of the biggest concerns is the question of transparency and corruption. This brings reputational risks and shareholder or regulatory reprimands. Today in Iran there is a very open debate about the underperformance of these metrics across various sectors. Many rightly view these challenges as a greater cause of damage to the economy than sanctions, and Iran will have to work very hard to enhance its corporate governance and business ethics.

To say that this can happen in isolation, or to conclude that businesses should hold off on investing in Iran until its ethics are as transparent as Scandinavian countries, would be unrealistic. The arrival of multinationals will have considerable impact, while an internationally integrated economy will have a better remuneration structure that will curtail temptation among its economic actors.

Lots of jobs must also be created, and quickly. Iran's population is young and rapidly growing, with youth unemployment of around 25 percent. These people must share the spoils of any entente if Iran is fulfil its economic potential.

President Obama discusses the nuclear deal on September 10 at the White House

Russian energy minister Sergei Shmatko and Iranian foreign minister Ali Akbar Salehi after signing an energy deal on September 11 in Tehran

Rather than enforcing quotas on Persian headcounts, a better solution would be to support multinationals to invest in vocational training based on international standards similar to Germany's Mittelstand companies. By doing so, Iran can move from its current brain drain to a brain-circulation mode. This would be similar to that of India and China, where graduates are educated at home, get hands-on world work experience, and then have incentives to return home and contribute to their country.

Iranian foreign minister Mohammad Javad Zarif and EU foreign policy chief Federica Mogherini meet in Tehran on July 28

For Iran to flourish as an international business hub it will be vital for both sides to achieve some early results. In any sector where the economy is open to international players, Iran must be able to demonstrate at least one success story in that field. For example, whether it is Mercedes or Toyota that first invests in the automobile industry, Iran should accelerate the process by cutting red tape, and supporting it to win, not only in Iran, but also in the export market. If Iran can build reasons to believe and do so only with one major multinational in each sector, then the rest will take care of itself. Consumers will reward those brands that have taken the leap of faith.

All this will take trust-building measures and also a rapid process of education on both sides. The best metaphor to use would be to picture all these brands at the Base Camp of Everest. The difference between those who make it to the summit and those who perish along the way is the common denominator for all mountaineers: the time and resources they have allocated to selecting the best Sherpas to lead them to the summit.

There is much work to be done on this front. Most of the service providers to Iran are currently branding themselves as the experts, despite having been away for years. Allowing these partners to learn on the job is not a luxury that companies can afford in a frontier market. Having a trusted and reliable business advisor will be perhaps the most important element differentiating success and failure in a post-sanctions era.

There are other reasons to be optimistic. Having been off the grid for so long, Iran enjoys a blank sheet of external debt, which is a unique position to bring to market. So while it requires huge investment, this lack of fiscal exposure can jump-start its international credibility.

Post-sanctions, Iran can also enter the international capital markets. A Dim Sum (renminbi denominated) sovereign bond would provide funds for major infrastructure projects — without any strings attached to Chinese technology. This would cement Iran's role as a focal point in relations with the East, beyond just selling oil to China.

In a stagnant world economy there is plenty of other capital looking for a promising market. Private equity firms sit on under-deployed capital, instead passing the parcels and recycling deals, while US multinationals have an estimated \$2tn of foreign-earned revenues in offshore accounts.

The risk-adjusted returns of Iran are very alluring to these realities. The biggest challenge is to find a balance between a hasty market entry and a totally passive approach where companies entirely miss the boat. However, the risks for multinationals of not being in Iran are far bigger than the alternative.

In the final analysis, a disorderly economic reintegration of Iran is something that neither Iran nor the world can afford. There will be many challenges on this new path; however, the post-war economic integration of Europe, the trade relationship of Japan and the US or the growing economic ties of China and Korea show that time is a great healer. People change, and so do their attitudes.

In this light, the return of Iran to international business circles would be a boon for trade, economic prosperity and job creation. This could be a game changer for Iran, the region and the broader world. The last missing link of commerce on the New Silk Road is the very old integral part of this road.

Ali Borhani is the founder of boutique strategic advisory firm Incubeemea (incubeemea.com), specialising in MEA frontier markets.

PHOTOS: GETTY IMAGES

BUSINESS CHECKLIST

Stay away from business of politics and instead understand the politics of the business

- Engage and educate your directors. Involve outside help as "board-convertors" if necessary
- Once the board is convinced, establish an Iran Business Unit — the opportunity is big enough to justify its own resources
- Invest in trusted strategic advice. Don't compromise on your "Sherpa"
- Don't rush into selecting a partner — and don't think you can find the right one on your own
- Get to know the human capital needs you must satisfy for scale-up early on — it happens sooner than you anticipate
- Iran is a long-haul market... Don't believe us? Talk to Henkel, Nestlé, Samsung and Unilever, all of whom have thriving businesses there
- Engage early on in CSR programmes