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THE VARIABLES OF DOMESTIC AND FOREIGN POLICY AND THE COMPETITIVENESS OF IRAN'S ECONOMY

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Abstract

The present study investigates the development of the competitiveness of Iran's economy in the second decade of the 21st century and its impact in the short and medium term. The main problem of this study lies in the fact that despite the impact of political variables at home and abroad on Iran's economy, they are still limited because they are basically related to the capacity of Iran's economy to endure crises and its ability to grow at other times. To tackle this problem, the study adopts inductive analysis, using historical facts, statistical data, and tools of economic analysis. The study is therefore divided into four main topics as follows: theoretical background, structural imbalances in Iran's economy, economic collapse and the points of strength in Iran's economy, and the extent of the responsiveness of Iran's economic competitiveness to political variables whether internal or external.

Keywords: *Competitiveness, Iran's economy, competitiveness of Iran's economy, structural imbalances, political system, external variables.*

Introduction

Iran's unique political and social system has caused distinct economic tools to emerge to circumvent the pressure and blockade it is facing. But at the same time these tools have led to restrictions on the country's economic growth. This can be determined by tracking the competitiveness of Iran's economy; which means referring to the economic characteristics that allow for more efficient utilization of productive factors (manpower, capital, natural resources, and the good management of these resources). Despite the political developments at home or abroad, Iran's economy faces an integral problem; the obstacles hindering its growth.

Therefore, the study hypothesizes that ongoing structural imbalances will impede the competitiveness of Iran's economy, restrict its growth, and obstruct improvements in income levels for the state and people via attracting new investments. These structural imbalances will continue to impede the Iranian economy in the future.

The significance of the present study stems from the need for studies based on inductive analysis to analyze the extent of the competitiveness of Iran's economy, comparing it with other economies competing for international investments — in light of the global trend towards greater openness which Iran has been unable to take advantage of.

To study the impact of political variables on Iran's economic competitiveness, we need to define competitiveness, explain its parameters and then follow up and assess the evolution of Iran's economic competitiveness from the beginning of the 2010s to the end of this period. This is in addition to clarifying Iran's structural economic imbalances and proving their existence in the long term and finally analyzing the reasons for the decline in Iran's economic competitiveness. Amid the ongoing movements in the global economy and the static nature of Iran's economic policymaking, the strength of Iran's economic competitiveness vanished. Iran's economic prowess was sufficient to improve the competitiveness of its economy over the past decades but now Iran's economic capability has been severely diminished.

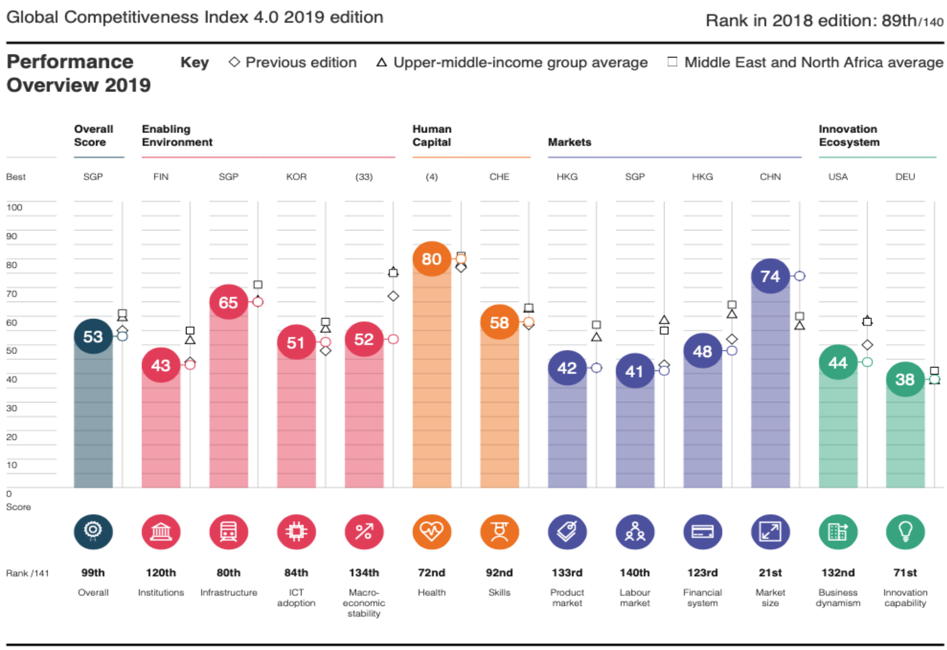
1. Theoretical Background

For years, the World Economic Forum (WEF) has managed to explain the disparities in economic growth and income levels across countries and forecast national economic growth through issuing its annual "Global Competitiveness Report." The WEF has mentioned that a set of institutions, policies and factors determine economic productivity levels. The most competitive countries are the most capable of growth in the medium and long term.(1)

The Global Competitiveness Index (GCI) consists of twelve pillars: efficiency of institutions, infrastructure, the extent of dependence on communication and information technology, macroeconomic stability, health, skills, product market, labor market, financial market, market size, business dynamism, innovation capability.

Each pillar is scaled from zero to 100, where 100 points are the highest and awarded to the country with the best economic practices. The best country is taken as a benchmark to evaluate the rest. This evaluation is carried out in accordance with several indicators in each sub-index, ranging between 1 to 26 indicators. For one sub-index, raising the total indicators to 103, which include everything related to the competitiveness of the economy. These indicators are evaluated according to a methodology that integrates the latest statistics collected from international organizations and also includes a survey of the opinions of company executives operating in each country.[2] See Figure (1).

Figure 1: Competitiveness Index Performance Overview (Iran)



Source: Klaus Schwab, ed., *Global Competitiveness Report 2019* (Davos: World Economic Forum, 2019), 286.

To make a straightforward comparison, countries are divided according to several criteria, including income groups, geographic scope, extent of economic growth, development rates, and social justice. These criteria are difficult to change from one report to another. But the only change that Iran's economy has witnessed over the course of a decade is in relation to "income thresholds to determine the stages of development."

Countries are divided into five stages according to US GDP per capita. There are three main stages and two transitional stages. The first major stage is the stage of economic dependence on raw materials, and the second major stage is the stage of production efficiency. The third major stage is the stage of economic innovation. There is a stage of transition between stage one (dependence on raw materials) to stage two (production efficiency) and from stage two to stage three (innovation and creativity).

As for Iran, it was not included in the "Global Competitiveness Report" until 2010-2011 due to a lack of data and the difficulty in getting corporate executives in Iran to fill out questionnaires. Within 10 years, Iran has succeeded in completing the transition phase between stage one and stage two, putting it in an inferior position compared to other Middle Eastern countries. The report classifies the UAE economy as dependent on innovation, while Saudi Arabia's economy is transitioning between stage two and stage three.[3]

2. Causes and Indicators of Iran's Structural Economic Imbalances

Structural imbalance refers to a lack of balance in the relationship between economic elements and components. It is important to determine the extent of Iran's imbalances, their frequency, and the period or the change in the essential characteristics of their economic structure. The latter is important to determine in order to evaluate its impact on economic growth and development.[4]

As a result of Iran's ongoing structural imbalances as highlighted in the country's aggregate economic data, the average investment flow for five years between 2014 and 2019 was about 0.7 percent of GDP, which is less than the lowest global average during the same period (1.3 percent for 2018).

The average annual growth rate of Iran's GPD (GDP valued in US dollars according to current prices) for the second decade of the 21st century was 1.3 percent. This is an exceptionally low figure. It is lower than the average global economic growth rate for any year during the second decade of the current century (the 2010s). The lowest economic growth rate posted in the world in a single year over the decade (2010s) was 2.4 percent in 2019, according to World Bank data.

Even if we overlook the consecutive collapses in the exchange rate of Iran's rial, the share of Iran's GDP in purchasing power parity in 2010 was

1.19 percent of global GDP. It remained at the same level until 2020, which means that Iran's economic share in goods and services consumed globally remained unchanged for 10 years. This is rare for emerging economies, which in principle drive global growth and increase their share of global GDP each year. The WEF's "Global Competitiveness Report" highlights Iran's economic structural imbalances in two ways:

2.1 Apparent Structural Imbalances Based on the Complaints of Executive Directors

The results of opinion polls indicate that the same complaints are repeated on an annual basis, which means that problems and imbalances are repeated for a long period of time, or – in other words – are "structural." The WEF conducted a poll regarding the complaints raised by Iranian executive directors in 2010-2011, and 2017-2018. Then the WEF integrated the complaints into the sub-indexes in its last two reports, along with the evaluations of entrepreneurs.

The five main complaints of Iranian executives who responded to the first report's (2010/2011) opinion poll were the same as those that would be registered in following reports, without the slightest change. The most important among these complaints were: difficulty in accessing finance, constant change of policies, high inflation, low efficiency of government bureaucracy, and inadequate and inefficient infrastructure.(5)

This is in addition to other complaints regarding impediments that obstruct economic and business growth, but to a lesser degree. The main complaints were regarding: labor law restrictions, lack of educated/skilled manpower, Iran's workforce lacking basic work values, corruption, complicated rules governing currency exchange, excessive tax laws, a high tax rate, government instability, a decline in public health levels among citizens and crime increasing. The same complaints continuing for 10 years indicate a stalemate in Iran's economy and that the country's economic policymakers are detached from the real problems of the economy.

2.2 Structural Imbalances Apparent in the Sub-Indexes

Some economic imbalances have occurred because of international political and economic developments, including Iran's economic blockade, and its signing of international agreements with international or regional partners, as well as the impact of the global financial crisis, the coronavirus pandemic, and other developments with far-reaching global repercussions. But some imbalances are related to the way the state is run, the existing economic structure's limited capabilities and weaknesses, as well as its dependence on sectors with weak growth or those that have a limited impact on the whole economy. This is known as a structural imbalance, and it continues over many years.

Iran's structural imbalances are evident in all the sub-indexes that measure the country's economic competitiveness. Many of the sub-indexes related to Iran's economy remained among the worst in the world over the 10 years covered by this paper, which impeded economic growth. In the span of 10 years, Iran's economy witnessed changes in the heads of government, blocs controlling the Parliament and even shifts in US policies towards Iran, from signing agreements to the imposition of a siege as well as a decline in overall relations between the two countries. However, it is noticed that Iran's economic competitiveness was ranked 69th in the first report (2010-2011). Iran maintained this position in the eighth report (2017/2018). But the methodology for calculating the rankings changed in the last two reports, leading Iran's ranking to plummet to 89th position in 2018 and to decline further to 99th position in 2019.

This decline is attributed to three main reasons. First, the change in the methodology to calculate the competitiveness of countries by depending on a bigger extent on a country's potential for industrialization, which Iran lacks. Second, Iran's economy witnessed decline on many indexes, despite the methodology of calculating these indexes not changing. Third, many countries experienced development during the 2010s. The economies of these countries were less competitive than Iran's earlier in the decade but they outpaced Iran's economy later in the decade which led Iran's ranking in the "Global Competitiveness Report" to drop.

However, it is noticed that some sub-indexes remained low throughout the 10 reports regardless of what was happening domestically or abroad. This means that these indexes cannot be improved because there are structural economic imbalances or because Iranian policymakers are not willing to correct these imbalances as this would expose the flaws in their economic decision-making.

2.3 Structural Imbalances Related to the Nature of the Political System

As a result of the exceptional nature of Iran's political system, the multiple centers of power and the overarching role of individuals and institutions (the supreme leader and the IRGC) whose authority surpasses Iran's elected institutions and representatives, Iran's economy is suffering from mismanagement, a decline in rational economic decision-making and a constant inclination towards isolation to avoid international competition; thus preserving the gains of certain individuals and institutions. This has meant that it has not been possible to accurately estimate the extent of the financial resources controlled by the supreme leader and the IRGC. They control vast financial resources estimated by some research institutions such as Rand to be worth tens of billions of dollars.

For instance, the balance sheet of the Ministry of Finance in 2012 revealed that Khatam-al Anbiya Construction Headquarters and its affiliated institutions control about 57 percent of the country's imports and 30 percent of non-oil exports. Yet, according to international estimates, the supreme leader and the IRGC control between 20 percent and 40 percent of the Iranian economy.(6)

According to the former reformist lawmaker Bahga Nabavi, 60 percent of government resources are controlled by four institutions: Khatam-al Anbiya Construction Headquarters, the Execution of Imam Khomeini's Order (Setad), which includes some banks, oil and telecommunications companies, Mostazafan Foundation and Imam Reza Foundation which includes more than 50 companies and factories. These institutions are run by the Iranian supreme leader and the IRGC.(7)

To maintain the gains of these institutions, it was necessary to weaken new competitors and entrants to the markets or prevent their entry altogether. This was clear in the "Global Competitiveness Report (2010/2011)." Among 139 countries included in the report, Iran's ranking in terms of trade restrictions was 135. Iran also imposed the fifth-highest customs tariff in the world and was the worst country worldwide in terms of foreign ownership of companies.

According to a survey among businesspeople working in the Iranian market, the labor market is the most conservative in terms of restrictions, and it was ranked 135. As for the level of brain drain, it was ranked 109. The bonus structure does not depend on merit. Iran was 121st regarding dependence on professional management and 111st in relation to the relationship between production and wages. The percentage of women in the labor force was among the lowest in the world, ranked at 126th place.

Regarding the efficiency of Iran's financial sector, it was ranked at 120th, a low position, while the country's ranking for company access to financing (via diverse financial and banking products) was also low at 129th place. This is in addition to a decline in confidence in the banking sector (114th position). The most important among the foregoing was whether entrepreneurs have easy access to loans to finance business plans without causing damage to the economy. This led to an evaluation of 1.6 out of 7, lower than a quarter of the global evaluation. This indicates the extent of the ruling elite's control over Iran's banking system and stock market.

The difficulty regarding the entry of foreign partners into Iran and the difficulty in transferring sophisticated technology into the country caused the growth of the private sector to be limited. Iran's ranking in terms of a company's ability to incorporate sophisticated technology was 116th and access to this technology was extremely limited (123rd position). All in all, we can say that Iran is among the most difficult countries in the world regarding the establishment of foreign companies. Hence, it is difficult to transfer technology to local companies. If companies are successfully established, entrepreneurs will face difficulties in acquiring finances, carrying out import and export activities and recruiting or dismissing workers. Restrictions will be on all the elements of production (capital, imported natural resources, workforce, and management). Furthermore, Iran's excessive restrictions prevent the private sector from acquiring international expertise to develop their resources.

3. The Manifestations of the Collapse of Iran's Economic Competitiveness and Strengths

Since the first report (issued in 2010/2011), the strengths of Iran's economy were confined to a high savings rate compared to GDP (26th position globally), low government debt compared to GDP (17th position globally), a huge market (20th biggest globally), a high primary education enrollment rate (fifth position globally) with an enrollment percentage of 99.7. This is in addition to one of the lowest differences between the rate of return and lending (0.03 percent) in the banking system, occupying third place globally, immediately behind the Netherlands and the United Kingdom and ahead of France among 139 countries covered by the report.

In the "Global Competitiveness Report (2017/2018)," the savings rate reached 37.4 percent of GDP (17th place globally) out of 137 countries. Countries depend on financing investments primarily through local savings. After investing local savings, other financing needs for investment are borrowed from abroad. It is the so-called financing gap, which is the difference between the value of domestic investment and domestic savings. If Iran has a savings rate among the highest in the world, this means that it can rely on its internal resources to finance most of its investment needs and does not need to borrow a lot of money.

In the "Global Competitiveness Report (2017/2018)," the government debt-to-GDP ratio increased to 35 percent, 37th place globally. Iran's GDP amounted to $1.5 trillion, valued in purchasing power, making the Iranian market 18th in the world in terms of size. The enrollment rate in basic education declined to 99.2 percent, occupying 14th position globally. Nonetheless, the report saw the removal of the index related to the difference between the rate of return and the lending rate within the banking system due to the difficulty in verifying the accurate values of this index, especially in countries such as Iran where several entities control the interest rate.[8]

There are banks affiliated with the Money and Credit Council (MCC) run by the Central Bank of Iran (CBI) and institutions and banks affiliated with the IRGC, in addition to finance and credit institutions which invest public money at high interest rates. The CBI restructured several banks after they declared bankruptcy over the past years.[9] Iran considers the fixed-interest system as totally usury-based and rejects it. Although this complicated system may benefit the country in terms of circumventing sanctions and boosting the capabilities of the IRGC in terms of money laundering,[10] it at the same time destroys the ability of the government to fund private projects.

In the 2019 report, a change in its methodology and the economic siege on Iran led to a steep decline in Iran's evaluation. The country occupied 64th place on the new index related to debts (the dynamics of managing debts), an index which measures the rate of savings and government debt compared to GDP. The question "How much are you saving?" is no longer the most important question. It is rather, "How do you manage your savings and debts flexibly to generate the biggest return?" The report also no longer focuses on the rate of education enrollment, but rather it focuses on the average number of years of school enrollment, which is 10 years in Iran (61st position globally). The only index that remained rather static was the evaluation of market size, Iran ranked 20th globally, out of 141 countries. This means the strengths of Iran's economy vanished, except for the size of its economy. This is because the reports measure the size of GDP on the basis of purchasing power, not current prices. This is considering the fact that the purchasing power parity of the exchange rate is the rate at which the currency of one country must be converted into the currency of another country to buy the same amount of goods and services. [11]

In other words, a comparison is drawn between the number of goods and services that citizens buy in each country. According to this evaluation, countries with the largest population climb to the top of the global ranking because they are naturally the biggest consumers of goods and services. But Iran's ranking is relegated to 26th place globally if we consider the current prices of products and services.[12] But if we try to measure GDP per capita (at the current US dollar exchange rate), Iran will be ranked 118th globally.[13]

This is associated with densely populated middle-income countries, which fall victim to what the World Bank called "the middle-income trap," in its report entitled "A New Economy for the Middle East and North Africa."[14] The term "middle" expresses a relative measurement, between high and low, whereby the middle part remains in the middle no matter how much it grows because the larger and smaller branches also grow unless the middle part achieves exceptional growth. Therefore, Iran's GDP growth averaged 1.3 percent within 10 years. It barely maintained its position among the middle-income countries.

In terms of income, countries are divided into three groups: low, middle and high, based on the average purchasing power parity per capita compared to that of the United States. A country is defined as low-income if its GDP per capita is less than 10 percent of that of the United States, middle-income if it is between 10 percent and 50 percent, and high income if it is higher than 50 percent of the average income in the United States. This means that as long as the average Iranian citizen can buy between 10 percent and 50 percent of the goods that are available to an average US citizen, Iran is a middle-income country. This was the situation during the 2010s, where Iran's per capita GDP equaled, according to purchasing power parity, about one-fifth (19.6 percent) of the United States per capita GDP, according to World Bank data.

The World Bank believes that developing countries are prevented from rising to the level of high-income countries due to the existence of a ceiling for economic growth after a country joins the ranks of middle-income countries because of the economic models pursued by these countries. After reaching a certain average income, countries lose their ability to grow rapidly. This happens as the economy gradually gives up the advantage of cheap labor, with the surge in average income. This is in addition to the fact that leading sectors are unable to spearhead growth at the same rates.

In Iran's case, the low growth rates posted at 1.3 percent annually and the frequent decline in the value of the rial led to a reduction in consumer purchasing power compared to that of the United States, remaining at the same level of income. The gap between the average income in Iran and the average income in advanced countries widened.

Finally, the World Bank only sees a way out of this trap by countries modifying their economic systems and replacing existing sectors spearheading the economy with new sectors, foremost among these is the information technology sector. It is a good locomotive for growth globally and results in huge leaps in income levels in short periods, especially amid the high percentage of human capital in Iran, according to World Bank estimates. It advises Iran to pursue an economic model based on technology, encourage innovation and creativity and to endure risks, goals that are hard to achieve according to the rest of the indexes in the "Global Competitiveness Report."

4. The Responsiveness of Economic Competitiveness in Light of National and International Variables

Iran has seen changes at domestic and foreign policy levels over the past decade. This impacted the competitiveness of Iran's economy at the beginning of 2010. This was the first year in which Iran appeared in the reports published by the WEF regarding global competitiveness. These changes are as follows:

4.1 The First Phase (2010-2013)

The 8th session of the fundamentalist-controlled Islamic Consultative Assembly (Iran's Parliament) coincided with electing Ali Larijani as the speaker. The assembly was not in harmony with the economic policies of

Mahmoud Ahmadinejad, especially as this session saw the UN Security Council tightening the economic, commercial, financial and military sanctions on Iran through four packages of sanctions considered the toughest at that time. They had a role in sparking widespread popular protests. Nevertheless, this period witnessed a slight improvement in the evaluation of Iran's economic competitiveness. The ranking of Iran's economy improved, from 69th position in the "Global Competitiveness Report (2010/2011)," to 66th place in the "Global Competitiveness Report (2012/2013)." It was driven by a significant improvement in the domestic road network, the increased use of cell phones, and the surge in the national savings rate to 53.8 percent of GDP, the third-best rate across the globe. The general budget posted an exceptional surplus of 0.2 percent of GDP.

The system of establishing companies in Iran is one of the most salient indications of the Iranian government's unprogressiveness. Earlier in the decade, Iran had one of the fastest systems to establish companies, with the establishment of a company taking only eight days, 28th position globally, with only six measures required for establishing a company. But the world's countries have raced to modernize these procedures, which made Iran's ranking in the 2012/2013 report decline to 34th globally in terms of the time required to establish companies, and 47th globally in terms of the number of procedures.

As for the weaknesses cited in the "Global Competitiveness Report (2012/2013)," they included a decline in the government's transparency, falling to 127th position globally, especially amid the major disagreements between the president and the Parliament. The government's ability to protect investors declined to 130th position globally. Despite the huge improvement in the road network, the dilapidated transportation system made Iran occupy 132nd position in relation to transportation efficiency. When it comes to structural imbalances, Iran's economy did not see improvement. The labor market remained among the most conservative in terms of its measures. Rather, it retreated to 139th position out of 142 countries included in the "Global Competitiveness Report (2011/2012)" despite the high inflation rate of 12.5 percent (136th globally) and the low credit rating of the state (114th globally).

In the "Global Competitiveness Report (2012/2013)," Iran occupied the rock bottom 144th position in relation to the prevalence of foreign ownership of companies. It also maintained high customs tax at 25.6 percent on goods and services, the fifth-highest rate globally.

Regarding the labor market, it was the worst in terms of flexibility in regard to determining wages (134th position), 109th globally in terms of brain drain and the worst ratio of women compared to men working in the labor market. Women's ratio to men in the labor market reached 23 percent, the second worst rate globally. Iran also maintained its position among the 10 worst economies in terms of providing financial services. Companies suffered difficulties in terms of accessing finance/loans.

Hence, we notice that despite the domestic and international turmoil, Iran, by the end of the first phase, achieved a slight improvement in competitiveness with a medium range of competitiveness. This was driven by an improvement in availability, not efficiency (of road networks, the availability of mobile phones, the surge in the national savings rate and an exceptional budget surplus). This availability was not efficiently exploited, turning into a liability on which money was spent without achieving the desired outcome, as became apparent in the subsequent stages.

4.2 The Second Stage (2013/2016)

This stage coincided with the ninth session of the Islamic Consultative Assembly (2012-2016) which saw the rise of the "fundamentalists" close to Supreme Leader Ali Khamenei at the expense of the backers of President Mahmoud Ahmadinejad. The government of reformist President Hassan Rouhani signed the nuclear deal with the P5+1 in 2015, with the Iranian economy witnessing a temporary breakthrough after the lifting of sanctions.

However, the ranking of Iran's economic competitiveness declined from 66th position globally to 74th position in the "Global Competitiveness Report (2015/2016)." The economic and political breakthrough curbed the decline of Iran's economy. If the international pressure and domestic unrest continued, the decline would have been steeper than eight positions. This appears evidently in the "Global Competitiveness Report)2014/2015)." Although Iran declined 17 positions in only two years, the WEF allocated a slot for the Iranian economy, forecasting that the economy will head towards stability after two years of hardship, driven mainly by external developments. This stable economic forecast provided an important opportunity for Iran to enhance its competitive capabilities. The report added that Iran should build on its basic strengths such as its strong macroeconomic position, the huge size of its market and its well-educated population to improve its capabilities. The report also lauded the improvements which Iran introduced to increase the efficiency of production, its workforce and financial markets. The WEF hoped this would benefit Iran's competitiveness and boost its economic growth in the short and long run.[15] Backed up by this optimism, the "Global Competitiveness Report (2015/2016)" witnessed an improvement in the ranking of Iran's economic competitiveness by nine positions in a single year, occupying 74th position. The most remarkable improvement was in public trust towards politicians, with the ranking jumping 16 positions (49th position globally). Furthermore, the index on nepotism improved by 15 positions, and the burden of government regulation improved by 20 places.

The efficiency of government in settling disputes also jumped 13 positions up and the transparency of government decisions climbed 12 positions. However, all the structural imbalances remained nearly unchanged. The efficiency of Iran's labor market maintained its position as the third-least efficient across the world. It also occupied 130th position in terms of protecting intellectual property rights. Some indicators also declined. The number of days needed to establish a company increased to 12 days, with Iran becoming a country with the highest rate of customs tariff in the world at 27.1 percent. The country also maintained its position as having the lowest prevalence of foreign ownership in the world, which impacted the availability of raw materials from abroad. Iran also became the fourth-lowest country worldwide in terms of the size of imports to GDP, where imports make up only 16.2 percent of GDP.

Iran also maintained labor market restrictions and a low ratio of working women compared to men at 0.23 percent, the second-lowest rate globally. This is in addition to the state's low ability to retain talented people in all fields of the labor market (121st position globally), let alone its ability to attract talented people from other economies (134th position) and the continued reliance on trusted people rather than competent professionals.

The rate of willingness to delegate authority to lower positions continued to decline (132nd position), and companies continued to have limited capacity to accommodate sophisticated technology (132nd position), impacted by Iran's weak ties with the outside world and the brain drain. The rate of applying for a patent remained unchanged at 0.1 patents per million citizens, placing Iran 104th globally.

By the end of this phase, Iran's structural economic imbalances became rather salient. Despite the domestic and external breakthroughs, the low efficiency of Iran's economy blocked any benefits. The lifting of sanctions does not necessarily lead to improvements in goods and labor markets, but this requires a flexible economic atmosphere capable of swiftly benefiting from breakthroughs and absorbing shocks.

4.3 The Third Stage (2017-2020)

This stage coincided with the 10th session of the Islamic Consultative Assembly (2016-2020) where the "reformists" again returned to partake in the parliamentary election. They captured 120 seats out of 290, which was a triumph for their movement after they aligned themselves with the candidates of the moderate movement. The "conservatives," meanwhile, won 115 seats while the "independents" captured 49 seats, let alone the five seats allocated to religious minorities.

The Parliament also saw the biggest ratio of women lawmakers compared to the previous sessions, which amounted to 17 women representatives. The economic crisis returned to the country again after the United States withdrew from the nuclear deal and imposed a package of sanctions described as the toughest in the history of the country. This was added to placing the IRGC on the terrorism blacklist.(16)

Iran's competitiveness can be evaluated during this period by looking at two issues:

4.3.1The Limited Improvement in the Report (2016/2017)

"The Global Competitiveness Report 2016/2017" dedicated a section to Iran. It forecasted that the uncertainty regarding the future of energy prices will lead Iran to see a low growth rate and a high financial deficit amid increasing concerns about unemployment. This happened in the following years due to the failure of Iran's economy to turn into a model which depends to a lesser extent on energy resources.(17) In the "Global Competitiveness Report 2017/2018," Iran occupied 69th place globally, the same ranking it obtained in the first report that included data on Iran (2010-2011). This means that Iran had maintained the same rank for eight years. This year saw a palpable decline in trust in Iranian institutions and policymaking, and a surge in corruption and irregular finances needed to undertake business activities. Iran was ranked 83rd globally. In a survey of opinions of businesspeople about to what extent the government protects investors, the assessment was 3.5 out of 10 (126th position globally). Iran has not seen any considerable change in its infrastructure, except for the continued improvement in available airline seat kilometers (422.2 million kilometers per week), occupying 53rd place globally, in addition to the prevalence of cell phones. The US withdrawal from the nuclear deal and the economic crisis caused a huge surge in government debt. It reached 35 percent of GDP amid a stable budget deficit and national savings rate.

As some foreign companies entered the country during the period of easing the embargo, Iran ceded its longstanding position in the lowest two positions globally in terms of the presence of foreign companies, occupying 133rd position. This was due to more flexibility in determining wages (20th position globally) and a limited improvement in access to loans (125th position globally). Its position when it comes to imposing the highest customs tariffs in the world remained unchanged.

4.3.2 The Major Collapse and the Failure of Policy: Maintaining the Same Positions in "The Global Competitiveness Report 2018"

The report's methodology was changed as decision-makers realized that the concept of competitiveness has become more connected to globalization, openness, and the ability to accommodate sophisticated technology and the availability of services. The strength of state institutions is important, not only the institutions intricately linked to the economy. There are institutions whose functions are intertwined with the economy, affecting it directly and indirectly such as the judiciary and the press. Furthermore, the crime rate of a country also impacts its economy.

The way of calculating the index was changed to become 100 points. The country with the best practices on any sub-index is given 100 points and the rest of the countries are compared and evaluated according to this country which is a benchmark.[18] The report's name was changed to "The Global Competitiveness Index 4.0" (GCI 4.0) in light of the key concepts of the Fourth Industrial Revolution (4IR)— espoused by the report's supervisor general. [19]

In the GCI 4.0, Iran descended 20 positions all at once, relegated to 89th position globally because of this report drawing a connection between openness, increasing competitiveness and economic growth. Open markets are more creative and hence more competitive. The report, when defining openness, included – in addition to the traditional definition of free trade – free movement of individuals and the exchange of ideas. According to this definition, Singapore, Germany, the Netherlands, Sweden, Finland, and the United States are among the most open countries in the world, while the report chose Iran as a clear example of one of the most closed countries in the world.[20]

The authors of the report devised several indicators to measure this openness. Iran's ranking on most of these indexes was exceptionally low: government transparency was 11.5 percent (134th position), independence of the judiciary was 41.5 percent (86th position), freedom of the press was 39.3 percent (134th position), and the rate of exposure to corruption was 30 percent (109th position), given that 100 percent is the evaluation of the best country in each sub-index.

There is no longer any interest in the school enrollment rate, in which Iran has a distinguished position. But rather the focus turned to the skill of graduates, Iran's position was 113th globally, and critical thinking in teaching, 102nd position out of 140 countries. Whether or not the methodology changed, Iran maintained the highest customs tariff in the world at 28.49 percent, with the participation of women in the labor market dropping to 21 percent. The average duration of establishing a company increased to 15 days, 88th position globally. Iran saw a jump regarding the quality of research institutions, occupying 16th place worldwide. It also saw an increase in the number of registered patents to 0.08 per million citizens, 100th position globally.

"The Global Competitiveness Report 2019" saw a significant improvement in the competitiveness of the Gulf states. The UAE occupied 25th position globally, coming on top, followed by Qatar (29th position), and then Saudi Arabia (36th position). Meanwhile, Kuwait saw the biggest improvement in the region (occupying the 46th position, up eight places) while Iran went down 10 positions (99th position) and Yemen settled in the 140th position.

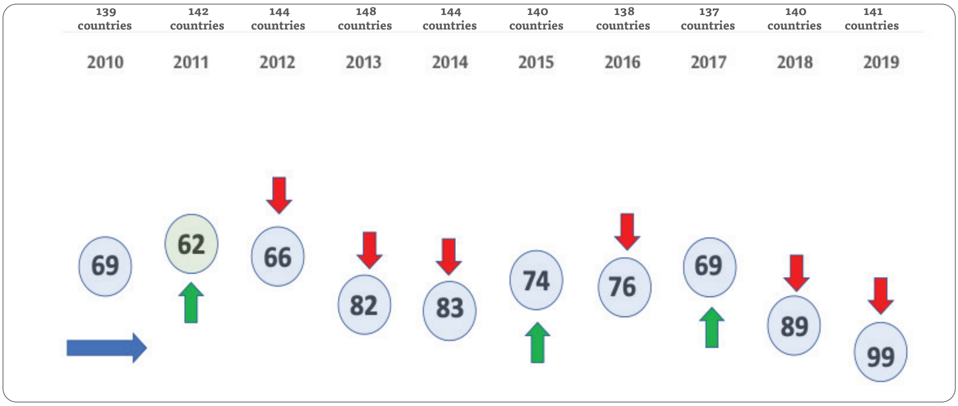
The report emphasized that the region has significantly absorbed information and communication technologies. Many countries have advanced infrastructure. However, greater investments in human capital are needed to transform the countries of the region into more diversified, innovative, and creative economies.[21]

The main competitiveness index was divided into twelve sub-indexes. Iran had no place among the best 20 economies according to any of the sub-indexes. Its best position was 21st globally, the sub-index related to the size of the economy, the only place among the first half of the 141 economies covered by the report. In the rest of the sub-indexes Iran occupied middle ranking positions, which included creativity (71st position), health (72nd position), infrastructure (82nd position), and adopting communications and information technology (84th position) and skills (92nd position), and bottom-placed positions, including the efficiency of institutions (120th position) and the financial system (125th position).

Iran was also ranked among the 10 worst economies in the world according to four sub-indexes: commodity market efficiency (133rd position), labor market efficiency (140th position), macroeconomic stability (134th position) and labor dynamics (132nd position), according to the "Global Competitiveness Report 2019," which is the latest assessment of Iran's competitiveness. The competitiveness of Iran's economy was not compared to the rest of the world's economies in 2020 due to the difficulty of collecting data at the time of the coronavirus pandemic.

This phase coincided with the victory of the "reformists" in addition to the US pullout from the nuclear deal and the imposition of sanctions considered the toughest in the country's history. But Iran's designation among the 10 worst economies globally — according to four sub-indexes — was not related to sudden changes to the economy. It was attributed to two reasons: the first was Iran's failure to improve the management of its economy and the second was isolation from the world, with Iran becoming an example of economic closedness and inaction. US sanctions do not determine labor rules and laws in the Iranian market. The alternating control of the "reformists" and "fundamentalists" over Iran's legislative and executive branches did not result in lower import costs or fewer requirements to establish companies. In all cases, the Iranian market remained accessible to those actors dominating the domestic political and economic arenas and closed to any new investments, whether foreign or local. (See Figure 2).

Figure 2: Competitiveness Index Performance Overview (2010-2019)



Source: World Economic Forum

Conclusion

It is worth noting that competitiveness is measured through an economy's position compared to other economies. The ranking of Iran's economy dropped by 30 places, from 69th position to 99th position during the 2010s. This drop coincided with the volatile performance of some sub-indexes due to political and economic changes. Iran's structural imbalances did not see a significant improvement, regardless of the local and international circumstances which placed restrictions on production (capital, natural resources, workforce and management).

Finally, the most important factor to increase competitiveness and boost production is open access to the world. Iran should focus on this especially as it is a closed state. To evaluate the degree of Iran's openness to the world, we can measure Iran's efforts to liberalize trade between itself and other global countries. Over the past decade, China has dominated the foreign trade of Iran. Iran also reorganized its economic diplomacy. In 2019, an interim agreement regarding a free trade zone was initiated between Iran and the Eurasian Economic Union, which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. The agreement was signed days after the Trump administration withdrew from the Iran nuclear deal in May 2018. It was hoped that the agreement would become permanent within three years if the talks ended successfully. This was the first regional economic agreement of its kind for Tehran, whose request for membership in the World Trade Organization (WTO) has been pending since 1996. It appears that Iran views the Eurasian Economic Union and its 183 million inhabitants as an important market and a useful tool to circumvent US sanctions. (22) However, according to the tallies published by the executive body of the Eurasian Economic Union and the Eurasian Economic Commission, trade among the members of the union and Iran declined from $2.7 billion in 2018 to $2.45 billion in 2019, compared to its peak which reached $3 billion in 2016 when the Iranian nuclear deal entered into force. This means that even these compensatory agreements are impacted by the embargo on Iran and are not an alternative to the WTO. Without membership to the WTO, Iran is likely to remain closed off to international expertise. Thus, the negative impact on its economic competitiveness will remain unchanged in the future if the sanctions continue. But if the nuclear deal is revived and sanctions are lifted, there may be a suitable opportunity for improving Iran's economic competitiveness.

Nevertheless, there are still several impediments to improving Iran's economic competitiveness, regardless of whether the president and Parliament speaker change or not, or whether there is an improvement in Iran-US ties or not. The first impediment is that competitiveness is a race between the world's economies, hence Iran needs to improve its economic, legislative and procedural environment so that it can move ahead of its competitors. This seems unlikely considering the cutthroat race among countries to improve competitiveness and attract investments.

The second impediment is the rigidity of Iran's structural imbalances in the face of any change. These imbalances have remained despite the many domestic and external changes that Iran has witnessed over the past decade. These imbalances are related to all factors of production and to the nature of the Iranian economy which suffers from institutions controlling its fate, inefficiency and irrationality in decision-making.

The third impediment is the closed nature of the Iranian economy. Iran imposes the highest tax rate in the world, and it has not joined yet the WTO, which includes 164 countries worldwide. Its regional trade agreements have not compensated for the international agreements necessary to open up the country's economy to goods and technology and promote the free movement of people and ideas. These matters are critical to boosting economic competitiveness.

The fourth impediment is the middle-income trap, which limits the growth of middle-income, densely populated countries. Even if Iran can overcome the first three impediments and can attract more investments, these investments will not be able to provide high incomes for the Iranian people, nor strengthen domestic demand. In the short or medium term, it will be exceedingly difficult for the Iranian economy to move to a higher stage of competitiveness that depends on innovation and continuous development, unlike the countries neighboring Iran that have succeeded in doing so.

Finally, the nature of Iran's political system itself, and its economic policies which are based on religious and ideological orientations, constitute the biggest impediment to developing the country's economy, boosting competitiveness and achieving sustained economic growth.

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