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TRANSFORMATION OF THE ECONOMIES OF IRAN AND RUSSIA UNDER THE NEW CORONAVIRUS OUTBREAK

The new coronavirus outbreak has created a serious problem for the economies of Iran and Russia, which are experiencing sanctions and low oil prices. In this article, the author tries to explain the impact of the new coronavirus outbreak on the economies and politics of Iran and Russia. The major results show that the three challenges associated with sanctions, the shock of global oil prices, and the new coronavirus outbreak can lead to different scenarios for the future of Iran and Russia. Eight different scenarios (slow economic growth, economic prosperity, weak recession, economic recovery, medium recession, economic stagnation, strong recession, and economic transformation) are identified and explained by combinations of these three issues. Regarding the current low oil prices (due to the pandemic and the Saudi price war), Western sanctions against Iran and Russia, and also uncertainty about the end of the coronavirus, scenario No. 8 (economic transformation) will be the most likely situation for the economies of Russia and Iran. As the results of this scenario, the digitalization of the economies in these two countries will be improved, and the role of governments in economic mechanisms will be higher than before the coronavirus outbreak. In addition, regionalization and Asianization will be accelerated to reduce the effect of sanctions.

Keywords: coronavirus pandemic, economic shock, economic transformation, Iran, Russia.

Introduction

The new coronavirus outbreak has disrupted the economic and political structures of almost all countries in the world. It is predicted that the largest economies in the world, such as the USA, China, Great Britain, Germany, France, Italy, Japan, and many others, will enter into a deep economic recession in 2020, and it will continue in the coming years.

Figure 1 shows the slowdown in global economic growth between 2019 and 2020. It is obvious that the new forecasts for the economic growth of countries by 2020 are significantly lower than the latest forecasts for this year.

In addition, global oil prices plummeted due to a huge decline in global oil demand. Figure 2 shows changes in Brent crude oil prices for the period of April 2006 to April 2020. Oil prices experienced the biggest drop with a price of almost \$ 18 per barrel in April 2020. In 2020, Saudi Arabia launched a war on oil prices in response to Russia's refusal to agree with the Saudi plan to reduce oil produc-

tion (OPEC + Alliance refusal). But another major reason for the fall in oil prices in 2020 is the coronavirus outbreak. Global oil demand declined in 2020 as the unpredictable effects of the COVID-19 spread among countries in the world, limiting transportation and wider economic production and distribution.

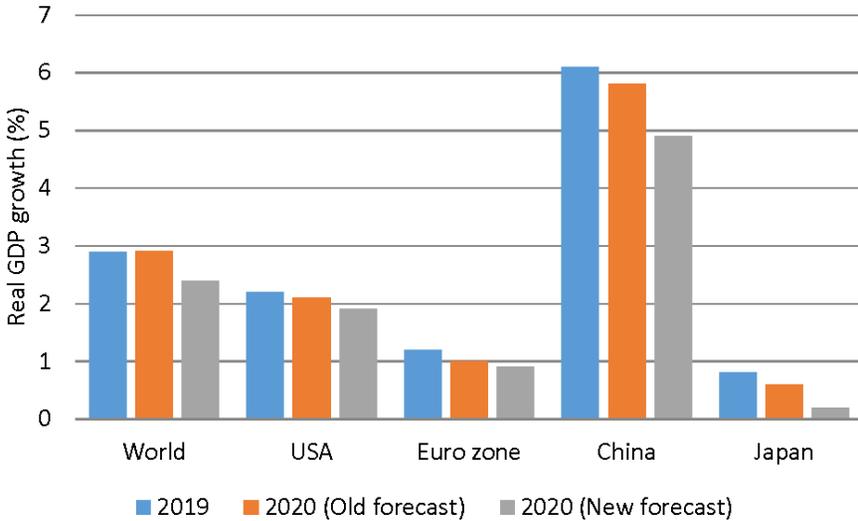


Fig. 1. Economic growth in different countries.

Source: Author's compilation based on the OECD Economic Outlook Report (March 2020)

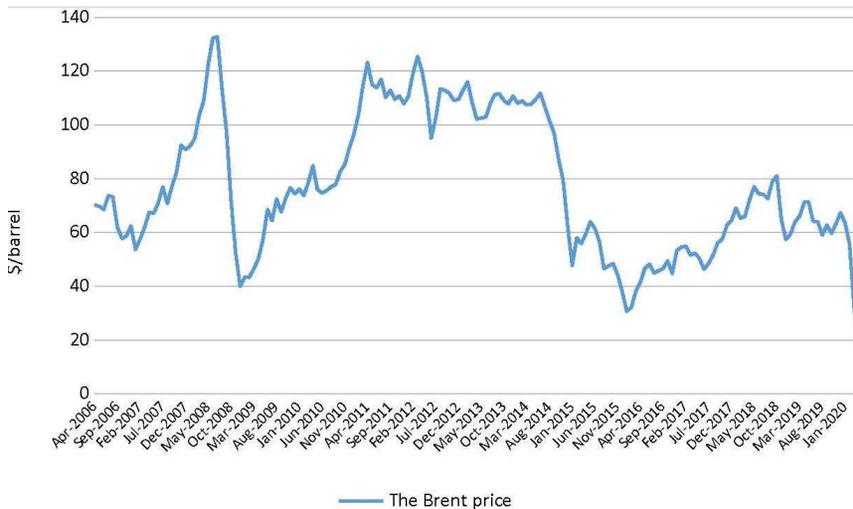


Fig. 2. Changes in Brent crude oil prices (March 2006 – March 2020)

Source: Author's compilation based on the EIA data

Such a low oil price is indeed a threat to the economies of oil-exporting countries such as Iran and Russia, which heavily rely on energy export earnings.

In addition, a significant decline in oil revenues will affect all other macroeconomic variables (such as GDP, unemployment, wealth, taxes, and subsidies) in these countries, leading to an uncontrolled long-run economic instability. Due to the possible impacts of the coronavirus outbreak on macroeconomic variables in countries, the current pandemic can be considered as an “exogenous shock”. Exogenous or external shocks are unpredictable events such as war, natural disaster, financial crisis or pandemic; they negatively affect the national economies of countries. The control and management of this type of shock is really important for Iran and Russia, which depend on oil export revenues and are also under pressure from Western sanctions.

The pressure of sanctions on the economic structures of these two countries, the impact of the new coronavirus outbreak on world oil prices and the internal economic mechanisms of Iran and Russia create critical situations for these two countries. This article seeks to study the impact of the coronavirus outbreak on the economies and political situation in Russia and Iran, taking into account the current sharp decline in oil prices and geopolitical issues.

The rest of the article is structured as follows: the first section is a brief review of the literature. The second section discusses the features of the economies of Iran and Russia under the conditions of the coronavirus crisis. The third section expresses the forecast of future Russian and Iranian economies. The last section concludes the article.

Literature review

The new coronavirus, first discovered in China at the end of 2019 and since then declared a pandemic, threatens to become one of the most difficult challenges that the world economy has faced in the modern era. Many scientists and experts believe that the new coronavirus outbreak is a serious challenge for all countries in the world. For example, IMF [1] reports that the new coronavirus outbreak will lead to poverty in countries, especially in Asia. Consequently, effective policies must quickly be conducted to support workers and their families in order to prevent them from falling into poverty. Euronews [2] argues in a report that, as countries close stores, border and ask their citizens to stay at home, the global economy seeks to achieve an unpredictable recession. Weller [3] believes that the rapid spread of the new coronavirus reduces the potential for national production and reduces consumption. Thus, this pandemic destroys the demand side in economic markets. Lee [4] explains that the virus pandemic hits the manufacturing sector hard and it has negatively affected the service sector globally as well.

Many scholars argue that this pandemic will be a blessing to the global economy. The coronavirus outbreak would enable oil-based economies to reduce their dependence on energy export revenues and help them convert energy from fossil fuels to renewable energy sources. Snieckus [5] states that under conditions of the coronavirus, the global expansion of wind and solar energy has increased due to the high volatility in the fossil fuel markets and the unclear future

recovery of the oil market. Fontaine [6] believes that, before the coronavirus outbreak, economic globalization was not equal for all countries, which means that developed economies dominated the global economy, and they determined the principles of globalization based on their interests. But the coronavirus pandemic will not accelerate the demise of globalization, but its transformation, a new form of globalization in which the liberal international order will be replaced by the international order of realism (with the main role of governments). Another possibility for the new coronavirus outbreak is to accelerate the expansion of the digital economy. According to a UNCTAD report [7], the global crisis caused by the coronavirus pandemic has pushed us even further into the digital world. In other words, the coronavirus crisis has accelerated the adoption of digital solutions, tools and services, accelerating the global transition to a digital economy. Hofer [8] explains that as countries become blocked, people are forced to keep social distance and work from home, the digital economy is becoming more important than ever before. Consumers may not be able to maintain physical proximity to each other, but they may still be present in markets in the digital space, which means the spread of the digitalization of the economy.

The economies of Iran and Russia in the context of the coronavirus crisis

Iran reported its first confirmed cases of the coronavirus infection on February 19, 2020. The official report of the country mentioned that coronavirus has been brought into geographical border of Iran by an Iranian man who traveled to China. Actually, the pandemic has been considered as an origin of economic challenge in Iran which increases the Iran's economic instability from the United States' Maximum Pressure policy in 2017–2018.

In response to the crisis of coronavirus, the Iranian government closed schools, universities, shopping centers and banned festival celebrations (Iranian New Year on March 21, 2020). The government of Hassan Rouhani (Iran's president) firstly did not approve policy of cities' isolation, which was a grave mistake due to the people's intentions to travel during Iran's New Year holidays. Later, due to the increase of the COVID-19 cases in March 2020, the Iran's government decided to carry out the regulation of limiting travel between cities.

The pandemic has had negative impacts on demand side of economic markets in Iran. However, the Iranian government is trying to expand financial supports to households (demand side of markets). To this end, the government approved a subsidy of 10 million riyals (\$ 61) for 23 million families. On March 24, 2020, the Iranian president announced that employees in state's enterprises and organizations can work remotely. Furthermore, to control the spread of COVID-19, the most non-essential businesses were shut down. In fact, choosing priority between "health of population" and "life of businesses" in the coronavirus period was a complicated situation for the Iranian government.

The Central Bank of Iran reported that a wide group of enterprises was heavily affected by COVID-19 in Iran. These enterprises may apply for support and funds from banks. The list includes centers for the preparation and distribu-

tion of food, including restaurants, buffets, tea houses and other similar centers; tourist centers such as hotels, inns, hostels, road recreation centers and other similar enterprises defined by the Ministry of Industry, Mining and Trade; air, rail and road transport within the city or inside the city; travel agencies; units for the production and distribution of clothing; units for the production and sale of bags and shoes; distributors of nuts and dried fruits, confectionery, ice cream and juices; sports and fitness centers; cultural and educational centers; and handicraft manufacturing and distribution centers [9].

The real impacts of COVID-19 on Iran's national economy made the International Monetary Fund change its old estimate of Iran's economic growth in 2020 from a fixed growth rate of six percent, marking a three-year consecutive significant recession [10]. In addition, the Iranian Ministry of Economy recently listed eight key issues that the Iranian economy will face in the new Iranian year [11]. The most serious of these challenges is the escalation of US sanctions and the depletion of Iran's foreign exchange reserves, combined with economic losses caused by the coronavirus outbreak and the disruptions it caused to business, which will lead to lower tax revenues. The continued decline in oil, petroleum and petrochemicals prices due to the global recession is another challenge facing the Iranian economy. Another problem that the Ministry of Economy refers to is the "deepening recession in the service sector" because of the coronavirus pandemic. Other problems facing the economy, according to the Ministry of Economy, include declining global demand for minerals and lowering prices for metals; reduced consumption due to reduced purchasing power of people; increased government spending due to the impact of the spread of coronavirus; and an increase in the budget deficit in fiscal 2020/21.

In the case of Russia, the emergence of the new coronavirus occurred on January 31, 2020, when a group of tourists from China in Tyumen, Siberia, and Chita, the Russian Far East, gave a positive result for this disease. In response to the new outbreak of coronavirus, the Russian government has taken preventive measures to curb the spread of this new virus in the country by quarantining, raiding potential virus carriers and using face recognition to introduce quarantine measures. Measures to prevent the crisis in Russia include a ban on the export of medical masks, spot checks in the Moscow metro, and the cancellation of large-scale events by schools. The Russian government has also taken measures to ensure national health security by preventing the country from travel of foreign citizens from countries severely affected by COVID-19.

There are different opinions regarding the consequences of the coronavirus outbreak on the Russian economy. Kramer [12] believes that the sanctions imposed by the United States and its allies against Russia in 2014 prepared the Russian government to push the world economy out of the coronavirus pandemic and the oil price war, which led to a collapse in oil prices and revenues on which Russia relies to support social spending. Vladimir Tikhomirov, chief economist at BCS Global Markets, stated that "Russia will be slightly better than other countries because of its experience, sanctions and reserves" [13]. Weafer [14] explained that Russia is in a relatively good position to survive the

COVID-19 crisis and several months of low oil revenues. This is due to the changes that the country was forced to make to its monetary and tax administration as a result of sanctions and the previous collapse in oil prices in 2014. On the contrary, many scientists believe that the outbreak of coronavirus has a negative impact on the Russian economy. For example, Vladislav Inozemtsev, director of the Center for Post-Industrial Research, has identified the negative impact of this new virus on the economic aspects of Russia [15].

Evidence proves that the effects of the new coronavirus outbreak have led to the transformation of the economies of Iran and Russia. On the one hand, the consumption patterns of households in Iran and Russia have been digitalized, in which people prefer to buy goods and services through websites. On the other hand, due to the Western sanctions and the influence of coronavirus on world oil demand, Iran and Russia are trying to reduce their dependence on oil revenues. In addition, the role of government will be greater in economic recovery. Consequently, the economic system in Iran and Russia will be less market due to the greater presence of the government to control and regulate economic mechanisms.

Forecast of future Russian and Iranian economies

If we want to predict future scenarios for the development of the economies of Iran and Russia, we need to define spaces based on the main influencing factors. Currently, there are three main factors, namely sanctions, world oil prices and the new coronavirus outbreak, which directly and indirectly affect the entire economies of these two countries. Therefore, we can consider various scenarios of the future economies of Iran and Russia on the basis of these three factors. Figure 3 shows eight scenarios based on these three factors:

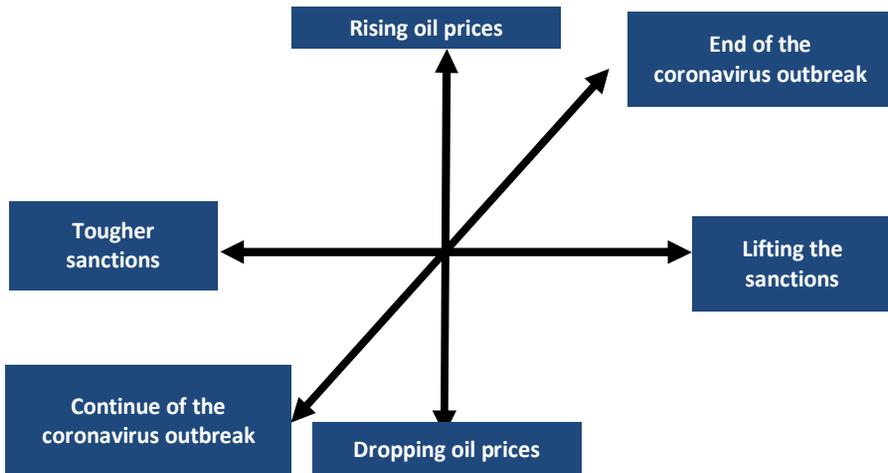


Fig. 3. Future scenarios of the economies of Iran and Russia

Source: Author

Various combinations of these three factors can create future situations for the economies of Iran and Russia. The eight probable situations for the economies of Iran and Russia with three factors: fluctuations in oil prices (increase or decrease), sanctions (lifting or tightening), and a new coronavirus outbreak (ending or continuation) are presented in the following table:

Table 1. Eight scenarios of the future economies of Iran and Russia

Scenario's number	Challenges			Scenario
	Sanctions	Oil price	coronavirus	
1	Lifting the sanction	Increase	Continue	Slow economic growth
2	Lifting the sanction	Increase	End	Economic prosperity
3	Lifting the sanction	Decrease	Continue	Weak economic recession
4	Lifting the sanction	Decrease	End	Economic recovery
5	Tougher sanctions	Increase	End	Medium economic recession
6	Tougher sanctions	Decrease	End	Economic stagnation
7	Tougher sanctions	Increase	Continue	Severe economic recession
8	Tougher sanctions	Decrease	Continue	Economic transformation

Source: Author.

In the first scenario, called “economic growth at a slow speed”, the pressure of sanctions will decrease, the price of crude oil will rise, and the COVID-19 outbreak will continue. In this situation, lifting sanctions and raising oil prices could help Iran and Russia generate more revenue and recover financial losses from the new coronavirus outbreak.

The second scenario is the most probable future for these two countries: sanctions will be lifted, the oil price will increase, and COVID-19 will end. In this situation, we can expect “economic prosperity” for the economies of Iran and Russia.

The third scenario is a situation in which sanctions will be lifted and the price of oil reduced, while COVID-19 will continue to spread in Russia and Iran. The fall in oil prices and the coronavirus crisis will push the economies of Iran and Russia into an economic downturn, but the lifting of sanctions will lower the downturn in these two countries and make the situation a “weak economic recession”.

The fourth future situation for the Iranian and Russian economies will be created by lifting sanctions, lowering oil prices, and ending the new coronavirus outbreak. In this situation, ending the coronavirus crisis and lifting sanctions will help Iran and Russia pursue a policy of economic recovery even at lower oil prices.

A strong economic downturn as the fifth likely scenario can occur with the end of the coronavirus crisis, rising oil prices, and tougher sanctions imposed by the West against Iran and Russia.

The sixth scenario, “economic stagnation”, will be generated by ending the outbreak of the coronavirus, imposing tougher sanctions, and a drop in oil prices. It is expected that this situation will lead to stagnation in the economies of Russia and Iran.

“Strong economic recession” is the next likely scenario for the future economy of Iran and Russia. In this situation, oil prices will rise, but the crisis of the coronavirus outbreak will continue, and the West will impose more stringent sanctions against Iran and Russia.

The final scenario, “economic transformation”, is a situation in which all three factors move to the worst level. In other words, in this scenario, the West will impose tougher sanctions against Iran and Russia. In addition, the global oil price will decline, and the new coronavirus outbreak will continue to spread in these two countries. This scenario is the most likely one for these two countries. Thus, we can expect that there will be an economic transformation and evolution in Iran and Russia, as a result of which the digitalization of the economy will be improved, the role of government in economic mechanisms will be higher than before the outbreak of coronavirus. In addition, regionalization and Asianization will be accelerated to reduce the effect of sanctions. In addition, the share of oil revenues in their budgets will decrease significantly.

Concluding remarks

The new coronavirus outbreak has become a serious problem for the economies of Iran and Russia, which are experiencing sanctions and low oil revenues. In this article, I tried to explain the impact of the new coronavirus outbreak on the economic structures and politics of Iran and Russia. I expressed the opinion that the three challenges associated with sanctions, the sharp changes in global oil prices, and the new coronavirus outbreak may lead to different scenarios for the future of economies in Iran and Russia. Eight different scenarios (slow economic growth, economic prosperity, weak economic recession, economic recovery, medium economic recession, economic stagnation, severe economic recession, and economic transformation) were identified and explained by combinations of these three challenges. Regarding the current drop in oil prices (due to the pandemic and the Saudi price war), Western sanctions against Iran and Russia, and also uncertainty about the end of coronavirus, scenario No. 8 (economic transformation) will be the most likely situation for the economies of Russia and Iran as a result of which the digitalization of the economy will be improved, the role of government in economic mechanisms will be higher than before the outbreak of coronavirus. In addition, regionalization and Asianization will be accelerated to reduce the effect of sanctions. In addition, the share of oil revenues in their budgets will decrease significantly. In general, we can conclude that an accurate forecast of the future global economy is impossible due to the complexity and combination of influencing factors. The challenge of the outbreak of the new coronavirus requires a further more careful study in order to better understand its various consequences.

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ТРАНСФОРМАЦИЯ ЭКОНОМИК ИРАНА И РОССИИ В УСЛОВИЯХ ВСПЫШКИ НОВОГО КОРОНАВИРУСА**Эхсан Расулинежад****Ключевые слова:** пандемия коронавируса, экономический шок, экономическая трансформация, Иран, Россия.

Вспышка нового коронавируса вызвала серьезную проблему для экономик Ирана и России, которые испытывают санкции и имеют низкие цены на нефть. В этой статье я попытался объяснить влияние новой вспышки коронавируса на экономику и политику Ирана и России. Выразил мнение, что три проблемы, связанные с санкциями, шоком мировых цен на нефть и новой вспышкой коронавируса, могут привести к различным сценариям будущего Ирана и России. Восемь различных сценариев (экономический рост с медленной скоростью, экономическое процветание, слабый экономический спад, восстановление экономики, слабый экономический спад, экономический застой, сильный экономический спад и экономическая трансформация) были определены и объяснены комбинациями этих трех проблем. Что касается текущего падения цен на нефть (из-за пандемии короны и ценовой войны Саудовской Аравии), санкций Запада против Ирана и России, а также неопределенности во время окончания коронавируса, сценарий № 8 (экономическая трансформация) будет наиболее вероятной ситуацией для экономик России и Ирана, в результате которой будет улучшена цифровизация экономики, роль правительства в экономических механизмах будет выше, чем до вспышки коронавируса. Кроме того, регионализация и азиатизация будут ускорены, чтобы снизить эффект санкций. К тому же доля нефтяных доходов в их бюджетах значительно снизится. В целом можно сделать вывод, что точный прогноз будущего мировой экономики невозможен из-за сложности и сочетания влияющих факторов. Задача вспышки нового коронавируса требует более тщательного изучения в будущих исследованиях, чтобы лучше выяснить ее различные последствия.