CHAPTER SIX

CONCLUSION
Considering the whole of period under study, which starts from the discovery of oil in Iran and to the ends up in 1990s, three distinct periods can be distinguished in terms of the economic and the performance of the economy. These can be identified as the early intervening years, and the final years.

During the first period, Iranian government was weak, and hardly had an ability to enter into external economic affairs. Hence, its capacity to do so was limited to the entry of some private companies, mostly foreign firms, which wanted to participate in economic activities in Iran. Concessions were according, as discussed, designed to promote the participation of private foreign investors especially in the oil industry. Granting of oil concession to D'Arcy, bank establishment to Reuter, fishing to Liazanove, telegraph to the Europe-India company and so on, built a basis for improvements of the economy. But none of them were under a format of development programme. Therefore, there was hardly a balance between the different economic sectors.
During this period, economic instruments such as customs, trade ports, and communications were mostly under foreign administrations and management. As a whole, each of these sectors of the economy was delegated to persons of foreign nationalities. All these were operated according to foreign interests. Therefore, in spite of growing technological process in some sectors, these sectors remained rather isolated. The latter led to a disparity between economic sectors in the economy which remained underdeveloped as a whole. On the whole, the most important results of this period which emerged from foreign concessions was the introduction and establishment of some aspects of modern technology, under foreign management and control. In spite of its adverse impact on cultural and political institutions, the introduction of new and modern technologies enabled the Iranians to be exposed to the use of modern know-how and its application in the development process. Overtime, as the local capability increased, it enabled them to take over the management of modern industries. Also, these concessions provided some finance to the government, by providing revenue that enabled it to manage its affairs and to meet its needs, which the government could not have earned without the foreign partners.
It should however be noted that there continued a sphere of eco-political interference by foreigners under the cover of concessions especially, in Iranian internal affairs. This has been one of the most contentious issues of the period. Some of them, such as APOC, not only had a free hand in the management and determination of oil prices but also in deciding where it could sell its oil. In addition to interfering to Iran's internal affairs, the APOC also started to assert its dominance across the country. A minimal control of the state in economic affairs was an obvious characteristic of this period.

Another characteristic of these early years was the prevalence of the open door policy in foreign trade in terms of which consumer goods imports were freely allowed into the country. As a contrast, only a few articles were exported from Iran, consisting mainly of agricultural products. Due to the unbalanced trade situation, Iran experienced a continuous deficit in its foreign trade sector during the whole of the first quarter of the 20th century.
During this time, the Iranian economy was highly undeveloped. Economic structures were barely in existence and the scale of foreign trade was limited. Trade at the time was limited to its northern neighbour, Russia. Russian trade contributed more than 70 percent of Iran's exports. Britain and India, the other major trade partners together shared 15 percent of Iranian exports in 1910 and only 10 percent of Iran's products were exported to other countries. Generally, during the early years of this period, the role of Iranian state in foreign trade sector was limited to granting the privileges to foreigners in order to encourage them to enter into the Iranian natural resource ventures which needed the requisite know-how and investment. But because of cultural and political interference by the foreign companies, the Iranian government canceled most concessions.

During the second period of the intervening years the role of Iranian government in foreign trade increased. The government improved the structural foundations such as railroads, communications, and truck fleet. It also improved and approved new foreign trade laws. In the early 1930s the state's intervention...
increased further. It started restricting imports so as to economize on foreign exchanges, and to protect new industries, sought to increase exports, and promote barter trade. This policy on one hand had good results, on the other it brought about "black marketing" of imported goods. Besides this, it also caused an increase in the unfulfilled demand for foreign exchange. These interwar intervening years, is the time when, the state and its nationals came to realize the nature of their trade partners in terms of the concession agreements and the modern technology introduced by them. However, the local competence in understanding all the aspects of the technology still remained limited. The continued dependence on foreign expertise increased the desire of the masses in controlling their economic affairs in order to protect national interest. During this period, Iranians became more conscious and aware of their foreign partners in trade and investment.

The low level of technological competence in some areas prompted the Iran to give way to the foreigners. Under this circumstances the government of Iran stipulated new regulations to gradually replace Iranians in some important positions. But still the state remained
sensitive in protecting national interests. In some agreements therefore, it demanded special privileges like the one stipulated in AIOC's agreement for selling oil across the country at less than international prices.

[Nationalization of oil industry and the formation of National Iranian Oil Company (NIOC) were the major consequences of this period.]

Although the nationalization movement and the cabinet, which supported it, could not achieve all its aims, the latter was able to arouse the national interests and desire among the masses to pay more attention to their benefits. As a result, during the next stage of the period, that followed, the government tried to achieve more freedom in handling its economic affairs. To achieve this, it entered into joint venture agreements so as to increase its competence and become more familiar with modern technology. Subsequently, this was effective in reducing the foreigners' domination in economic affairs, a step, which proved crucial, for the Iranians.

It has to be noted that despite the nationalization movement being widespread in the Middle East, it was unique in Iran in that it led to a turning point in
ending foreign dependence and stopping the domination and interference in Iran's internal affairs, especially on economic issues. This period can also therefore be said to be a transitional period during which, the state started focusing more on national interests. Although in some cases it was confronted with serious problems, in the short term, not much was achieved, while it succeeded during the long term. On a long-term basis, it managed to realize technological improvement and the setting up of modern technical factories and improvement of assembly lines.

The important result of this period on trade was a large diversification of export products. The surplus in balance of trade was an important result of this development. The improvement was achieved mainly with mass oil production. However, at times, the balance of payments was in deficit because of the expansion of economic activities.

The final years in the third period emerged as the state began taking over control of all economic and foreign trade affairs. The nationalization process was complete as the state entered into negotiation with other
Middle East oil producers to and established the Organization of Petroleum Exporting Countries (OPEC) in order to protect its national interests. Subsequently, it formulated policies to safeguard oil producers' benefits. During the 1960s, the OPEC tried to increase the posted prices to a price level, which prevailed during 1959-60. During this time however, it reduced the marketing prices by 1.75 to 0.5 percent a barrel as soled by the oil companies. The OPEC member countries also succeeded to increase the rate of income tax in all of Persian Gulf countries. They also succeeded to increase the price of oil by 70 percent in 1973. The Iranian revolution of 1979 caused a serious shock in the oil market. At the OPEC conference oil prices were doubled in 1980 for the second time. Hence, oil was sold at the highest prices of OPEC's life. However, after 1983 oil prices sharply decreased as OPEC member countries tried to stabilize oil prices by various means. But due to problems within OPEC counties and increases in the share of non OPEC oil producers, and also the decrease of the world demand for OPEC's oil and increased oil substituting sources of energies, OPEC did not succeed in its recent programme to stabilize oil prices. Accordingly, the OPEC was not able to dominate the world energy resources market and it lost its power.
to determine oil prices. However, this was after nearly two decades during which the OPEC member countries obtained an opportunity to sell oil at high prices.

The huge volume of oil exports and high prices led to a dominance of oil revenues in Iran's exports during 1960s and 1970s. The dominance of oil in exports and increase in oil prices also affected Iran's commodity terms of trade. Since oil was the major export item for Iran till recently, movement in the terms of trade and oil price indices were close to each other. The coefficient of commodity concentration of export trade of Iran also was dependent on oil volume and oil prices. Whenever oil exports and its price increased the commodity concentration of Iran also increased and vice versa.

Revenues earned from oil were used by Iran to establish a new industrial base during this period. With increased foreign exchange revenues from oil productions, the Iranian authorities started pursuing the substitution imports policy during the 1960s and 1970s. During this time the industrial sector was established and a lot of factories were set up, most of them being assembly lines.
However, the establishment of some highly capital intensive industries started thereafter. This was done with the expectation that the new manufacturing sector would be the engine of economic growth. The capital that was provided by the oil sector was, however, invested to this sector so as to produce a wide range of consumer goods. During this time the main foreign trade policy was unchanged but the pace of domestic development was speeded up. Therefore, one of the major characteristics of industries in Iran has been their dependence on oil revenues.

In Iran the dependence of other sectors on oil came about for two reasons: First, oil secured the energy need of these other sectors. Second, the foreign exchange derived from oil exports was injected into other economic sectors in the form of investment.

Dependency of a small undeveloped economy such as Iran, on a single internationally commodity, oil, has heavily tied it to fortunes in foreign trade than larger economies. The weakness of inter-industrial linkages in the Iranian economy was reflected by the economy's dependency on imported industrial inputs. This dependence
was more pronounced in the modern manufacturing industries as were developed primarily by the multinational corporations and were integrated into an international network, with a few linkages in the Iranian economy. Thus, the import dependence of the Iranian economy increased continuously.

The results of a regression of Iran's imports on its GNP and exports confirm a close positive relationship between imports and oil exports. This relation has been much higher than that of GNP. Thus, exports seem to have provided foreign exchange revenue for imports. It indicates oil revenue has been as engine of the Iranian economy particularly during the last 20 years. Reliance of the Iranian economy on oil revenues, which were highly unstable during the early 1980s, led to a series of problems in the economy. For instance, the industrial sector which, was mostly established through oil export earnings, faced raw material and spare parts shortages in the post-1979 period. Thus by 1980, the operations of the industrial sector virtually stopped as the problems already were compounded by the 1980 Iran-Iraq war and the US economic embargo. Therefore, the eight year war and the other problems did not let the country to pursue its
reconstruction programme and little efforts were made to improve the economic structures and revamp the development process by end of the 1980s.

It is now less than one decade since Iran started its rehabilitation. The main objective of the reconstruction programme of the state has been to reduce dependence on oil revenues. To achieve this, it formulated an export promotion policy. As a result, the share of industrial exports grew from 12 percent in 1989 to 32 percent of Iran's total NOE in 1993. The major industrial exports included chemical products, copper, ingots, and lately iron and steel. The huge amount of agricultural and traditional exports and particular items of industrial exports indicate that Iran's non-oil exports (NOE) have been limited to those items where it had some comparative advantages. However, the rehabilitation of the industrial sector has not been matched by the necessary increase in productivity and efficiency that would have enabled an increase in the export of industrial products. Moreover, although new policies to promote NOE have led to an increase of agricultural exports, it has at the same time led to food shortage in the country. Food prices have risen mainly
because of the development of the agricultural exports. If the trend in the price of foodstuff continues, this could subsequently reduce the volume of exports, since the price of exports would cease to be competitive in the world market.

Agricultural and traditional exports which dominated Iran's (NOE) reached a peak of 94.7 percent of total Iranian NOE in 1980. However, during the following years despite the efforts to resume industrial operation, it kept its largest share among NOE sectors. Even in 1993, in spite of the decreasing share of agricultural and traditional sector, reached 67.1 percent of Iran's total NOE. Since income elasticity of demand for agricultural and other primary exports is typically low, each unit of increase in income abroad could increase agricultural and traditional exports by less than one unit. Moreover, due to substantial problems with production and export of agricultural products as has been discussed in Chapter Four, this sector could not be considered a reliable source of foreign exchange earnings that is required in future in Iran.
Looking back, during the 1970s Iran did not have any serious problem in its balance of payments primarily, because of increase in oil prices. However, during post 1979 period, it faced serious problems in its balance of payments, due to capital flight, foreign exchange expenditures on war and decrease in oil prices. Although, the establishment of controls in imports and decreasing foreign expenditures did not completely succeed, this policy relatively mitigated the problems of balance of payments. Finally, during more recent years the country has tried, without much success, to improve export performance and also reduce dependence on traditional exports and the oil.

In terms of direction of trade, Iran had economic relation with more than 160 countries in the world. Her relationships included trade with some of the major industrialized countries, for instance, Germany, Italy, Japan, Former Soviet Union for the last 20 years, and recently with other emerging developing economies such as Turkey and United Arab Emirate have which also come in to be major economic partners with Iran. Besides, Iran participates in regional cooperations with the hope of achieving better economic situation. The main group of
regional blocs with which she has economic relations included the European Economic Community (EEC), the former Socialist countries, Economic and Social Commission for Asia and Pacific (ESCAP), Economic Cooperation Organization (ECO) and of course the Organization of Petroleum Exporting Countries (OPEC). During the post-1979 years, Iran also set up trade relation with Muslim countries due to religious obligations and also as a means of countering the US economic embargo. Iran also nationalized foreign trade, which partly enabled the government to control trade to its national advantage. In spite of Iran's desire to have strong economic relations with Muslim countries, their share in Iranian foreign trade have been low due to their relatively weak backward and non-industrialized economies which limit their capacity to absorb Iranian exports. As a result, their share has not been large enough to treat these as Iranians major trade partners.

Generally, the countries which have continued as major source of Iran's imports and destination of its exports include Germany, Italy, UK, France and Belgium. In spite of the large share of a handful of European countries in Iran's trade, non-oil exports and imports of
Iran have not been prominent. However, over time economic relations with more than 160 trade partners have led to a relatively lower level of geographic concentration in Iran's foreign trade. This may in future, lead to reduced commodity concentration and diversified trade structure for the country as it industrializes.