Chapter II

INDUSTRIAL DEVELOPMENT : POLICY AND STRATEGY

1. 1962 to February 1979

Before discussing Iran's industrial development policy and strategy, it is imperative to discuss her agricultural base because "agriculture performs a vital role in generating surplus which aid the process of industrialisation."\(^1\)

The agricultural sector dominates Iran's economic structure.\(^1\) The sector has been under the influence of two other factors:

(1) The natural factor which includes the natural conditions like climate, soil, and rainfall, etc.

(2) The socio-economic factors: This implies that the policy of the then Government in the agricultural sector as well as the consumption of agricultural products manifested demand and supply mechanism.

The agricultural sector and its role in the economy of the country, has been beautifully described by George Baldwin:

"Human consideration aside, agriculture development plays a


\(^2\) The Agricultural Sector of Iran includes agricultural output, Livestock, forest and fishery.
number of important technical role in the total process of a country's growth. Without higher agricultural production there may be food shortage and higher prices in the towns, shortages coming from agriculture, reduced export or high imports (or both), a too slow growth of the urban labour force, and poor markets for the new industrial products rural people buy. Thus, for technical as well as human reasons, the importance of agricultural development needs no arguing. The real questions are: what to do and how to do it? Part of the answer consists simply of expanding the Government's general purpose services into the rural areas, e.g., more and better roads. The core of rural development, however, is the raising of agricultural productivity. If productivity increase, then all things become possible. Higher productivity is thus, the great precondition that underlies not only rural advance but also urban advances, insofar as the two are connected.¹

However, the Iranian land reform imposed by the former Shah, could not solve the major Iranian problems and thus the Government's programme to achieve relative self-sufficiency by the mid-1980s in the production of food miserably failed.

The main reason for this failure may be attributed to a comparative lack of water, poor seeds, ancient technique of cultivation, inadequate communication, and lack of will and desire to make Iran a self-sustaining and self-reliant

economy, etc.

As regards the area under wheat cultivation, the statistical figures indicate that during 1961-1973 it increased by 25,78,000 hectares; while the production of wheat was accounted at 17,76,000 tonnes during the same period.

Between the two Development Plans (1963-73), the growth rate was always below the target. In the Third Development Plan (1963-68), 4 per cent growth rate was envisaged. As against this, the actual growth rate was only 2.5 per cent. In Fourth Development Plan (1968-73), the annual growth rate envisaged stood at 9.4 per cent; while the achievement was not more than 4 per cent.

The statistical figures of the United Nation, comparing Iran with some other developing countries, indicated the same as regards the agricultural output in Iran. For example in 1973,¹ the total production was estimated at 2,01,000 tonnes. In Turkey, it was estimated more than 5,73,000 tonnes. In the same year the production of Barley was accounted at 9,23,000 tonnes. While in Turkey, Algeria and Ethiopia, it was estimated at 2,900; 3,778 and 1,500 thousand tonnes respectively. The total production of tobacco in Iran was estimated at 16,000 tonnes; while in Turkey it was estimated at 1,30,000 tonnes. Similarly, the data regarding livestock indicate that the

growing population could not attain self-sufficiency and, thus, Iran continued to import livestock from abroad, the main source being New Zealand and Australia.

During 1975-76, the total import of red-meat was estimated at 1,53,000 tonnes approximately, thrice more than for 1974-75; while the total production and consumption of red meat was estimated at 5,80,000 and 7,33,000 tonnes respectively.

The data below indicate the consumption in 1968 and projections of demand for 1985.

Table 1

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total Production</th>
<th>Per cent increase over 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1968</td>
<td>1985</td>
</tr>
<tr>
<td>Milk products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk</td>
<td>185.0</td>
<td>433.2</td>
</tr>
<tr>
<td>Yougurt</td>
<td>359.8</td>
<td>667.8</td>
</tr>
<tr>
<td>Butter</td>
<td>12.2</td>
<td>35.5</td>
</tr>
<tr>
<td>Cheese</td>
<td>54.6</td>
<td>123.2</td>
</tr>
<tr>
<td>Animal oils</td>
<td>42.9</td>
<td>108.3</td>
</tr>
<tr>
<td>Mutton</td>
<td>259.1</td>
<td>618.6</td>
</tr>
<tr>
<td>Beef</td>
<td>77.5</td>
<td>192.9</td>
</tr>
<tr>
<td>Poultry meat</td>
<td>49.5</td>
<td>164.0</td>
</tr>
<tr>
<td>Eggs</td>
<td>50.0</td>
<td>120.6</td>
</tr>
</tbody>
</table>

* Calculated by the researcher.

Source: Iran Agricultural Sector's Review, Annex I, Appendix III.
The projections have been made on the basis of the assumed population and income growth. We can infer from the data that demand for milk products was projected to increase at an average rate of 41.3 per cent by 1985; while population was expected to grow at an annual rate of 2.7 per cent. Similarly, according to another projection, the demand for mutton, beef, poultry meat and eggs would share average increase of 38.4 per cent by 1985. Yet another projection indicates that Iran's food requirement in value terms would increase from Rls. 245 billion ($3.2 billion approximately) in 1971 to Rls. 1,300 billion ($17.15 billion approximately) in 1987.

Iran's import of essential food and livestock increased from 8 per cent of the total imports during 1970-71 to 13 per cent in 1975-76. The total share of capital formation in the agricultural sector to the total fixed capital (GNP), decreased from 9.5 per cent during 1973-74 to 6.5 per cent during 1974-75.

The so-called land reform of the deposed Shah during 1962-63 and the flow of new industrial investment supported by the Government, created a strange sort of socio-economic framework, encouraging foreign investment in all spheres of the Iranian economy. The so-called "open door" policy of the then Government of Iran, in any case created 'Foreign Enclaves'.

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Oil in Iranian Economy

During the two decades, namely 1960s and 1970s, the Iranian economy envisaged a substantial growth rate in the Gross National Product. During 1962-63 to 1967-68 the GNP increased at an average rate of 9.65 per cent on constant prices; while during 1967-68 to 1972-73, the average growth rate was estimated at 11.8 per cent falling short of the plan target of 9.4 per cent. The rate of growth between 1972-74 was estimated at 37.7 per cent in real terms. This was raised to 41.6 per cent by 1977-78. Oil was dominating the economy causing an increased dependency on oil revenues.

However, during 1960-63, the recession in the oil market affected the Iranian economy. But, during 1964-65 the process of recovery began. On March 21, 1973, a 'sales and purchase policy' helped in increasing the export of oil. The planned oil output was estimated at 5.57 million barrels per day with a total receipt of Rls. 4,34,367 billion approximately ($ 5,678 billion). Thus, the Iranian revenues from oil showed an increase.

Oil in Iran continued to occupy an important place

1 In 1977 it was claimed by the regime that growth rate has reached a level which can be sustained for longer period.
2 Significance of oil exports in selected Middle-Eastern countries may be inferred by referring to data in Appendix V.
3 On March 1973, a Sales and Purchase Agreement was signed between the Iranian National Oil Company (NIOC) and the Oil Services Company of Iran (Consortium) to produce oil for export in the international market for 20 years (1973-93). The Khuzestan Southern Oilfield was expected to produce 90 per cent of the total oil.
particularly during the oil boom. The other sectors, namely, services, industry and agriculture, followed the oil sector in receding order. Movement in economic activity obviously were based on oil revenues.

It was during 1975-76 that due to a decline in international demand of oil and, therefore, falling Government revenues, growth rate in real term was decreased to approximately 15 per cent.¹

During 1977-78, the total income of Iran from oil in foreign exchange was 73.3 per cent² of the total, while for 1976-77 it stood at 77.2 per cent of the total receipts of foreign exchange. Total receipts from oil during 1976-77 and 1977-78 stood at 83.9 per cent and 80.9 per cent of the total income. The percentage for 1978-79 stood at 78.6.³

The Composition of Industries

The composition of industries by and large in every country determines the rate of growth of the economy, because the industrial strategy builds the nation and sustains the economic growth in the long run.

3 The forecasts indicated that oil revenue would some day, perhaps during 1980s, would taper off, since the country's reserves were estimated approximately around 58 to 100 billion barrels.
The best industrial strategy for development is to establish a moderate relation between consumer goods and simple capital goods industries, providing raw materials for constructional activities and extractive industries, and orientation for the export market. While the three classes of industries are mainly based on domestic raw materials other than agricultural raw materials, the consumer goods industries are mainly dependent upon the raw material from the agricultural sector. The capital goods and extractive industry are based on inorganic raw materials.

According to George B. Baldwin,¹ "In almost every country, industry is the glamour sector of economic development to provide much needed employment to generate higher individual and national income, to relieve the balance of payments by import substitution to open up market for primary products of agricultural, mining, forestry and fishing to give the country greater economic independence, to generate new tax revenues, and to furnish an important source of national pride."

However, the industrial development in Iran has been predominantly characterised by consumer goods industries. This gave signs of a big gap between the consumer goods and capital goods industries. In the wake of increasing oil revenues available for investment, it is not understandable as to why Iran opted for the consumer goods industry mainly. There has been Baldwin, G.B., Planning and Development in Iran, The John Hopkins Press Publishers, Baltimore, U.S.A., 1967, p.98.
an imperative need for proper planning to maximise the basic socio-economic goals.

There have been various factors hindering a rapid industrialisation in Iran, including:

(a) Under-utilisation of natural resources.
(b) Low capital formation.
(c) Low level of technology.
(d) Population explosion.
(e) Lack of infrastructural facilities.
(f) Political instability.
(g) Social attitudes.

The problem of industrialisation described by Alan B. Mountjoy though in general terms, applies to Iran: "The scope of various industries and possibilities of their adoption in under-developed countries are influenced by limitation already mentioned: namely, lack of skilled labour, lack of capital, lack of market and scarcity of foreign exchange. These impose restraints upon the kind, size and the order of priorities".\(^1\) As already indicated, in spite of Iran's having enough capital and foreign exchange, these were not judiciously exploited to the maximum good of the greatest numbers.

During 1974-75, the total value of industrial products was accounted at Rls. 720 billion (about Rs. 10.6 billion). 70 per cent of the total value of output consisted of durable and

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non-durable goods. The total value of other industrial products was not more than 28 per cent including basic metals, metallic products, chemicals, rubber and automobiles.

During 1977-78, the growth value in the industrial group fell by 9.8 per cent compared to the previous year; while its share in GNP increased from 17.9 per cent during 1976-77 to 19.1 per cent during 1977-78.

Another indicator of industrial development, namely, the total share of capital investment indicated that the total share (of capital investment) in the power generation, metallic industry and non-electronic industry, decreased from 51.3 per cent during 1973-74 to 34.1 per cent during 1974-75.

The Government's total investment and financing the industrialization came largely from oil revenues which increased from Rls. 61,895 million ($ 817 million) in 1968 to about Rls. 170.46 billion ($ 2.25 billion) during 1972-73 and to Rls. 1,484 billion approximately ($ 19.6 billion) by 1975-76.

During 1977-78 the Government allocated Rls. 117 billion² ($ 1,670 billion approximately) for industries. While Rls. 103 billion ($ 1,461 million approximately) was directly paid to the industries including for the creation and expansion of metal and metal smelting industries and expansion of the capacity of Esfahan Steel Plant from 6,00,000 tonnes to 1.9 million tonnes

1 Bank Markazi Iran, Annual Report and Balance Sheet, Tehran, Iran, p.40.
and also to finance the Ahvaz Steel Plant,\(^1\) which has been designed to produce 2.5 million tonnes of sponge iron per year.\(^2\)

During 1977-78 the total investment in industry and mining at current prices stood at Rls. 235.2 billion (about $3.3 billion). The share of industry and mining in the total investment during the year was 37.5 per cent at fixed prices, while during 1976-77 it was 35.2 per cent.

In the same year Government paid Rls. 117 billion (about $1.7 billion) for the development of industries. Apart from this amount, Rls. 103 billion (about $146 million) was directly invested in the industry and Rls. 14 billion (about $198 million) was given at the disposal of specialised industrial banks to provide loan to industrialists.

The other major factor contributing industrial growth was the consumption of oil and oil products. In 1975-76, the total consumption of petroleum production reached 21.8 million mm\(^3\).

The data given in Table 2 indicate the composition of domestic consumption of petroleum products. It also indicates that the total share of gasoline in domestic consumption increased from 12.7 per cent during 1972-73 to 15.7 per cent during 1977-78,

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1 Formerly known as Pahlavi Steel Plant.

2 The Plant which was designed to have a capacity of 2.5 million tonnes remained uncompleted due to pre-revolution political instability. But in 1983 the Plant started its operation.
Table 2

DOMESTIC CONSUMPTION OF PETROLEUM PRODUCTS
(Thousand barrels per day)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>1972-73</th>
<th>1977-78</th>
<th>Share per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gasoline</td>
<td>10.5</td>
<td>29.3</td>
<td>12.7</td>
</tr>
<tr>
<td>2</td>
<td>Kerosene</td>
<td>17.4</td>
<td>38.2</td>
<td>21.1</td>
</tr>
<tr>
<td>3</td>
<td>Gas oil</td>
<td>23.7</td>
<td>57.3</td>
<td>28.7</td>
</tr>
<tr>
<td>4</td>
<td>Fuel oil</td>
<td>22.1</td>
<td>39.2</td>
<td>26.8</td>
</tr>
<tr>
<td>5</td>
<td>Liquid petroleum gas</td>
<td>2.0</td>
<td>5.2</td>
<td>2.4</td>
</tr>
<tr>
<td>6</td>
<td>Other products*</td>
<td>6.9</td>
<td>17.3</td>
<td>8.3</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>82.6</td>
<td>186.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Includes tar, motor oil, aviation fuel, jet fuel, etc.

Source: Bank Markazi Iran, Annual Report and Balance-sheet, Tehran, Iran, 1979, p. 111.

showing a 3.0 per cent increase in the total domestic consumption. The other refined products including kerosene, gas oil, liquid petroleum gas (LPG), and other products, also showed increases in their share of the total consumption, while fuel oil and kerosene showed decrease from 26.8 and 21.1 per cent respectively, during 1972-73 to 21.3 and 20.5 per cent during 1977-78 respectively.

Power

Power is another infrastructure which determines industrial growth.
The data below indicate the total consumption of power generated under the charge of the Ministry of Energy:

Table 3

TOTAL CONSUMPTION OF POWER GENERATED BY THE MINISTRY OF ENERGY IN DIFFERENT SECTORS OF THE ECONOMY

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1972-73 ('000 Kwh)</th>
<th>1977-78 ('000 Kwh)</th>
<th>1972-73 % SHARE</th>
<th>1977-78 % SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>141</td>
<td>380</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Industry</td>
<td>2,745</td>
<td>6,500</td>
<td>4.7</td>
<td>50.0</td>
</tr>
<tr>
<td>Commercial</td>
<td>1,250</td>
<td>2,700</td>
<td>21.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Household</td>
<td>1,218</td>
<td>2,600</td>
<td>21.3</td>
<td>20.0</td>
</tr>
<tr>
<td>Others</td>
<td>369</td>
<td>820</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td>5,723</td>
<td>13,000</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Bank Markazi, Iran, Annual Report and Balance-sheet, Tehran, Iran, 1979, p.120.

The above data indicate the total consumption of power in different sectors of the Iranian economy. The total share of power consumption in industries rose from 4.7 per cent during 1972-73 to 50.0 per cent by 1977-78. Agricultural sector also showed an increase of 0.4 per cent; while other sectors including commercial, households, and others, showed a decrease in their share of the total.
Minerals in Iran

Exploration of mineral resources is another major sector of economic activity in Iran. It is proposed to briefly discuss it as an indicator of the industrial growth in the country. Iran with the total proven oil reserves of 58 to 100 billion barrel is placed after the United States of America, the Soviet Union and Saudi Arabia. In 1975 the share of Iran in the total world production was estimated at 9.0 per cent. The share of Iran in OPEC countries being 19.8 per cent. The share of Middle-East in the world output stood at 27.6 per cent.

During 1977-78, the total amount of oil exported was accounted at 4.8 million barrels per day. As against this, only 6,43,000 barrels was delivered to Iranian refineries including Abadan, Tehran, Shiraz, Tabriz, Bakhtaran and two topping plants at Masjid-e-Soleiman and Lavan. This meant a draining out of Iranian oil resources to the benefit of industrialised countries including mainly the United States of America and West European countries.

Iran likewise occupies the second position in gas reserves. The Soviet Union possesses the largest reserves of natural gas in the world. Iranian gas reserves have been estimated at 600 million cubic feet; or about 15 per cent of the total world reserves of natural gas.

In 1966, the Iranian National Gas Company (NiGC) was formed

1 Bank Markazi Iran, Economic Report and Balance Sheet, Tehran, Iran, 1978, op. cit., pp.36-7 (Persian).
with a total capital of Rls. 700 million (§ 9.2 million approximately). The gas was flared with oil for many years. It was used to regenerate other industries, and was also used as raw-material for industries including pharmaceutical, building, shoe, chemical, textile and petro-chemical industries.

During 1977-78, the total gas production which amounted to 69.5 billion\(^1\) cubic metres, increased by 13.8 per cent as compared to the figures for the previous year. The total export of natural gas was accounted at 9.2 billion cubic metres.

The share of oil and gas in the GNP was estimated at 19.5 and 48.7 per cent during the Fourth and Fifth Development Plans (1968-73 and 1973-78) respectively.

The non-oil mineral resources including iron ore, coal, copper, lead, zinc, chromite, gold, manganese, are also found in Iran. Iran ore has been found at Bafq in Kerman, Arak (Central Province), on Forur Island, (Southeast of Bandar-e-Abbas), and also on Lark-Island (Southeast of Bandar-e-Abbas), in Kerman (Zarand and Bafq), Sangrud (located in West Elburz Mountains) and also at Zirab (East Elburz). In 1967, a major deposit of copper was discovered at Sarcheshmah.\(^2\)

Table 4 gives the total picture of non-oil material production in million tonnes from 1972 to 1976.

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1 Bank Markazi Iran, Economic Report and Balance Sheet, Tehran, Iran, op.cit., p.38 (Persian).
2 Deposit were estimated at over 400 million tonnes.
Table 4

THE TOTAL PRODUCTION OF SELECTED NON-OIL MATERIALS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Coal</td>
<td>1,000</td>
<td>1,050</td>
<td>1,200</td>
<td>1,000</td>
<td>900</td>
</tr>
<tr>
<td>2</td>
<td>Iron-ore</td>
<td>299</td>
<td>294</td>
<td>610</td>
<td>610</td>
<td>670</td>
</tr>
<tr>
<td>3</td>
<td>Copper</td>
<td>1.3</td>
<td>1.0</td>
<td>1.8</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>Lead</td>
<td>43.5</td>
<td>37.5</td>
<td>47.5</td>
<td>53.0</td>
<td>48.0</td>
</tr>
<tr>
<td>5</td>
<td>Zinc</td>
<td>52.5</td>
<td>71.5</td>
<td>52.5</td>
<td>66.0</td>
<td>66.0</td>
</tr>
<tr>
<td>6</td>
<td>Chromite</td>
<td>86.4</td>
<td>86.4</td>
<td>84.0</td>
<td>84.0</td>
<td>75.0</td>
</tr>
</tbody>
</table>


The above data indicate that the non-oil mineral production has been rising. Copper ore played an important role in the Iranian economy. The total production of copper ore was estimated at 1.5 million tonnes in 1976, showing a decline over the previous year's output of 1.8 million tonnes.

During 1975-76, the value added from mining at fixed price was not more than Rls.12.6 billion (about $189 million); while its share in the GNP was only 0.4 per cent.

During 1976-77, 1,438 mining discovery permits were issued which resulted in a 6 per cent rise over the previous year (1975-76). While the number of permits for the exploitation of surface mines and underground mines during 1976-77 declined by 25 and 36 per cent respectively against the previous year (1975-76)

1 Bank Markazi Iran, Annual Report and Balance Sheet, Tehran, Iran, 1977, p.53.
However, Iranian mining suffered with a lacuna, the foreign partners were investigating in its different branches of activity. The top position was occupied by the United States of America, which was mainly interested in the exploitation and exploration of sulphur. The United Kingdom, France and Germany took interest in the production of chromite. The British also invested in zinc mining. Similarly, the Americans and Japanese invested in copper mining. The Swedes invested in the iron ore mining, and the French in phosphate mining.

The foreign companies' share in the oil sector increased after the coup against the National Government of Dr. Mohammad Mosadegh. And, the total number of foreign partners reached to 13. From 1963 to 1974, about 16 new groups of foreign companies participated in the Iranian oil sector mainly taking interest in oil drilling and exploration of oil.

In 1973, after the 'Sales and Purchase Agreement' between the Iranian National Oil Company and the Oil Service Company of Iran (Consortium), it was decided to increase oil production for domestic consumption as well as for exports. The agreement recovered the Iranian oil fields under the Consortium including Agha Jari, Ahavaz, Masjid-e-Suleiman, Haftkel, Pazanan, Naft-e-Safeid, Abadan, Kharg and Mahshahr ports. 150 pipe lines also came under the control of the Consortium. The 'groups' excluding the Consortium were involved in an area of 1.6 million square kilometres.
Looking to the fact that more than 50 foreign companies were involving themselves in oil, one finds that Iran was mainly dependent upon the United States of America, United Kingdom, Holland, Italy, Federal Republic of Germany, Japan, Spain, Belgium, France and Austria.

The total export of Iranian oil by different companies has been given below:

Table 5

SHARE OF DIFFERENT OIL COMPANIES IN THE EXPORT
OF CRUDE OIL OF IRAN
(1976-77. to 1977-78)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars</th>
<th>QUANTITY (Million barrels)</th>
<th>SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Consortium</td>
<td>1,414</td>
<td>1,105</td>
</tr>
<tr>
<td>2</td>
<td>Iranian National Oil Company</td>
<td>430</td>
<td>548</td>
</tr>
<tr>
<td>3</td>
<td>(i) Direct export</td>
<td>345</td>
<td>441</td>
</tr>
<tr>
<td></td>
<td>(ii) Export from joint ventures</td>
<td>85</td>
<td>107</td>
</tr>
<tr>
<td>4</td>
<td>Multi-national companies</td>
<td>83</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,357</td>
<td>2,306</td>
</tr>
</tbody>
</table>


The data above make it evident that during 1977-78 the Consortium's export of oil declined by 22 per cent at 3 million barrels. This touched a figure of 62.9 per cent of the total
exports. The Iranian National Oil Company's (NIOC) export was estimated at 1.5 million barrels which showed a 27.4 per cent increase over the previous year. Apart from this quantity about 1.2 million barrels was directly exported by the NIOC. The rest of the oil was exported jointly by the Iranian and foreign companies.

However, as the foreign multinationals generally refuse to establish industrial companies in the under-developed countries because growth of key industries would cause economic development and consequently independent nations, in Iran too their obvious choice has been the increasing investment in consumer goods industries. Oil they opted for their cheap energy requirements flowing out of the then a kingly country, Iran.

In spite of exploitation and export of oil and gas, the resources for industrial development continued to be scarce. However, protection accorded to foreign private investment resulted in a huge inflow of foreign private loans and capital. The data below indicate the total amount coming from countries like the United States of America, Federal Republic of Germany and Japan, etc.

During 1976-77, the inflow of foreign loans and private capital under the auspices of the Centre for the Attraction and Protection of Foreign Investment, was about Rls. 6,943 billion1

1 Bank Markazi Iran, Annual Report and Balance-Sheet, Tehran Iran, op.cit., 1977, p.53.
($98.33 million approximately) (Table 6) which shows a 57.27 per cent increase over 1975-76, and a 64.81 per cent increase over 1974-75.

Table 6

INFLOW OF FOREIGN PRIVATE LOANS AND CAPITAL THROUGH THE CENTRE FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT (Million Rials)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>2,867</td>
<td>1,707</td>
<td>2,728</td>
</tr>
<tr>
<td>2</td>
<td>Germany</td>
<td>130</td>
<td>238</td>
<td>1,730</td>
</tr>
<tr>
<td>3</td>
<td>U.S.A.</td>
<td>797</td>
<td>589</td>
<td>1,730</td>
</tr>
<tr>
<td>4</td>
<td>Other countries</td>
<td>706</td>
<td>1,442</td>
<td>755</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>4,500</strong></td>
<td><strong>3,976</strong></td>
<td><strong>6,943</strong></td>
</tr>
</tbody>
</table>

Source: Bank Markazi Iran, Annual Report and Balance-sheet, Tehran, Iran, 1977, p.52.

The Composition of Foreign Trade

The composition of imports and exports indicates the industrial structure of an economy. Iran's imports mainly included consumer goods and intermediate goods and of late capital goods. According to Bank Markazi Iran, during 1975-76 the total import of Iran increased by 77 per cent over the previous year. In the same year the total value of import goods was estimated at Rls. 781.2 billion approximately ($11.7 billion); while the value of export was estimated at only
Rls. about 39.5 billion ($ 592 million). This showed a deficit of Rls.741.7 billion. ($ 11.10 billion).

**Iran's Imports**

As indicated earlier, in spite of Iran being an agrarian economy, her imports of food-stuffs and livestock have been growing much more than under other categories. This obviously means a draining out of resources. The share of food imports must continue to decline over the years ultimately, touching the zero level of the imports. This must necessarily come as industrialisation picks up. Reverse of this situation in Iran indicated a weak industrial and agricultural base, and a continuing neglect of industrial needs. Lesson could be drawn from Japan, where the performance of agriculture during her period of rapid industrialisation (1887-1914) has been remarkable. Savings were directed to the imports of machinery and industrial raw material, etc.

Further, the imports of Iran were mainly from the Western developed market economies. During 1975-76, the United States of America was leading with 20 per cent of the share in Iranian imports, and other countries including Federal Republic of Germany, Japan, England and France were occupying their places at 17, 16, 9, 4 per cent respectively. The Socialist Bloc shared only 4.8 per cent in the total imports of Iran.

The total import of Iran from western countries was
estimated at 84.4 per cent and accounted for about Rls. 780 billion ($11,694 million). The composition of Iranian non-defence import during 1971-72 and 1975-76 has been shown in table 7.

The table 7 indicates that the imports of consumer goods showed an increase of 18.2 per cent during 1975-76 over 1971-72, and an increase of 31.2 per cent in case of capital goods over the same period. The growth recorded by intermediate goods stood at 50.6 per cent. But this has been a late story. In fact, a major share under all categories had been going to the mining sector.¹

Oil and its products have been dominating the Iranian foreign trade score with a 97-98 per cent value of total exports. The share of non-oil exports stood at only 2-3 per cent in the Iranian total exports. The non-oil exports mainly consists of: (a) traditional goods including carpet, cotton, and (b) agricultural goods and also some industrial products, viz., ready-made clothes, motor vehicles and certain chemicals and chemical products. During 1975-76, while the traditional goods and agricultural products continued to dominate non-oil exports which was accounted at 61 per cent, the share of manufacturing products in the total value of Iran's export reached to 25 per cent against the corresponding figures of 18 per cent during 1971-72.

However, the value of non-oil export was about Rls.25,3

¹ Details regarding Iran's imports and her principal trade partners, may be seen by referring to Appendix VI-A.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Value ($ million)</th>
<th>Percentage</th>
<th>Percentage share in growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1971-72</td>
<td>1975-76</td>
<td>Increase</td>
</tr>
<tr>
<td>1. Consumer Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>242</td>
<td>1,995</td>
<td>1,735</td>
</tr>
<tr>
<td>2. Intermediate Goods and Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Agriculture</td>
<td>1,336</td>
<td>6,212</td>
<td>4,876</td>
</tr>
<tr>
<td>ii) Manufacturing and Mining</td>
<td>29</td>
<td>240</td>
<td>211</td>
</tr>
<tr>
<td>iii) Construction</td>
<td>1,111</td>
<td>4,336</td>
<td>3,225</td>
</tr>
<tr>
<td>iv) Service</td>
<td>138</td>
<td>917</td>
<td>779</td>
</tr>
<tr>
<td>3. Capital Goods &amp; Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Agriculture</td>
<td>483</td>
<td>3,489</td>
<td>3,006</td>
</tr>
<tr>
<td>ii) Manufacturing and Mining</td>
<td>33</td>
<td>289</td>
<td>256</td>
</tr>
<tr>
<td>iii) Service</td>
<td>317</td>
<td>1,760</td>
<td>1,343</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,061</td>
<td>11,696</td>
<td>9,635</td>
</tr>
</tbody>
</table>

Source: Bank Markazi Iran, Annual Report and Balance Sheet, Tehran, Iran, 1976, p.62.
billion ($335 million) during 1971-72 which reached to about Rls. 39.5 billion ($592 million) during 1975-76.

Among the Iranian customers the total value of export to the Soviet Union was reported at 16 per cent of the total; while her relative share of import of non-oil goods from Iran declined slightly. The industrialised countries except the Soviet Union, were occupying only 3 per cent of the total non-oil Iranian exports. Besides FRG, the United States, Italy, Hungary and Japan; and other countries like Kuwait and China also have been the largest importers of Iranian non-oil products.\footnote{Details regarding Iran's exports and her principal trade partners, may be seen by referring to Appendix VI-B.} The traditional goods' exports during the 1970s declined and even the raw materials needed for such commodities had to be imported from abroad. This indicated that even the traditional goods exports suffered. During 1975-76, the Bank Markazi Iran indicated that the price of Iranian non-oil goods exports increased only by 0.7 per cent; while the price of goods imported was estimated to have increased by 10.2 per cent. This has been responsible for unfavourable terms of trade under the category.

In the light of foregoing discussion, it may be inferred that, "... planning results have fallen short of the high technical standard for planning was set by the economic and public administration specialists from more developed countries. The Government's planning strategy recognised the technical,
personnel and institutional limits that have prevailed in Iran. Iranian planners have focused on upgrading development performance rather than on trying to prepare a perfect Plan. In this way, they have been able to maintain a position of influence and political effectiveness throughout most of the post-war years.  

While the First Development Plan (1949-1956) allocated the total of Rls. 62 billion (about $826 million), the actual investment was Rls. 21.2 billion (about $282.67 million). The Plan allocated Rls. 3 billion (14.3 per cent) for the development of industries and mines. As regards priorities, the Plan laid emphasis upon (1) agriculture, (2) roads, railways and airports, (3) industry and mines, and (4) post and telegraphs, and telephones.

The Second Development Plan (1956-62) had an allocation of Rls. 73.0 billion (about $973 million) and envisaged initiating a number of projects, categorized under different headings,

2 The nationalisation of oil industry in 1951 caused disruption in the projected revenues and expenditure of the Plan, Programme of Iran, Tehran, leading to further disruption in oil output and consequent shortfall in the revenue.
3 For proper data regarding the projected revenues and expenditure during the 1st Plan, see Appendix VII.
4 During the 2nd Plan, the Government further increased the total allocations to Rls. 84 billion (about $1.12 billion), i.e., by 20 per cent. See Review of 2nd Seven Year Plan, Plan Organisation Division of Economic Affairs, 1960, p.6, See Appendix VIII.
namely (1) agriculture and irrigation, (2) communication and telecommunication, (3) industry and mines, and (4) public utilities and services.

The Third Development Plan (1963-68) was the first attempt at comprehensive development planning with greater sophistication. The plan's basic objectives concerned the major targets in the Iranian economy.

The GNP (per capita) at market prices rose from Rls. 14,900 ($197) in 1962-63 to Rls. 20,040 ($269) by 1967-68, showing an annual increase of 6 per cent.

During the Plan, agricultural output declined; while there was rapid increase in the contribution of the oil and mining sectors.

The Table 8 indicates the contributions by main economic sectors to Iran's GNP. The data reveal that the most rapid increase in output was shared by the water and electricity sectors with an average annual growth rate of 14.5 per cent, followed by oil (13.6 per cent) and industry and mining (12.7 per cent). The data also indicate that the agricultural sector presented a gloomy situation by giving the slowest rate of average annual growth. The agricultural sector, comprising farming, forestry, fishing and stock breeding, fell well below the growth target. One of the distressing feature of the sector has been its virtually total dependence upon foreign imports.

The Plan also provided for a number of basic projects falling
Table 8

CONTRIBUTION BY MAIN ECONOMIC SECTORS TO GROSS NATIONAL PRODUCT DURING THE THIRD PLAN

<table>
<thead>
<tr>
<th>Sector</th>
<th>1962-63 Value</th>
<th>1962-63 %</th>
<th>1967-68 Value</th>
<th>1967-68 %</th>
<th>Average annual growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Agriculture and Animal husbandry</td>
<td>101.0</td>
<td>30.9</td>
<td>115.8</td>
<td>23.4</td>
<td>2.8</td>
</tr>
<tr>
<td>2 Industry and Mining</td>
<td>39.1</td>
<td>12.0</td>
<td>71.2</td>
<td>14.4</td>
<td>12.7</td>
</tr>
<tr>
<td>3 Construction</td>
<td>17.5</td>
<td>5.3</td>
<td>30.0</td>
<td>6.1</td>
<td>11.4</td>
</tr>
<tr>
<td>4 Water and Power</td>
<td>3.1</td>
<td>0.9</td>
<td>6.1</td>
<td>1.2</td>
<td>14.5</td>
</tr>
<tr>
<td>5 Oil (Iran's share)</td>
<td>38.0</td>
<td>11.6</td>
<td>71.7</td>
<td>14.5</td>
<td>13.6</td>
</tr>
<tr>
<td>6 Other sectors</td>
<td>128.3</td>
<td>39.3</td>
<td>199.8</td>
<td>40.4</td>
<td>9.3</td>
</tr>
<tr>
<td>7 Gross National Product (at Factor Price)</td>
<td>327.0</td>
<td>100.0</td>
<td>494.6</td>
<td>100.0</td>
<td>8.6</td>
</tr>
<tr>
<td>8 Indirect Taxation</td>
<td>23.0</td>
<td>-</td>
<td>40.0</td>
<td>-</td>
<td>11.7</td>
</tr>
<tr>
<td>9 Gross National Product</td>
<td>350.0</td>
<td>-</td>
<td>53.6</td>
<td>-</td>
<td>8.0</td>
</tr>
</tbody>
</table>

under irrigation and dam construction activities. The projects were all put into operation, including the completion of construction work on the Dez Dam,\(^1\) which, however, remained incomplete during this Plan period.

The output of the manufacturing sector during the Plan developed at an average annual rate of 12.7 per cent. Capacities of sugar mills, textile mills and cement plants were expanded. The construction work of the Esfahan Steel Mill\(^2\) with an initial capacity of 600,000 tonnes per year, was started. The other projects included the construction of a heavy metallurgical Plan at Arak with an initial capacity of 10,000 tonnes; and, a machine tool plant at Tabriz with an annual capacity of 30,000 tonnes.

During this Plan period, the National Petro-chemical Company was formed in 1966 to utilise the light hydro-carbon associated with crude oil. The foreign partners also participated supplying capital as well as technical assistance. The construction of the Kharg-island Chemical Company, Abadan Petro-chemical Company and the Khomeini Petro-chemical Complex\(^3\) were started.

In the field of electricity, large generating centres including diesel hydro-electric high voltage transmission lines were constructed at Tehran, Khuzestan, Mashhad, Esfahan, Shiraz,  

\(^1\) Formerly known as Mohammad Reza Shah Dam.  
\(^2\) Formerly known as Aryamehr Steel Mill.  
\(^3\) Formerly known as Shahpur Petro-Chemical Complex.
Gilan, Mazandaran, Tabriz, Hamadan, Bakhtaran,\textsuperscript{1} Safidrud, and Kerman. The installation of new generating facilities touched a total capacity of 794 megawatts. In the field of oil, the Plant aimed to increase output and exports to match domestic demand through the exploration. At Tehran a new refinery with the initial capacity of 85,000 barrels per day, was inaugurated in 1966. The modernization of the Abadan Lube Oil Plant was also taken up during 1966. The Iranian National Gas Company was formed as a subsidiary of the Iranian National Oil Company. The Iranian Gas Trunk Line System (IGAT) project was introduced to help meet domestic requirement. In 1967, Ahvaz Pipe Rolling Mills project was completed to meet the Iran's requirements of gas.

During the Third Plan (1963-68), a total credit of Rls. 51,295 million (about $ 677 million) was approved by the Government for transport; while in the communication sector attention was focussed on modernisation and increasing the port capacity.

During the Fourth Five Year National Development Plan (1968-1973), “the rate of economic growth at constant prices was 11.8 per cent, enabling GNP to increase from 556 billion Rls. to 1,186 billion Rials during the plan period. This represented an average growth of 16.3 per cent. Both the oil and industrial sectors showed the strongest progress during this period. Agriculture, with an average of growth of 3.9, was the only sector

\textsuperscript{1} Formerly known as Kermanshah.
to achieve its original target growth".\(^1\)

The oil sector continued to dominate. It played a key role in the development of Iran. The total oil revenue was estimated at Rls. 417 billion (about 6.5 billion). Reportedly 80 per cent of oil revenues, Rls. 385 billion (\$ 5,086 million approx.) along with Rls. 150 billion (\$ 1.97 billion approx.) in borrowing from foreign source, were allocated to Plan Organization for development purpose.

Agriculture in terms of its contribution to GNP, has always been important to the Iranian economy. The main object was to raise the average economic growth of the country to the level of 9 per cent per year. It was further hoped that the agricultural sector would achieve an annual growth rate of 5 per cent. But, in fact it fell short of its planned target.\(^2\) The planned allocation for the development of this sector stood at Rls. 65 billion (about \$ 858 million). Further, to boost farming efforts the output of chemical fertilizer was planned at 3,50,00 tonnes\(^3\) by the end of 1973.

As regards growth of industrial activities, the Plan Organization put it at 13.8 per cent claiming a 0.8 per cent higher growth over and above the targeted increase. The total output

1 Looney, R.E., A Development Strategy for Iran through the 1980s, op.cit., p.21.
3 Ibid.
value-wise was also estimated at Rls. 376 billion (about $4.96 billion) by the end of the Fourth Development Plan.

To develop the so-called new industrial pole, Khuzestan and Esfahan provinces were nominated for locating the industrial field. 90 per cent of the fund was claimed to have been invested in these provinces. In Esfahan, a steel mill with an initial capacity of 6,00,000 tonnes per year came into operation. Other plants included:

1) The Tabriz Plant, which was put into operation having a total annual capacity of 10,000 tonnes.

2) A tractor factory built at Tabriz was expected to assemble 5,000 tractors annually.

3) A heavy metallurgical plant with a total capacity of 30,000 tonnes per year was also constructed.

Petro-chemical industry developed mainly in the Khuzestan province which was selected to develop as a 'petro-chemical pole' in Iran. The Kharq, Abadan, and Bandar-e-Khomeini complexes were put into operation.

During the Plan some basic industries were also initiated. These included paper and rolling mills, cement, sugar, chemical, fertilizer, electronics, bicycles, motor cycles, and other vehicles, compressors, cables and dried fruit canning, and vegetable oil, etc.

1 Formerly known as Bandar-e-Shahpur.
At Haftappeh in Khuzestan province, the capacity of the sugar mill was raised to 1,00,000 tonnes per year.

In the mining sector new discoveries included huge copper deposits at the Sar Chashmeh and also the iron ore and other mineral deposits at other places, were made.

In the fields of oil and gas, exploration and production began to pick-up due to expanding refining activities and exports.

The Shiraz refinery came to streams in 1973 with a total capacity of 40,000 barrels per day. Likewise, the Bakhtaran refinery with a total capacity of 75,000, was also put into operation after its modernisation in 1971.

In 1970, the Iranian Trunkline System (IGAT), with a 1,100 kilometers of main line and some 676 kilometres of spurlines, were inaugurated involving a total cost of about Rls. 53.03 billion ($ 700 million). The total investment in the gas industry in Iran was estimated at Rls. 24.8 million (about $ 327.3 thousand).

In the Fourth Plan a large proportion of the funds was directed towards the development of infrastructure including transport and communications. However, the unfinished roads carried over from the Third Plan, were completed to touch a

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1 Looney, R.E., A Development Strategy for Iran through the 1980s, *op.cit.*, p. 21.
kilometrage of 5,700. The Plan also covered some 2,610 kilometres of new asphalt road and also provided for the repair of 1,860 kilometres of the existing asphalt roads. Again, in this plan 5,500 kms of feeder roads were put under construction.

As regards railways, Iran State Railway was linked via Mus (Turkey) on the western shore of the lake Van to Turkey, and the European railway system involving a 233 kilometres' length. A 825 kilometer line linking the Bafq coalfield with Esfahan Steel Mill, was also constructed between Esfahan and Kerman.

The Iranian port capacity was also expanded during this Plan. Moreover, the unfinished tasks of construction and expansion taken up during the Third Development Plan, were also got completed.

The total Fourth Plan credit allocations for the development of ports has been given in Appendix VIII. The total credit allocations (Rls. 6,800 million or $ 89.75 million) divided between various heads, stood at Rls. 6,800 million (about $ 89.75 million).

"The Fifth Plan (1973-78) was originally approved by the Majlis (Iranian Parliament) and the Senate early in 1973. But the subsequent sharp increase in oil prices and Government revenues during 1973 and 1974, radically altered the Plan's

1 The coal is used as raw material for the Esfahan Steel Mills.
financial projections enabling the Government to undertake a wholesale upward revision of the Plan's target. The revised Plan was submitted to the Parliament in the Winter of 1974, and called for a total fixed capital investment of Rls. 4,699 billion (nearly $70 billion) between 1972-73 and 1977-78. It, thus, doubled the scope of the original 1973 version and increased seven-fold the Fourth Plan.¹

The gross fixed capital formation at constant price was projected at 29.7 per cent average annual growth during the Fifth Plan. The appraisal of performance put it at 29.9 per cent. The precasted growth rates for both the private and public fixed capital, were 17.7 and 38.1 per cent respectively; while the actual figures indicate a growth rate of these at 20.5 per cent and 25.1 per cent respectively.²

Table 9 indicates the projected and actual growth rates in all sectors of the Iranian economy. The oil and gas sector with 25.9 per cent has been leading; while it was followed by industries and mines (15.5 per cent), services (15.3 per cent), and agriculture (4.6 per cent) in receding order.

"The average annual rate of the value added by agricultural and horiticultural produce during the Fifth Plan period was projected at 5.95 per cent; with the output of cereals rising

Table 9

PROJECTED AND ACTUAL GROWTH RATES OF DIFFERENT SECTORS DURING THE FIFTH PLAN PERIOD
(1973-78)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Period</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Oil and Gas</td>
<td>51.5</td>
<td>25.9</td>
</tr>
<tr>
<td>2 Industries and Mines</td>
<td>18.0</td>
<td>15.5</td>
</tr>
<tr>
<td>3 Services</td>
<td>16.4</td>
<td>15.3</td>
</tr>
<tr>
<td>4 Agriculture</td>
<td>7.0</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Bank of Markazi Iran, Annual Reports and Balance-sheet, Tehran, Iran, 1978, p.15.

from 5.6 million tonnes to 8.6 million tonnes, of orchard fruits from 1.8 million tonnes to 2.4 million tonnes, of vegetables and soft fruits from 3.2 million tonnes to 3.6 million tonnes; and, of fodder crops from 1.1 million tonnes to 3.16 million tonnes.\(^1\)

In the industrial sector, the Plan envisaged expansion of Esfahan Steel Mill from its capacity of 6,20,000 tonnes per year to 1.9 million tonnes. It was also decided that a number of direct reduction steel mills would be established with a total capacity of about 10 million tonnes. It was further planned that the value added by the automotive industry would increase at an average annual rate of 20 per cent. The Plan also envisaged to raise the share of domestic component and parts produced and

1 Plan and Budget Organization, Summary of Fifth Development Plan (1973-78), Tehran, Iran, 1975, p.92.
used in automobile industry to the extent of 75 per cent.

The capacity of Tabriz Tractor Factory was to be expanded from 5,000 unit per year to 20,000 units. In the mechanical engineering industry, it was planned that the capacity of the Tabriz Machine Tool factory would be increased from 8,000 tonnes to 30,000 tonnes per year. The Arak Machine Tool factory also was expected to increase its production from 30,000 tonnes to 75,000 tonnes per year.

The other specific programmes envisaged to complete, equip and expand industrial units including those of food processing, textiles, chemical and petro-chemical, non-metallic mineral, base metals, and metal production industries. Development of small scale industry was also included in the programme for planned economic activities. The ore concentration plant providing for 1,45,000 tonnes of blister copper, came into being due to the discovery and exploitation of copper deposits at Sar Chashmeh in Kerman province.

2. March 1979 to date

In 1979, after a period of long struggle, supported by workers and people's struggle against the Government of the Shah, the Islamic Republic was established in Iran.

On the eve of Islamic Revolution the Iranian economy presented a picture of heavy dependency on foreign countries... the main
beneficiaries being the U.S.A. and the West European countries including FRG, U.K. and France. As discussed in the foregoing pages in the Fifth and Sixth Chapters, this has been an untenable situation.

The Islamic Republic seeks to establish a just socio-economic order in "an Islamic Revolution situations of forcefulness do not exist. The rich cannot speak forcibly to the poor. They cannot exploit them. They cannot make them work for little wages... Oppressed must be strengthened and transformed." While the Revolution drew its sustenance from the 'faith' of the Islamic people of Iran, there have been economic causes also. Some of these may be briefly mentioned:

(1) A real decline in oil revenues beginning in 1977 with a decline in output, projected to occur in the mid-1980s, and little prospects of finding alternative sources of foreign exchange on a comparable scale.

(2) An inefficient bureaucracy, without a proper planning apparatus, replete with corruption and an inability to implement equitable social and economic reforms.

(3) Low productivity in the industrial sector, rendering Iranian manufactured goods non-competitive on international market, and un-ending reliance of both public and private industrial sectors on Government funding.

(4) A continually growing inequality in incomes, within urban areas and between urban and rural population.

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(5) A real decline in agricultural production necessitating massive imports and controls.

(6) An ever-increasing defence budget necessary to sustain and modernize existing military forces and support the Shah's foreign policies.

(7) A return to balance of payments and fiscal deficiencies, with little prospects of future revenues surpluses due to overly ambitious development plans and rapidly increasing current expenditures."^1

In spite of the imposed War by Iraq against the country, Iran aimed at a considerable recovery of the domestic economy. As reported by the Bank Markazi Iran, the economy showed a recovery of 2.2 per cent during 1982-83 for the first time. The GNP totalled Rls. 26,20,000 million (§ 30,000 million approx.).^2

This recovery was due to increase in the export of oil which eased foreign exchange position, and increased Government revenues. However, the economy under economic pressure is facing problems due to unemployment which reached around 15 per cent^3 of the total work force. This is bound to happen in a War-torn economy and in the wake of unfavourable situation and the

2 The water and electricity and natural gas sector value added showed a 22 per cent rise. Agriculture' share of GNP rose from 13.9 per cent during 1981-82 to 15 per cent, during 1982-83. See Middle East Economic Digest (MEED) Weekly, April 1, 1983.
continuing bias again Iran. Particularly, due to her principled stand against the Super-powers, supported by their allies.

According to Government figures, the rate of inflation has been reported at 15 per cent and 20 per cent by the end of 1982 and 1983 respectively. "The whole sales price index for urban areas rose by 2.2 per cent in the last month of 1982 to give an April-December rate of 17.9 per cent. Retail prices too were reported to be rising more steeply towards the end of 1982."¹

The full details of 1983-84 Budget show that an extra Rls. 1,155 billion (nearly $ 13.86 billion) was allocated to defence. Rls. 1,210 billion ($ 14 billion approx.) have been sanctioned for development purpose, and another Rls. 3,504 billion ($ 42 billion approx.) have been allocated for current expenditure, giving a total supplementary Budget of Rls. 483.9 billion ($ 5.8 billion approx.). An initial estimate as reported by the Iranian press suggests that spending will rise to some Rls. 2,866.41 billion ($ 33 billion approx.) over the year to March 1984, including a deficit of approximately Rls. 260.58 billion ($ 3 billion). Major areas of expenditure will be defence against Iraq ($ 2.4 billion) and development ($ 14.0 billion) including $ 1.0 billion on the reconstruction of war devastated areas of the South and West.² The Iranian Prime

² The details pertaining to the Budget for 1984-85 have been discussed in Chapter I.
Minister, Mir Husain Musavi, announced (that) "Our aim is to support the downtrodden and the deprived region, therefore, credits have been allocated for these purposes."

However, oil continued to dominate the Iranian economy and contributed some 92 per cent to the export receipts. Production of oil also due to the difficulties in maintenance fell from 5.1 million barrel per day in May 1979, to 3.9 million barrels per day in June 1979. During the year, Iran also banned crude lifting for delivery to the United States of America.

In 1980, Iranian oil industry suffered heavily during the Iraqi invasion of Khuzestan province. The war also disrupted the pipeline flowing the crude oil to the refineries at Tehran and Tabriz. The Iranian production of crude oil was estimated at 1.5 million barrels per day in which 6,50,000 barrels per day was exported from Kharg Island Terminal. Iran was also to increase her production during 1982-83. The production has been reported to 2.5 million barrels per day against an OPEC ceiling of 1.2 million barrels for the country.

As regards the direction of oil trade, the former regime exported the major part of oil to West Europe, U.S.A., and Japan. However, after the Islamic Revolution the export of oil to Western countries depressed, to the advantage of the Asian and East European countries.

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The Esfahan Refinery after the repayment of Iranian debts amounting to $1.1 billion to Thyssen and Flour Company, was completed in 1980. A 6,30,000 barrels capacity Abadan Refinery was destructed in the early phase of the war. The Bakhtaran Refinery was also inactive due to the Iraqi occupation of Naft-e-Shahr\(^1\) wherefrom the crude is piped to Bakhtaran Refinery. The other refineries exist at Tehran (of 2,25,000 barrels per day), Esfahan (of 1,00,000 barrels per day), Shiraz (of 40,000 barrels per day) and Tabriz (of 80,000 barrels per day).

With the loss of Abadan Refinery, the Iranian oil industry suffered heavily since it used to provide 3,00,000 barrels per day of crude and a major portion of the country's need of kerosene. The loss of Abadan Refinery, prompted a proposed new refinery at Arak. It is situated between Tehran and Southern oilfields. Arak is connected by the Iranian railway and road network, and an existing crude oil pipeline. The Arak Refinery with 2,50,000 barrels per day is mentioned in the First National Development Plan of the Islamic Government. The petro-chemical complex at Bandar-e-Khomeini was scheduled to come on the stream in 1978, but due to instability in the former Government and workers' strike, the construction was halted. For this purpose the Japanese Consortium raised about Rls.2.8 billion ($ 40 million)

\(^1\) Formerly known as Naft-e-Shah.
loan from a banking syndicate led by the Industrial Bank of Japan. The original cost of the Plan was about Rls. 36,294 million ($ 515 million), but by 1979 it was raised to about Rls. 2,09,716 million ($ 2.9 billion), and, by 1982 to about Rls. 2,78,075 million ($ 3.5 billion). During the early phase of the war, it was announced by the Chairman of the Iran-Japan Petro-Chemical Company that the plant was no longer economically feasible and that the completing of the unit would bring a total cost of not less than Rls. 3,33,732 billion ($ 4 billion approximately). It should be noted that 85 per cent of the project was already completed. The project also suffered due to Iraq's airforce attacks in 1980.

During the First National Economic Development Plan (1983-88), the construction work of one major scheme and five smaller plants have been planned.

In 1979, exports of natural gas to the Soviet Union was affected badly by the widespread strikes by the Iranian oil-field workers. However, according to an estimate the gas was piped only to the extent of 250 million cubic feet per day as against the previous piping of 1,000 million cubic feet per day.\(^1\)

The negotiations between Iran and the Soviet Union on the Iranian gas trunk line system (IGAT), were also suspended.\(^2\) It

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2 Because Iran was seeking to increase the price of gas to the Soviet Union from 76 cents to $ 3.80 per 1,000 cubic feet
was planned to export gas from the Southern fields via IGAT pipeline to the European countries.

In March 1982, Iran and Syria signed an agreement for the supply of 1,80,000 barrels crude per day to Syria, in return for phosphates and other materials to Iran.

Iran also signed agreements to supply oil to North Korea (4 million tonnes), Brazil (35,000 barrels per day for three months in 1982) and Czechoslovakia (10,000 barrels per day for twelve months from March 1982). In return, these countries would supply raw material, food-stuff and industrial items against cash payment.

In 1983, Pakistan and Turkey became the main sources for the import of essential commodities. Iran provides part of Pakistan's crude oil requirements. In return Pakistan supplies Iran's requirements, viz., rice, sugar, cotton and textiles.1 Iran is also supplying 1,00,000 barrels of oil to Turkey in return for foodstuffs and industrial items. She also signed a Sale Agreement with some other countries to export oil, including Yugoslavia (20,000 barrels per day), India (34,000 barrels per day), Madagascar (3,000 barrels per day) and Bangladesh (1,000 barrels per day).

In agriculture, the official figures estimate that the agricultural production has been improved.

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The Iranian food and agricultural raw material imports were estimated to rise from approximately Rls. 222.46 billion ($2.8 billion) in 1981 to more than Rls. 375.44 billion approximately ($4.5 billion) in 1982.

In industries a ten years' programme has been introduced by the Government to increase the capacity of steel to 10 million tonnes per year. A new agreement has been signed in 1982 with the Soviet Union for the expansion of the Esfahan mill raising its capacity to 1.9 million tonnes per year. It is expected that in future the Esfahan Mill's production will reach to 6.4 million tonnes per year. A new complex is started at Mobarakhe, South of Esfahan involving a total estimated cost of Rls. 400 million ($4.7 billion approximately). The 'direct reduction' plant is to be built by the Italian Finsider group. Near about 40 per cent of the equipment has already been installed. The Plant, with the total capacity of 2.4 million tonnes per year, is expected to come into operation by 1988.

The work also started at Ahvaz Iran Processing Plant which was halted after the revolution. The work was carried on by the two German Companies, namely Lurgi Gesellschaften and Krofstahl. The former is responsible to complete iron ore pelletising unit which already touched 60 per cent of its completion stage by 1979.\(^1\) The Kroft Stahl is engaged in completing the direct reduction unit whose combined capacity is

\(^1\) Quarterly Economic Review of Iran, Fourth Quarter, London, U.K., 1979, p.16.
estimated at 1.2 million tonnes per year. The first unit of Ahvaz Steel Complex produces 1,050 tonnes\(^1\) of iron ingots per day. The yield is produced by three furnaces of the complex. The fourth furnace is expected to come into operation by the end of 1983-84. During the First National Development Plan (1983-88), steel production will be raised from 7,60,000 tonnes to 33 million tonnes per year, aluminium from 30,000 to 1,20,000 tonnes and copper from 30,000 to 1,45,000 tonnes per year.\(^2\)

In automobile industry, Talbot of the United Kingdom, by supplying the spare parts to Iran, has increased the hope for more production of 'Iran National' (IRAN KHODRO). In 1982, the deliveries were below the target at 40,000 units against a projection of 70,000 units.

Iran also proposed to develop iron and steel industry by entering into an agreement in 1975 for iron ore deposits from Kudermukh, Karnataka State, India. The agreement provided that Iran would lift the entire production at the pre-determined price, and that about Rls. 41,599 million (\$ 623 million) assistance will come from Iran. Iran has already invested some Rls. 15,023 million (\$ 225 million) in this project before the revolution. However, for some time after the revolution there were some doubts about its continuing. But of late, Iran has

---

1 Keyhan International, Tehran, Iran, January 13, 1983.
2 Ibid.
decided to take Kudermukh output.¹

Further, the Islamic Government has also drawn plans for the development of domestic ore at Sarcheshmeh with 450 million tonnes of copper and Golgohar with 13 million tonnes per year of low quality magnetite of iron ore.

In March, 1980, "the Iranian Government began setting up Import and Distribution Centres. These are Government operated through which many goods are to be imported and which will set up the sales prices of imports. The initial Centre has been set up in Tehran. In due course, other centres will be opened in other cities." ²

Iran with continuing flow of oil into international market, gained a surplus receipt specially in 1982 after overthrowing Iraqi troops from her oilfields in Khuzestan. Import restrictions and a development-oriented planning resulted in checking the inflow of non-essential items. The principal import items include foodstuffs, capital equipment, industrial goods and military spares.

¹ "Iran has indicated to India's External Affairs Minister during his visit to Tehran that they too would be in a position to import about four to five million tonnes of concentrates from October 1984, when the Ahvaz Steel Plan goes into production... the original contracts has to be revised, scaling down not only the Iranian assistance from $635 million to about $450 million but also to reduce the offtake from 7.5 million tonnes to about four to five million tonnes". See Patriot, New Delhi, India, September 17, 1983, p.2.

The Government presented the Foreign Trade Nationalisation Bill to the Iranian Parliament. But in 1983, the Bill was rejected by the Council of Guardian of the Constitution. Presently foreign trade of Iran is partially nationalized. The Table below indicates Iran's import (C.I.F.) and export (F.O.B.) trade:

Table 10

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran's Exports (FOB)</td>
<td>14,278</td>
<td>10,531</td>
<td>19,300</td>
</tr>
<tr>
<td>Iran's Imports (CIF)</td>
<td>12,246</td>
<td>12,473</td>
<td>14,000</td>
</tr>
<tr>
<td>BALANCE OF TRADE</td>
<td>+ 2,032</td>
<td>-1,942</td>
<td>+5,300</td>
</tr>
</tbody>
</table>


* Mid Estimates.

The table above indicates that the total export and import as also the foreign exchange earnings have been increasing over the years. The Iranian export followed an increasing trend in 1982 over 1981. Import during 1982 increased to about Rls. 11,68,062 billion ($ 14,000 million). Foreign exchange also stood at about Rls. 4,17,165 million ($ 5 billion) in 1982 as 1 In April, 1984, the 'Nationalization Bill' was approved by the Parliament again.
compared to Rls. 79.4 billion ($1 billion) in 1981. Later
during the financial year 1982-83, it touched a figure of
Rls. 542.3 billion approximately ($6.5 billion).

During 1983, the total import was expected to rise from
about Rls. 1,168.06 billion ($14 billion) during 1982 to more
than Rls. 1,737.2 billion ($20 billion).¹

Further, in 1983 the Ministry of Road and Transport
announced that within the five months, the total volume of
merchandise imports rose from 4,342 million tonnes in 1982 to
more than 9,566 million tonnes, i.e., by 82.12 per cent for the
corresponding duration (in 1983). The volume of imports during
1983-84, may total more than 24 million tonnes² nearly double
the volume during the year 1982-83.

The shares of some of trading partners of Iran in her
imports have been given in Table 11.

The table 11 indicates that the Western countries interested
in maintaining commercial relations with Iran, could do so in
1981, subject to their entering into fruitful economic coopera-
tion. Federal Republic of Germany with 14 per cent of share
is still leading; followed by Japan (12.9 per cent), Italy
(6.4 per cent), France (5.8 per cent), and Holland (3.4 per cent).

¹ National Westminster Bank, Iran: An Economic Report,
February 1983, op. cit.
² Keyhan (Air Mail), Tehran, Iran, December 14, 1983, p.7,
(Persian).
Table 11

DISTIBUTION OF SHARE IN IMPORTS (1981)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Country</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Federal Republic of Germany</td>
<td>14.00</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>12.90</td>
</tr>
<tr>
<td>3</td>
<td>Italy</td>
<td>6.60</td>
</tr>
<tr>
<td>4</td>
<td>England</td>
<td>6.40</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>5.80</td>
</tr>
<tr>
<td>6</td>
<td>Holland</td>
<td>3.40</td>
</tr>
</tbody>
</table>


This means that the five EEC countries together shared 36.2 per cent in the total imports during 1981. The country's imports from Turkey stood at an annual figure of Rls. 112.92 approximately ($1.3 billion).

However, the share of Western countries in Iran's imports, dropped from 81 per cent in 1977 to 66 per cent by 1980. The total imports from the Socialist Bloc stood at only 9.5 per cent. However, during 1983 again there are signs of increasing her imports from the Western countries.

The table 12 indicates simply the geographical distribution of some parts of Iran's imports up to the end of 1983.

The table 12 shows that the Federal Republic of Germany is Iran's leading supplier sharing about 20 per cent of the total imports.

### Table 12

**GEOGRAPHICAL DISTRIBUTION OF IMPORTS**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Imports</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Turkey</td>
<td>$1.30 billion</td>
<td>Financial Times, April 22, 1983.</td>
</tr>
<tr>
<td>3 Japan</td>
<td>$2.00 billion</td>
<td>Middle East Economic Digest (MEED) Weekly, August 12, 1983, p.2.</td>
</tr>
</tbody>
</table>

The total import from FRG is expected to have reached about Rls. 203.25 billion ($2,340 million) during 1983 showing a growth of 60 per cent over 1982. Japan is the second largest supplier to Iran with a total estimated turnover of Rls. 173.7 billion ($2 billion), while Turkey is having an important role as regards Iran's need of goods and services. According to the Iranian resources, during 1983-84 more than Rls. 217.15 billion ($2.5 billion) worth of goods will be exchanged between Iran and Turkey.

### THE FIRST ECONOMIC DEVELOPMENT PLAN OF THE ISLAMIC REPUBLIC (1983-88)

The First Five Year Development Plan (1983-88) with a purposed outlay of Rls. 14,505.79 billion ($1,67,000 million) has been recently announced.
"The Islamic Republic aims at a judicious and proper utilisation of the might of its citizens to develop and sustain a just socio-economic order to help build a self-sustaining economy. An economy where in the long run there will be neither the exploited nor the exploiters."  

The main objectives of the Islamic Republic's Plan may be briefly mentioned as under:

(1) To reduce economic dependency upon other countries particularly the industrialised nations.
(2) To develop agricultural sector on a priority basis and as a 'Central Pole' of economic growth.
(3) To utilise potentials of heavy industries.
(4) To achieve a high growth rate.

The target is an annual growth of 8.7 per cent in Iran's GNP. The Plan also projects an average annual growth rate of 8.3 to 9.2 per cent in gross domestic product (GDP), showing an increase from about Rls. 9,251.3 billion ($1,08,900 million) in the year before the Plan to about Rls. 14,183.9 billion ($1,66,900 million) by 1988. The private sector which, it was thought, would be asked to yield, has been given a proper role in the economic development.  

The Table 13 indicates the total expenditure during the First Development Plan (1983-88) on different heads.

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2 See Etelaat, Tehran, Iran, July 18, 1983 (Persian).
Table 13
FIRST DEVELOPMENT PLAN EXPENDITURE
(21 March 1983 - 20 March 1988)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Current Expenditure</th>
<th>% of Total</th>
<th>Average annual sectoral growth rate(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Industry and mines(^1)</td>
<td>-</td>
<td>-</td>
<td>1,970.9</td>
</tr>
<tr>
<td>2 Agriculture(^2)</td>
<td>-</td>
<td>-</td>
<td>2,204.9</td>
</tr>
<tr>
<td>3 Oil</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4 Transport and Communication</td>
<td>-</td>
<td>-</td>
<td>1,066.8</td>
</tr>
<tr>
<td>5 Education, Health &amp; Social Welfare</td>
<td>-</td>
<td>-</td>
<td>725.1</td>
</tr>
<tr>
<td>6 Service</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL(^3)</td>
<td>1,931.3</td>
<td>3,951.0</td>
<td>-</td>
</tr>
</tbody>
</table>

| a) Gross National Product      | -    | -    | -       | -    | -    | 8.7                   |
| b) Gross Domestic Product\(^4\) | 9,261.3 | 14,183.9 | -       | -    | -    | 8.3-9.2               |
| c) Unemployment Level (%)      | 19.2 | 11.2 | -       | -    | -    | -                     |
| d) Population (million)\(^5\)  | 40.2 | 55.0 | -       | -    | -    | 3.1                   |
| e) Oil and Gas Income\(^6\)    | 1,704.3 | 2,923.2 | -       | -    | -    | 14.4                  |

Oil export level (mi lion b/d) 1.73 | 2.97 | - | - | - |

1. Construction and housing, which are included in the percentage share of the total, are left out of the expenditure figure.
2. Includes growth rates of 7.5 per cent for crop production, 26 per cent for fisheries, 5.3 per cent for cattle breeding and 17 per cent for forestry.
3. Total expenditure includes construction and housing and other items as well as investment outside the current expenditure.
4. For the Iranian Year 1361 (21 March 1982 - 20 March 1983).
5. The construction Sector will create 32.8 per cent. New jobs in industry and mines will create 18.2 per cent. New jobs are estimated at a total of 2.4 million, and the potential labour force is expected to grow by 4.1 million.
6. Population at 2000 A.D. is projected at more than 80 million.
7. Calculated on the basis of $ 33.25 a barrel, the present price is $ 28.0 a barrel.

The data indicates a 3.6 per cent rate of growth for services. "While the economy as a whole is growing at a rate of 8.9 per cent, it looks a gross under-estimate, as the past experience shows that the two rates are likely to be much closer."¹ Further, a 7 per cent rate of growth for the agricultural sector too seems difficult to achieve. The argument advanced draws its support from the modern economic failure to achieve such a growth rate in recent economic history. "Furthermore, during the First Plan period the agricultural sector is supposed to undergo land reform and industrial re-organisation which in the short run at least would have disruptive effect on output."²

Therefore, to help achieve this growth rate, agricultural policy planning and its implementation must be properly watched. The oil industry's estimated growth rate of 16 per cent is subject to OPEC quota and world oil demand. The destroyed refineries need quick repairs, so also an streamlined organisation is needed. The Plan envisages a total investment of Rls. 1,971 billion approximately ($22,700 million) in the first year raising it to Rls. 4,039 billion approximately ($46,500 million) in the final year of the Plan. Public and Private investments would increases by about 19 per cent annually.

The Plan designated that the share of total investment in

¹ Arabia, The Islamic World Review, No.24, July 1983, p.27.
² Ibid.
agriculture should rise from 13.8 per cent in 1983 to 16.7 per cent by the end of the Plan in 1988; while the share of industry in the total investment would decline from 54.7 per cent during 1982-83 to 50.3 per cent by 1987-88. However, a priority shall be given to those industries which could serve the objective of agricultural development in the Islamic Republic. The Government allocated Rls. 112 billion (§ 1.31 billion) for 963 agro-projects which will be completed during 1983-84.

The Islamic Government plans to develop industry and mines in the long-run and emphasises on the exploration and exploitation of mining potential in the country. This will increase the output of manufactures in the country; and a larger share of crude oil instead of being exported, can be utilised for domestic industrial activities.

The total investment of Rls. 2,135,000 million (§ 25,000 million) is projected for agricultural development; of this, during the five years, Rls. 7,60,000 million approximately (§ 8,720 million) is expected to come from the private sector. It is also in the Plan to develop water resources and go ahead with soil reclamation activities. Production of consumer goods such as flour, sugar and vegetables, etc., will rise from 7.5 million tonnes to 10 million tonnes per year.

1 Keyhan International, Tehran, Iran, August 14, 1983, p.8.
2 Keyhan (Air Mail), Tehran, Iran, September 21, 1983, p.6, (Persian).
As regards the oil sector, it is planned to reduce Iran's dependency on this sector's contribution to the GNP, from a 20 per cent share during 1981 to something below 10 per cent by the turn of the century. A 2,50,000 barrels a day oil refinery will be built up at Arak in the Central Province.

In petro-chemical industry schemes providing for one major and five other smaller plants, have been prepared for implementation. In the housing sector, a total of 2 million additional homes will be constructed; of which about 4,00,000 houses will be renovated or rebuilt. It may be said that during 1982-83, the Government and Private Sector together built about 2,00,000 new houses.

In the construction sector, cement production will rise from 10.5 million tonnes a year to an approximately triple figure of 39 million tonnes a year.

In transport, it is planned to create 30,000 km, of secondary roads and 350 kms of freeway. In railway, a network of 1,302 kms of new railway track will be laid.

It may, therefore, be inferred that the economy will move ahead on path to prosperity, provided that not only the whereabouts but the human resources too are harnessed to the goals of balanced economic development. The Iranian economy's strength and potential to develop may be viewed by referring to the various economic indicators (Table 14). The unemployment which
### Table 14

**SELECTED ECONOMIC INDICATORS**

(1979-80 - 1982-83)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Oil Output (million barrels a day)*</td>
<td>3.4</td>
<td>1.5</td>
<td>1.4</td>
<td>2.7</td>
</tr>
<tr>
<td>2 Oil and Gas income ($ 000 million)</td>
<td>19.8</td>
<td>11.8</td>
<td>11.0</td>
<td>20.0</td>
</tr>
<tr>
<td>3 GDP ($ 000 million)**</td>
<td>-</td>
<td>-</td>
<td>101.0</td>
<td>104.0</td>
</tr>
<tr>
<td>4 Unemployment (million)***</td>
<td>1.2</td>
<td>-</td>
<td>-</td>
<td>1.4</td>
</tr>
<tr>
<td>5 Consumer price increase (%)</td>
<td>11.4</td>
<td>23.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6 Wholesale price increase (%)</td>
<td>20.0</td>
<td>30.0</td>
<td>-</td>
<td>20.0</td>
</tr>
</tbody>
</table>

* About 7,000,000 barrels a day held back for domestic needs.

** Figures not available for first two years, but estimated to have fallen by 161/2 per cent.

*** Of potential labour force of 10.4 million.

stood at 1.2 million during 1979-80 and 1.4 million during 1982-83, should reduce as the unemployed would be gradually absorbed due to Iran's expanding economic activities. As per statement by Dr. Banki, Minister for Budget and Planning during the First Plan, Iran would need more than 20,000 skilled and expert hands.¹

¹ Keyhan (Air Mail), Tehran, September 21, 1983 (Persian).