CHAPTER- V
Impact of Liberalization, Privatization, and Globalization on Human Resource in Iran

Across the transition economies, extensive liberalization and determined stabilization have both been vital for improving economic performance. Liberalization involves freeing prices, trade, and entry from state controls; stabilization means reducing inflation and containing domestic and external imbalances. The two are intricately linked and can and should be initiated early. In the longer term, institutional reforms establishing clear property rights, sound legal and financial infrastructure, and effective government will be needed to make markets work efficiently and support growth. But liberalization and stabilization are essential first steps, and they can achieve a great deal even when other key features of an effective market are lacking.¹

Why is liberalization so important? It decentralizes production and trading decisions to enterprises and households and directly addresses the two fundamental weaknesses of central planning: poor incentives and poor information. Liberalization exposes firms to customer demand, the profit motive and competition, and it lets relative prices adjust in line with true scarcities. Liberalized markets process information better than central planners, and when goods and services are traded freely, the price mechanism—Adam Smith’s² invisible hand—matches demand and supply. In most cases the outcome is efficient. Combined with supporting institutions, competitive markets unleash powerful processes to force technological and organizational change. Whereas planned economies experienced low or negative overall productivity growth despite high capital accumulation, at least half of output growth in advance market economies since World War II has resulted from productivity gains. Creating markets is an investment in a more dynamic system of economic coordination that fosters long-run productivity and output growth. Finally,

liberalization by depoliticizing resource allocation helps government cut subsidies to firms and thus facilitates economic stabilization.

There are some important parallels between Asian and European transition economies in the relationship between liberalization, stabilization and growth. In all regions growth has largely resulted from the lifting of restrictions on new entry and a surge of previously repressed activities, especially services and export industries and agriculture in Asia. Freeing prices and trade, reduction in subsidies, and containing credit can also revitalize growth in previously dominant sectors, by increasing the competitive and financial pressure on firms to restructure.

In market economies liberalization usually means eliminating price controls and relaxing trade protection in a few heavily regulated or protected sectors. Liberalization in transition economies face an unprecedented and more daunting task, that of freeing not only the terms of market transactions but the transactions themselves: abolishing state orders and procurement, state production and trading monopolies, and the centralized allocation of foreign exchange. Liberalization also means freeing entry into production, services and trade, including the freedom to open a new business, to expand or break up an existing business, and to change product-mix suppliers, customers, or geographical base.

The starting point, speed, and scope of the free market reforms have varied greatly among transition economies, initial conditions and political developments have constrained governments’ economic policies and influenced their reforms choice. Both liberalization of trade and freedom of capital movements have been implemented to the greatest degree in advanced economies. Trade in manufacturing products among these countries was liberalized gradually over the whole of the post-war period through successive rounds of international trade negotiations (up to and including the Uruguay Round). By the mid-1970s, at the conclusion of the Tokyo Round, the weighted average tariff on manufactured products traded among industrial countries was only 0.5 per cent, compared with 10 per cent before the Round. In 1990, this figure was down to 5 per cent.

The liberalization of capital movements among advanced economies has also occurred in stages, but in somewhat different ways than the deregulation of foreign

---

Batra, G.S., and Bhtia, B.S., op. cit., p. 21.
In many respects capital market liberalization between these countries has gone further than trade liberalization. Most of these economies achieved current account convertibility in the late 1950s. However, capital account convertibility in leading industrial countries took place only in 1970s in, for example, the United States, Canada, UK and Germany and in 1980 in Japan. France and Italy introduced capital account convertibility only in 1990.

Capital account convertibility in the advanced countries came in the wake of the collapse of the Bretton Woods fixed exchange rate system. It was preceded by the liberalization of domestic financial markets in these countries. These were important steps in the integration of international financial markets, which many in the financial world regard as being synonymous with globalization. (The integration of markets refers to the fact that the various national markets for a product or financial service become in effect one single international market.) The foreign exchange market was the first financial market to globalize in the mid-1970s; it is the biggest and perhaps the only truly global financial market. The integration of stock markets occurred later still with the deregulation, of domestic stock markets in leading countries. A notable example of this was the so-called "Big Bang" in London in the mid-1980s, involving the simultaneous abolition of a large number of the rules and regulations which traditionally had governed the conduct of members of the stock market and the criteria for membership.

Liberalization has been much less evident with respect to flows of labour between countries. Moreover, unlike trade and capital movements, over time there has been retrogression in this sphere in many industrial countries. Nevertheless, it is important to appreciate that, as a part of the process of privatization, deregulation and market ascendancy in general, in the post-1980 period there has been a considerable relaxation in the domestic rules and regulations maintaining labour standards, minimum wages and labour rights. The European country which has gone furthest in this direction is the United Kingdom.

Compared with the situation in advanced industrial countries, liberalization has occurred at a slower pace in developing countries. An outstanding feature of the post-1945 international economic arrangements was the special and differential treatment accorded to developing countries in recognition of their economic
backwardness. This apparent altruism was very much the product of the Cold War and contention between economic and political systems-liberal capitalism represented by the United States and the state-planning system of the former Union of Soviet Socialist Republics (USSR). In the face of pressures from the G-77 following the creation of United Nations Conference for Trade and Development (UNCTAD), "non-reciprocity" in trade relations was accepted in the General Agreement on Tariffs and Trade (GATT) by industrial countries, whereby they agreed to provide comparatively easier preferential access to their markets for developing country goods (those under the Multi-Fibre Arrangement were an important exception), whilst permitting developing countries to impose tariffs on advanced country products.

The Uruguay Round Agreements and the establishment of the World Trade Organization (WTO) greatly reduce the scope of this concession and they reflected the changed world political situation following the end of the Cold War. The efforts by the North to engage the South in negotiations on trade and trade-related matters represented the North’s efforts to respond to Southern competition by demanding greater reciprocity as well as other measures that would further the North’s economic interests.

However, even before the Uruguay Round Agreements came into force, many developing countries had begun in the 1980s to reduce their tariff barriers. The impetus for these reforms emanated from two interrelated sources. First, they were an integral part of the new policies of the multilateral financial institutions, particularly the World Bank, whose structural adjustment lending programmes were conditional on economy-wide policy reforms in developing countries, including trade, foreign investment and financial sector reforms. Secondly, the economic failure and the "lost decade" of the 1980s (largely due to the debt crisis) in Latin America and sub-Saharan Africa obliged many countries to accept these conditionalities, as well as similar ones imposed by the International Monetary Fund (IMF). According to the World Bank (1990), which reviewed the structural conditionality for loans made during the period 1980-1987, nearly 80 per cent of loans required trade policy reform and nearly 40 per cent liberalizing reforms of the financial sector. This is not to suggest that some

---

countries did not introduce these reforms under their own initiative, ascribing their recent economic failure to their former dirigiste and relatively closed economic regimes.

Thus, for example, Mexico reversed its successful import substitution of the previous four decades and acceded to GATT in 1986, reducing its tariffs to an average of 11 per cent by 1988. Other Latin American countries also turned to neoliberal policies, attributing their economic failure to their past policies of dirigisme and import substitution rather than to the external shocks over which they had no control.

Similarly, in the 1980s and the 1990s many countries have greatly liberalized their foreign investment regimes, as well as reduced their controls over capital movements. Also, despite their doubtful merits for economic development, stock markets have been established or expanded as part of financial sector reforms around the globe, even in the poorest countries. Such markets have been used in many countries to facilitate privatization, attracting in the process substantial foreign portfolio capital. This, of course, involved changes in long-standing policies against foreign ownership.

There is, however, an important difference between the trade and financial policy reforms carried out by the ‘unsuccessful’ economies such as those in Latin America and the ‘successful’ ones in Asia in the recent period. Countries in the two regions have carried out many similar reforms, but the process in Asia has been voluntary, gradual and guided whereas in Latin America it has usually been forced on them by the debt crisis and World Bank and IMF conditionalities, and these reforms have usually been introduced in a precipitate and wholesale fashion.

Hungary and China began liberalizing gradually in 1960s and in 1970s respectively. Vietnam accelerated liberalization in 1989 after partial reforms had failed to raise growth rates or to stabilize the economy sufficiently. Poland liberalized with one “big hand”, freeing 90 per cent of prices, eliminating most trade barriers, abolishing state trading monopolies and making its currency convertible for current transactions all at once in January 1990. Albania, the Baltic countries, the former

---

Czechoslovakia, and Kyrgya Republic followed this model of rapid and comprehensive liberalization. Bulgaria initially did the same, but strong interest group pressures for continued protection and state support to enterprises latter brought something of a reversal. In Romania price reforms advance fruitfully for three years after half of all prices were freed in 1990, but liberalization has recently accelerated. Russia substantially liberalized prices and imports in January 1992, but extensive export restrictions remained in place until 1995, and many consumer prices are still subject to local government intervention. Countries have usually been slower to adjust or liberalize housing rents and utilizing public transport prices.

Therefore, liberalization in industrial and in developing countries has been cumulative and uneven processes extending over many years. But even industrial countries have a long way to go before they can be regarded as being fully liberal in the ideal neoclassical sense, that is, that firms' decisions no longer need to take into account national boundaries and that rates of return to factors of production are equal world-wide, subject only to differences in transportation costs and degrees of risk.

Nevertheless, at a practical level, with respect to trade in manufactures and capital movements between leading industrial countries, there can be deemed to have been more or less free trade and capital movements in the last ten to fifteen years. This is especially so, not only in comparison with the developing countries but also, more importantly, in comparison with the situation in these economies themselves in the 1950s and 1960s. During these earlier decades most countries not only enforced international capital controls under the Bretton Woods regime, but their domestic product, capital and labour markets were also subject to a wide range of rules and regulations in keeping with economic and social objectives.

**Liberalization in Iran**

Iran’s current development priorities and approaches are outlined in the Third FYDP approved by the Parliament in 2000. The plan aims at a growth rate of 6 per annum during the plan period. At the same time, the plan continues the strong emphasis of the past and social development and equity. To achieve its objectives of raising economic growth potential, increasing the living standards of the population,
and reducing unemployment, the plan envisages a wide range of structure reforms aiming at a balanced and gradual transition to a market economy. While greater private investment is expected to provide the basis for more rapid growth, the plan gives special emphasis to agricultural and rural development, and housing as the key sectors underpinning the growth with distribution objectives. Both of these sectors have not only potential for growth but also for job creation and poverty alleviation given their higher labour-intensity, in particularly of unskilled and poor workers.

Economic Reform Agenda: The economic reform strategy is based on a two-pronged approach aimed at developing a competitive functioning of the economy by taking steps towards liberalizing the pricing system, and shifting toward a market based price determination as a means toward more efficient allocation of resources. Secondly, the strategy involves the undertaking of legal and institutional reforms to enable the development of private sector participation concomitant with public enterprise sector reform and privatization, as well as reform of the financial sector.

The reform of the pricing system includes: (1) the unification of the multiple exchange rate system and movement toward market determination of the exchange rate; (2) trade liberalization, consisting of the narrowing of the large non-tariff barriers, and the streamlining of tariffs; (3) moving away from the system of administratively determined credit allocation and real negative interest rates, toward competitive allocation of credit, and positive interest rates; and (4) addressing the issue of the large energy subsidies.

The other set of structural reforms in support of the development of a private sector-based development includes: (1) strengthening the legal and institutional framework, in particular the reform of the previously constraining legal framework of foreign direct investment (FDI), and the enactment of laws, regulations and institutional arrangements to limit monopolistic and unfair trade practices, and the opening of all economic activities to the private sector; (2) reducing the size of the public sector enterprises through privatization and public enterprises reforms; (3) starting the reform of the state-dominated financial sector, strengthening banking regulation and supervision, and opening the way to the emergence of private banking; and (4) strengthening of mechanisms of social protection to limit the negative transitory affects of the reforms.
Recent progress in Reform Implementation: Significant progress has been realized over the first year of the Third FYDP in several economic reform areas:

1. Foreign Exchange Reform Analysis: The budget law for 2001-02 provides for the unification at the exchange rates at the beginning of the financial year 2002-03 in March 2002. The unified exchange rate is expected to be close to the current open market rate of about Rials 7950/$. The budget law also provides for full compensation for buyers of items that were formerly imported at the official exchange rate of Rials 1750/$ during the year 2002-03, the first year of the reform implementation, a high level committee on exchange rate unification that is chaired by the Deputy of the state management and plan organization has been working on the management of the process of unification of exchange rate. Several other sub-committees are preparing reports on alternative forms of phasing out the subsidies, both those related to the exchange rate and others.

2. Trade Reforms Analysis: The strategy of government is: (i) to remove all non-tariff barriers and replace them with tariffs; (ii) progressively reduce the tariff bands over the period of Third FYDP; while (iii) progressively reducing the average tariff rate to a level that allows. Iran to engage in WTO negotiations. Iran has 5000 items of the Harmonized System. Until 1999 before the start of the new plan only 1000 where under tariffs and the rest were under non-tariff barriers. Since then, non-tariff barriers were removed from 1781 items and there was a proposal before the cabinet to remove 1800 more by March 20, 2002, way ahead the initially scheduled dealing of the end of the plan in 2005.

3. Energy Price Adjustment Analysis: Energy border prices are 4 to 5 times higher on average than domestic prices and subsidies are estimated at more than 12 per cent of GDP. Energy price adjustments, however, have proven to be highly sensitive politically given their high and widespread impact on the population, and the fears about ripple through effects in the economy. Proposals for price adjustment were presented to the Majlis over the past two years, but were rejected on these grounds. However, a committee has been set up to evaluate the effects of alternative adjustment strategies and develop compensating strategies to cushion the effect of energy price adjustment.
Energy price adjustment will remain a critical step to the credibility of the reforms and their feasibility, not only because it removes a major source of resource allocation distortion in itself, but also because it would provide a critical source of financing of the economic and social costs of the overall reform process.

4. Financial Sector Reform Analysis: The authorities are following up on their commitment to strengthen banking supervision and reform prudential regulations. An institutional and capacity building plan has been prepared. To strengthen the banking system, the government has re-capitalized the state-owned banks with Rials 5 trillion. Two private banks were licensed and the central bank is considering other applications. The government has also significantly reduced its share equity (to 10 per cent) in one of the state-owned bank in favour of its partner the social security organization; the latter is planning to float its shares in the Tehran Stock Exchange (TSE). In 2000-01, a floor rather than a specific rate was established on banks’ lending to the services sector. In addition, banks are allowed to issue special certificates of deposits to the public. The rate paid by banks on these certificates of deposits and the lending rate of the mobilized deposits will not be subject to restrictions.

Privatization and HR

Privatization is a fuzzy concept. It covers a wide range of ideas, programmes and policies. In the broad sense of the term, privatization is roll-back of the state in the lives and activities of citizens and strengthening the role of markets. In the narrower sense, privatization is transfer of ownership from the public to the private sector, or transfer of control over assets or activities as in the case of privatization through leasing, where ownership is retained, leaving management of assets and activity to private parties.

Privatization has emerged as major public policy issue in the eighties. The term “privatization” was first used by Professor Peter Drucker in theoretical concept.

---

But Margaret Thatcher of Britain was the first to implement the idea of privatization in 1979 during the year the nationalized industries in the country accounted for about a tenth of GDP, a seventh of the total investment in the economy. She has confined the process only to those public enterprise units or parts which were making profits; loss-making enterprises were retained by the government for better performance and improved profitability.10

Privatization has been an important component of the transition of the Eastern block countries (the former Soviet Union and East European Countries) from socialism to market economies. Poland has been in the forefront of major privatization efforts undertaken in the Eastern in the last few years. Hungary and Czechoslovakia have also adopted privatization programme in 90’s. In Rummania 50 per cent of the State owned housing has been sold at nominal costs to its residents.

Japan, Pakistan, South Korea, India, Bangladesh, Iran also adopted privatization. Some countries christened privatization differently for example “prioritization” (Australia); “industrial transition” (Bolavia), “de-sta-tization” (Brazil), “popular capitalism” (Chile), “economic democratization” (Costa Rica), “Partners-in-development” (Egypt), “disinvestment” (India), “disincorporation” (Mexico), “assets sales programme” (New Zealand), “people-ization” (Sri Lanka), “transformation” (Thailand), “restructuring” (Tunisia), and “de-nationalization” (UK).11

Privatization has been used to mean sale through public offer of a part or whole of the capital by government out of its total holding of shares at a fair and reasonable price. Thus, underlying idea of privatization is to transfer the control of the government companies to non-government management.12

Privatization offers a number of advantages. It is expected that it will encourage competition and thereby improve the efficiency of business and usher a new era of economic development in which high quality goods will be available to consumers at reasonable prices. It will also contribute in reducing public deficits,
eliminating political interference, generating cash and widening of the ownership of economic assets. Thus, the following are the objectives of privatization.\textsuperscript{13}

1. to increase competition;
2. to reduce the role of the state in the economy;
3. to increase productive and operating efficiency;
4. to increase domestic and international business confidence;
5. to broaden domestic equity ownership;
6. to raise cash through public enterprises;
7. to relieve the financial and administrative burden of the government; and
8. to facilitate economic growth.

The policies, programmes and modalities of privatization vary considerably from country to country. The following are the methods of privatization: \textsuperscript{14}

1. Sale of Equity: This mode of privatization applies to government companies and it results in the transfer of three organization-related components, namely, management responsibility, assets and personnel.

2. Sale of Assets: This method can apply to any kind of government organization, be it a company or any other type of entity. It may or may not involve the transfer of all the three components.

3. Lease of Assets: This method involves the transfer of rights to use the assets for specified period of time in return for specified payments. Lease rentals are based on future business prospects and not on the current value of the assets and the payments are calculated on the basis of a stream of income and expenditure flows over the lease period.

4. Management Contract: This method of privatization involves contracting of private sector managed expertise for a specified fee. It entails the transfer of management responsibility and generally may not involve transfer of personnel.


\textsuperscript{14} Ibid., p.5.
The privatization has been heavily conditioned by one constraining factor or the other in the cross-section of countries in the developing world. Some of these are considered below.

1. Development Planning: A basic limit to privatization comes from the kind of development planning in the country. Most developing countries have economic and social development plans—usually the five-year plans. The essence of such plans is to inject in the economy forces of development that would not materialize if left to the market. Privatization, in the sense of marketization, is obviously an opposite concept. If this should succeed, planning which introduces wide-range ‘administered’ interventions in economic development should be given up, or there should be material relaxations in its mandatoriness. Few governments in the developing world can ignore the imperatives of the objective of national well-being. And it would be necessary to devise techniques of sub-serving the objectives of planning, despite privatization. This would not be easy but an attempt could be made so as to promote privatization through appropriate non-divestiture options. It is also possible that the divested enterprise is brought into a contractual relationship with the government in respect of the ‘socially desired’ input and output objectives. In other words, the cost involved of the non-market-oriented but socially desired activities would be met through the budget.

2. Efficacy of Private Enterprise: Divestitures tend to be under constraints where the private sector to which enterprises may be transferred exists but its efficiency is not demonstrably clear. The private sector depends on disproportionately large funding from financial institutions in the public sector. It derives profit more from protected markets than from technical efficiency. Management is not professional, by and large, and ownership is so family-oriented that privatization is nick-named in Nepal ‘family-ization.’ The role of private enterprises in technology development has been relatively low. Tax evasions are substantial; and considerable sums of foreign exchange earnings are hidden away in foreign accounts. Further, the private sector is confined, by and large, to the categories of trade and secondary or light
manufacturing industry, leaving the more basic, and slow and low yielding activities in the lap of the public sector.

3. Overall Economic Policies: Privatization would have a limited chance of success, (i) unless the overall economic policies of the government are conducive to competition in input and output markets, (ii) unless there is adequate freedom for the entry and exit of foreign capital and for the conversion of the local currency into foreign (hard) currencies, and (iii) unless the financial institutions are so designed and regulated as to encourage economical financial management on the part of the enterprises.

4. Enterprise Culture: In countries long dominated by PE, e.g. East Europe and Russia, the enterprise culture that is appropriate to a market economy does not exist. Privatization in such cases is likely to have limited success pending an attitudinal change among the major actors – the bureaucrats, the owners, the managers and the workers. There will be continuing need of an interface between the bureaucrats and the enterprise, but this has to be qualitatively very different from the command-type intervention of the PE and central planning era. ‘Owners’ as a class have to be born and lived. Managers whose focus was on meeting the commands from above have to learn to behave by market disciplines. And workers, who have been generally characterized by poor work ethics, have to change into partners in enterprise activity, willingly exposing themselves to the risks of the market.

5. Policy Statement: Successful privatization needs a clear statement of policy concerning privatization. This simply does not exist in many countries. United Nations Development Programmes (UNDP’s) Guidelines on Privatization (1991), indicated the following to be covered in the policy statement: (i) brief review of the PES and its performance; (ii) objectives of privatization; (iii) modality options; (iv) criteria of the choice of privatization candidates; (v) macro implications {(a) the distributional consequences; (b) the impact on the exchequer; (c) compatibility with national development strategy; and (d) relationship to policies of administrative reform, liberalization and deregulation}; (vi) efficiency capabilities of domestic private enterprise; (vii) establishment of a high-level privatization advisory body; (viii) creation of a
technical cell for privatization with adequate resources; (ix) publicity for privatization decisions; and (x) techniques of implementation.

6. Sequencing: Privatization is not a one-day process. It takes years in terms of action and longer in terms of realizing the objectives. A well-conceived sequencing helps privatization as surely as an ill-conceived sequencing harms it. Sequencing is not to be understood in the limited sense of which enterprises to divest first and which next. It is much broader in connotation. For instance, is a PE to be put through the ownership, organizational or operational option, with reference to immediate change, change in the short run and eventual change? It has to go further, specifying the precise technique in a given case. Among the available variety of full divestiture, partial divestiture and then public offer, private sale, employee buy-out, appropriate choice has to be articulated, though not too rigidly. The role of foreign capital in privatization has to be spelt out.

7. Organizational Structure: For avoiding delays in transaction, the organizational structure should be free from ‘internal conflicts’. Different ministries have different priorities: for example, the finance ministry needs quick and high divestiture incomes; the pectoral ministry is keen on appropriate restructuring of given enterprises; the labour ministry is interested in minimum lay-offs and prior-devised ‘safety nets’; and the privatizing department might feel pressured in favour of quick transactions. Conflicting interests could lead to confusion and adhocism, they might delay transactions; and powerful ministries might adopt uncompromising postures.

In regard to organizational structure few other considerations are important. One, the policy-making level should be somewhat distinct from the implementation level. And policy guidelines should be made available to the latter, while implementing privatization in accordance with the relevant laws. Second, extensive centralization of implementation in a single agency might lead to slowness and undue standardization of techniques, or it might create a large bureaucracy. Third, the privatization agencies should be equipped with adequate technical competence. At the policy-making level this refers to the formulation of the policy statement and the design of measures aimed at
coping with the implications of privatization. Visualizing the impacts of
divestitures is an important part of the exercise. At the implementation level,
skills are needed in valuation, flotation, dealing with foreign capital and joint
ventures, promoting competition and exercising monopoly controls,
restructuring, monitoring privatization as it proceeds, and evolving appropriate
regulatory structures post-privatization.

Impact of Privatization in the Global Context

These are both at the micro and macro levels. The former would cover: (i)
profit, (ii) cost, (iii) price and consumer interest, (iv) enterprise growth, and (v)
technology. The latter covers impacts on (i) public exchequer, (ii) employment, (iii)
development strategy, and (iv) distributional structure.

Micro Level Impacts:

1. Profit, Cost and Price: The most important dimension of the micro impacts is
the efficiency expected to be realized in the wake of privatization. The
simplest and most publicized result refers to the profit earnings of a privatized
enterprise. Yet the question remains how efficient have the operations been?
Profit may arise even without efficiency being attained in several directions.
The cost may not be low enough, but this does not worry the private owner if
he can achieve the desired profit through a combination of other
circumstances, including monopoly power and high prices. But it would be
desirable for the owner himself to achieve high productivity by the use of
resources – men, materials and machines. The main question would then be to
ensure whether improvement have been effected in these areas over the pre­
privatization levels. It must be necessary to establish that this happens in the
interest of the nation and the consumer. There ought to be adequate
competition in the sector of concerned activity for achieving the required
degree of efficiency. If privatization is mere a transfer of PE into a private
monopoly (full or significant) the benefits attributable to privatization would
not be realized in terms of low prices and low costs. If there is no effective
agency for controlling monopoly practices, the recorded profits cannot \textit{ipso facto} be treated as an index of efficiency or gains.
2. Enterprise Growth: The next dimension of micro impacts is the rate of growth which the privatized enterprise achieves from year to year. There is, of course, no reason why an enterprise should keep expanding; what matters to it is the rate of profit. If this is likely to be high without expansion beyond a certain point, the enterprise may decide not to expand. It might even restrict the output in an attempt to maximize its revenue. Whether this is right from the national point of view would be a matter for consideration. The situation can also be on opposite lines. The privatized enterprise might decide to expand, even if at increasing cost, i.e., even at declining efficiency, as long as its market control assures it a good profit. Such supra-optimal growth is not desirable from the national point of view. The criterion to measure the impact of privatization therefore has to be conceived in terms of growth consistent with the economics of production, rather than of profit potential in a given market situation.

3. Technology: The last qualification to the profit index comes from the area of technology. The profit rate might be indifferent to, and might not be the result of technological progress or R&D efforts on the part of the enterprise. Once again, the assumption is that the free market system is not effective enough to drive a technologically static enterprise out of the field with the advent of a technologically dynamic enterprise.

To sum up, the impacts of privatization have to be visualized in terms, not of profit alone, but of cost, price, consumer interest, growth, and technology. Not every one of them is equally important in every case, but they have to be viewed for the sake of a balanced view on the recorded post-privatization profit.

Macro Level Impacts:

Macro impacts are important for the economy as a whole and are linked with the country’s long-term interests. These are more relevant for countries with low income, large population, considerable unemployment, and with wide income disparities.

1. Public Exchequer: Regarding the first dimension of macro implications of privatization, the popular generalization is that it improves the situation of the public exchequer. It reduces the budget imbalance, and relieves the
government of the need to find resources for investment in more desirable sectors. The primary issue here is whether the disinvested PE is a profit-making or a loss-making unit. In the latter case, the immediate effect of divestiture will be to relieve the government of the burden of subsidizing the PE. This will be a recurring gain as well, assuming that the PE was a chronic drag on the budget and was likely to be so in the foreseeable future. If the divestiture price equals the government’s investment in the enterprise, and if it is utilized for repaying a corresponding amount of public debt, the budget will save the debt-servicing charges and the relief mentioned just above would be realized. However, if the divestiture price is lower than the government’s investment and the corresponding figure of public debt attributable to it, a portion of the debt continues after divestiture, and the budget continues to incur debt-servicing costs on it. This is the most likely possibility, because a losing PE often gets sold at a relatively low price. If, for any reasons, the divestiture brings a price higher than the investment and the corresponding figure of public debt, the budget gains from the transaction to that extent.

In case of a profit-making PE, divestiture saves the government debt-servicing costs but at the same time it foregoes profits that have been coming in. On the assumption that the profits have been higher than the debt-servicing costs, year by year, the budget sustains a net disadvantage. On the lines of the earlier analysis, if the divestiture price exceeds the investment and the corresponding quantum of public debt, the direct gain to the budget on grounds of debt-servicing charges saved will be higher; in the opposite circumstance it will be lower. Likewise, if the future profits are expected to take an upward turn, the disadvantage to the budget will increase, in the opposite circumstance, it will decrease.

The argument so far has implied that the government uses the divestiture proceeds for repaying the public debt. But this may not happen and the funds may be used for (i) meeting or adding to current expenditures, (ii) for financing reduction in certain tax rates, or (iii) for capital expenditures. The first direction of use is what generally tempts some persons to claim that divestitures are a source of fiscal benefits and that the burden of fiscal deficits
is thereby erased. This is true in a limited sense. The divestiture proceeds are capital incomes. They dry up as time goes by. Further, as they are applied to current purposes (i) or (ii), the figure of public debt attributable to the divested PEs remains undiminished and the debt-servicing costs will continue to stay in the budget. As time passes and the divestiture proceeds dry up, it will be difficult to maintain the additional commitments of current expenditure and/or the tax reliefs. If the funds are used for capital expenditures, the costs of prevailing public debt continues; and whether the budget drives any offsets through its capital expenditures depends on where these are directed. If they are in the nature of commercial investments, there is just a substitution of one investment for another; and the impact depends on the annual in flow of profit returns from the new capital expenditures. If, on the other hand, the capital expenditures do not produce significant returns year by year, the net effect is likely to be less favorable or adverse. There is one claim of fiscal relief which is real, namely, that divestitures relieve the public exchequer of the need to find funds for additional investments in the PE divested.

As PEs gets divested over time, the profile of fiscal impacts varies correspondingly, from year to year. Assuming that divestitures cover more of profitable than losing PEs, the budgetary legacy would progressively be one of adversity, for the burden of the losing PEs disproportionately stays, while the benefits from profitable PEs are disproportionately lost. This is an important aspect of impact estimation and is closely connected with the concept of sequencing in respect of divestitures. The point gains significance when we find that the list of PEs likely to stay long in the lap of the government is expanding and these PEs are on the side of low-yielding and losing operations, while the PEs slated for divestiture are clearly the financially superior ones.

2. Employment: The impact of privatization on employment is most likely to be negative. Retrenchments may start before divestiture and continue thereafter. For an individual privatized enterprise, labour economies, like any other kind of economies, are worth pursuing. But their impact, namely, an addition to the volume of unemployment is what the economy as a whole has to sustain.
 Payments for redundancies alone do not meet the situation. There are many social and political implications of retrenchments due to privatization.

3. Development Strategy: One of the serious concerns that privatization can raise in many developing countries related to the technological bias of industrial activity. It is well known that technology development, limited as it has been, has so far emerged from the efforts of PEs. We run the risk of a loss of initiative for R&D on the part of many privatized enterprises, whose immediate interest in profit lures them to choose technology options most economical to them in the short run. These can be either simple technologies or turn-key imports of technical know-how. As such tics repeat themselves from year to year; the prospects of technology planning with an eye on the long run and on national technological excellence can suffer. This requires cautious policy decisions on (i) whether to insist as a condition of divestiture that the new owners guarantee an agreed schedule of technology development, or (ii) whether the government can set up some national technology fund, built out of general or pectoral levies, so that, without reference to choice on the part of the individual enterprises, the desired pattern of R&D expenditures can be made possible in the economy as a whole or in specific sectors.

As the economy gets progressively privatized, it is possible that private investments flow more into light manufacturing than into basic industry. In the absence of such public investments in the latter, the industrial structure of the nation would be too lopsided on the side of light manufacturing; and the development of capital and intermediate goods industries might be dwarfed. Likewise there might be a spurt of investment activity in the more lucrative regions in the country, while the relative backward region lags behind in attracting private investments. If the privatization practices preclude public investments in such areas, these areas are likely to remain the backwaters of industrial investment.

4. Distributional Structure: Where a profitable PE is divested, the private sector owners begin to enjoy the benefits of the profit incomes, minus the interest costs of capital, which used to accrue to the public exchequer. Thus, there is a shift to benefits from the taxpayers to the investors. If the cross-section of
investors is richer than the average taxpayer, the income redistribution effect is unfavourable. Additional receipts from tax on increased private incomes, no doubt, flow in, but in the pre-privatization era all profit incomes flowed into the public exchequer or were retained in PEs. Where the PE is making losses, the conclusion would be opposite. The taxpayer, who was bearing the burden of the loss, will be relieved of it. To that extent there is an equitable distributional effect.

The conclusion concerning profitable enterprises rests on two assumptions: First, the persons who are having more divested shares on an average, they are richer than the average taxpayer. The second assumption is that the use of profit incomes at the discretion of the new owners (in the private sector) is, on the whole, likely to be less equitable from the distributional angle than if the same resources were in the hands of the government. It may however be said that budget measures are possible whereby the inequity of the income shifts can be mal-owed.

Regarding managerial compensation, there is a tendency for steep increases because of privatization. In an economy where income disparities are high, these increases are likely to be resented on distributional grounds. In a country like India, where the public sector has been relatively large and top salaries subdued, the new salary trends might appear to be distasteful.\footnote{Narain, L., op. cit., pp. 290-296.}

**Privatization Policy and its Practice in Iran**

The history of privatization in Iran in general, dates back to the law ratified in 1975 pertaining to the expansion of transfer of manufacturing units. The law provided that up to 99 per cent of the government’s ownership in non basic industries, as well as 49 per cent of the stocks of the private sector is transferred to the blue-collar workers as well as to other segments of the population. The sub-article 32 of the First FYDP in 1989/90 was the first legal fulcrum for adopting privatization policies in the country. The essence of this sub-article which was derived from the context of the relative articles and the description of the guidelines contained in part one of the law, was the separation of the governments’ authoritative duties from its executive responsibilities. The execution of the sub-article 32 led to the centralization of the
related matters at the office of Deputy Minister of Economy and Finance handling the issues related to government companies.

In June 1991, the Cabinet issued a decree. This decree was aimed to increase productivity of various activities, and a reduction of government responsibilities in non-essential economic and service related activities, creation of an economic balance by transferring government owned stocks in government organizations and companies. According to item 3 of the decree, guidelines for transfer of 33 per cent of transferable stocks to the blue-collar workers at a median price, were established.

In January 1992, the cabinet issued a new decree which established the organization charged with the privatization plan, the method for calculating value of the stocks and pricing, as well as the transfer of secretariat.

The laws governing the procedures for transfer of the government owned stocks to Isargaran and the blue-collar workers ratified in August 1994 were the subsequent steps in connection of laws and regulations relating to privatization. The sub-article 35 of the national budget bills for the years 1998 and 1999 covered all the remaining issues and regulations relating to the privatization program which were approved by appropriate authorities prior to the start of the Third FYDP. Based on the sub-article 35, a committee headed by the President and consisting of the Minister of Economy and Finance, the Governor of the Central Bank, the head of the Management and Planning Organization.

Paragraph F of the sub-article 2 of the 2000 national budget bill, authorized the implementation of the above mentioned article 35, until the establishment of a privatization organization which was to be concluded by the end of the year (March 20, 2001). The paragraph concludes regulations in this area prior to the implementation of the Third FYDP.

The law governing Iran’s 3rd Economic, Cultural and Social Development Plan, in its second and third chapters, includes 23 articles that deal with the reorganization and efficiencies of government companies and the transfer of stocks owned by ministries, government organizations, and government owned companies, also referred to as the privatization program.

The contents of these two chapters sets guidelines for appointment of organizations that would be charged with drawing up policies, procedures and
implementation, in connection with restructuring of government owned companies as well as the offering and sale of their stocks. The cabinet and the high council of transfer (subject of the article 12 of the above law) including the minister of economy and finance (the council chairman), the head of the Management and Planning Organization, the Governor of the Central Bank, Minister of Relevant Ministries, Minister of Justice, members of Majlis Economic, Planning and Budget, and Auditing Commissions, as policy-makers, and the Salient Specialized State-Run Companies and the Privatization Organization are appointed to be in charge of the affairs relating to reorganizations and transfer of stocks.

In the light of the above mentioned law and its implementation regulations, it has been resolved that the state-run companies be reorganized within the specialized mother companies and managed under the relevant ministries and within the frame work of relevant constitutions.

Following the restructuring and establishment of the base price, the privatization organization based on the article 15 of the law, will emerge as a result of change of function of expansion of transfer of manufacturing units, which will have power of attorney for the transfer stages.

Unlike its earlier counterparts, the new law introduces a privatization organization, which is an independent guardian institution in turn should execute policies approved by the cabinet and the high council of transfer through controlling the transfer of stocks.

The transfer law in the Third FYDP has been anticipated to encompass prioritizing a few individuals and groups including employment generators, competent directors, the blue-collar, specialized groups, etc. undertaking the management and task of renting state companies, expending procedures of the stock sale revenues, an arbitration panel, commenting and judging individual complaints at the transfer, safeguarding the transfer authorities against any of their unintentional mistakes.

The Finance Department for Promoting Ownership of Manufacturing Units (FDPOMU) titled Privatization Organization in the Third FYDP was initially kicked off in 1975 as a state enterprise affiliated to the ministry of economy, finance and treasury subject to the Note 4 of the single article concerning promotion of ownership
of manufacturing units. By and large, it targeted participation of workers in their factories ownership granting funds and pioneering measures (listed below) to hit the goal.

1. Paving the way for the workers and farmers to possess manufacturing units through the concerned law ratified in 1975.
2. Transfer of stocks to manufacturing units’ personnel to execute the note of paragraph 3 in a bill approved by the cabinet in June 1991.
3. Transfer of stocks to manufacturing units’ staff after Note 3, Article 6 declaring the transfer procedure to the Isargaran and workers.
4. Fulfilling Note 35, paragraph ‘J’ of the budget bill passed in 1999, the secretariat of the Note 35 committee manages and runs the FDPOMU.
5. Subject to Article 15 of the Third FYDP, the charter shake-up in FDPOMU, breeds, sets title, switch to ‘Privatization Organization’.

To hit the set targets, thanks to the steps taken by the organization including granting loans and funds, a portion of manufacturing units in various industries namely foodstuff, pharmaceutical, developing chemicals, textiles, home appliances, entertainment, vehicles and non-metallic mining items have been traded. The steps brought about the transfer of shares worth over 648 billion Rials from 180 manufacturing units to 359,270 workers from 300 workplaces.\(^\text{16}\)

Privatization and the First FYDP (1989/90-1993/94): The primary objective of the FFDP was to remove the legacy of the economic burdens brought about by the Iraqi invasion of Iran. It was within this context that the First FYDP envisaged an annual growth rate of 8 per cent. It created of some two million new jobs, the rehabilitation and expansion of new industry and greater de-centralization and private sector participation. The First FYDP drew up targets for every economic sector as well as identifying key areas needing reform encompassing such areas as:\(^\text{17}\)

1. It is of note that even today, less than 1.6 per cent of Iran’s GNP is allocated to defence and has remained unchanged for the past four years;
2. The move towards privatization of economy through the gradual reduction of governmental activity in the economy and the transfer of state controlled industries and enterprises to the private sector;
3. Price liberalization of commodities and elimination of subsidies;
4. Trade liberalization through the elimination of superfluous and formalities;
5. Increase in the export of manufactured goods, growth in the agriculture sector; efficient utilization of existing industrial capacity and the attraction of new investment into this sector; and
6. Re-construction of war-torn regions and major new investment in the nation’s infrastructure.

The means by which such objectives were to be carried out varied, however some of the key channels included the transfer of ownership of portions of government ownership in industries and institutions to the private sector via the revival of the stock exchange, removal of subsidies on almost all but the most basic commodities and the like.

Despite a number of obstacles, including increase in population, multiple rates of foreign exchange and inflation brought on by liquidity expansions resulting from vast investment undertakings in industrial, agricultural and major infrastructure projects, the First FYDP has been hailed as a success. Major achievements included:
1. The successful transfer of a significant number of public sector industries to the private sector;
2. An increase of 7.3 per cent in GDP annually;
3. An increase of per capita GDP from 197,000 Rials at the start of the plant to 246,000 Rials in 1993;
4. Increase in private consumption to 7.7 per cent in public consumption to 5.5 per cent per annum;
5. A change in the ratio of fixed gross domestic investments to GDP from 12.4 per cent in 1988 to 16.3 percent in 1993;
6. Growth in agriculture at an annual rate of 5.9 per cent; industry at a rate of 9.1 per cent; water, gas and electricity at 18.9 per cent; and transport at 11.9 per cent.
7. An almost doubling of financial resources allocated for research in energy, education, and telecommunications from 0.18 per cent to 0.34 per cent of GDP.

Privatization and the Second FYDP (1995/96-1999/2000): The Second FYDP was drawn up specifically with the achievements of the First Plan in mind. To incorporate necessary revisions, there was a delay of one year for the Second Plan which was envisioned for 1995/96 to 1999/2000, development and administrative expenditures was $ 135.5 billion, greatly outpacing the expenditures accommodated by the First Five-Year Plan. The Second Plan was based on projected oil revenues of $ 86.5 billion.

Priorities of the Second FYDP included the completion of infrastructure and development projects initiated under the First Plan including the allocation of some $59 billion to development projects, 11.4 times higher than budgets allocated to the same sector under the First Plan. Additionally, the allocation of over $76.4 billion towards social, administrative and other expenditures represented an increase of over 580 per cent.

The significance accorded to development projects in the Second FYDP indicated a focus towards the need to attain a higher development of local technology and development of local industry. The Second Plan also appeared somewhat conservative on revenue estimates in light of the First Plan’s inability to attain projected revenues as a result of the slump in oil prices that took place during the First Plan. This more conservative approach was expected to strike a better balance between revenues for the 1995/96 to 1999/2000 period in which a reduction in budgetary deficits of some 82.6 per cent lower than the First Plan was envisaged.

It was believed that during the period of the Second Plan, ongoing and newly commissioned projects that were initiated during the First Plan were expected to mature to the point so as to start contributing to the national income, further increasing the flow of revenue. This projection could be best exemplified by the fact that key investments under the First Plan have led to increased production in oil, refining, petrochemicals, communication systems, railroads, sea and air networks and heavy industry that had begun to contribute to the national income. These
achievements exemplified in the sectors such as steel and petrochemicals where importation was no longer necessary and in turn surplus output was exported.

Foreign Trade: Based on the estimates made in the Second Plan, the foreign exchange earned from oil was $ 72,658 million and the earnings from the export of non-oil products amounted to $ 27,527 million. As such a sum of $ 91,979 million had been set aside specifically for imports during the Second FYDP reflecting a yearly increase of 4.3 per cent per year.

Oil/Non Oil-Exports: During the Second Plan, the average annual export of oil grew by 3.4 per cent and that of non-oil products by 8.4 per cent.

Money & Credit: The net foreign assets and net assets of the Central Bank of Iran (CBI) during the Second Plan remained fixed. Considering an expected net debt of 3.8 per cent to the CBI and a net debt of 18.1 per cent by government to the CBI and a growth of 33.6 per cent in bank loans to the CBI, liquidity increased by 12.5 per cent. Taking into account the growth in GNP and liquidity, the average annual rise in prices is 12.4 per cent.

Promotion of Export Facilities: Under the Second Plan, the Export Guarantee Fund and the Export Development Bank were strengthened and backed by a comprehensive export insurance system.

The Environment: In light of global efforts at protecting the environment, the Second Plan attached special importance to environmental protection, primarily in the areas of air and soil pollution.

Maternal Education and Training: The Second Plan was somewhat unique in that it played special attention to the important role that mothers are to play in the shaping of society and its human resource. Thus comprehensive educational programs aimed at the complete eradication of illiteracy among young mothers were listed as a national priority.

Infrastructure and Communication: Allocation was provided to these sectors with the aim of laying the foundation for the long term needs of the country (up to the year 2020) in infrastructure, communications, transportation etc. and other vital sectors.

The Structure of Government: One of the aims of the Second Plan was the paring down of Government (through reductions in recruiting, elimination of
unnecessary and wasteful programs etc.) and the transfer of many governmental functions and services to the private sector.

Performance of the Second Plan: Despite a sluggish start at the beginning of the Plan, real GDP picked up by 7.5 per cent in 1995/6 with the commissioning of hundreds of large and medium size projects that were initiated in the First FYDP, particularly in the metals, petrochemicals and industrial sectors where value-added surged by 6 per cent in 1995. Highlights of the performance of the Second Plan in comparison to the First Plan reflect the continued utilization of economic growth targets set in the First Plan, however with a greater focus on fiscal policy aimed at the reduction of government borrowing, thus easing demand pressures and reducing inflation. The latest results of the Second Plan in comparison to the gains of the First reflect the following achievements:

1. Meeting Project Revenue Forecasts: During the period of the First Plan, approximately 94.2 per cent of predicted revenues were realized. In 1994, this level had reached 98 per cent of targeted income and in 1995 the figure was 99 per cent especially following increases in tax revenues and increased oil income.

2. Elimination of Budget Deficits: Throughout the period of the Iraqi invasion of Iran, the high financial cost of the war forced the government to run up substantial budget deficits, reaching as high as 8 per cent by 1988. Since the end of hostilities, the deficit was cut to 1 per cent of GDP in 1992/93 and eliminated by 1994/95. The 1996 budget was successfully nominally balanced.

3. Increased Revenues: A 7 per cent increase in tax revenues above predicted figures 1.45 per cent increase in oil income and a 17 per cent increase in the export commodities.

4. Trade Surplus: In 1991, Iran ran a huge trade deficit with total imports amounting to $25.2 billion and that of exports to $18 billion. In 1995, these figures were reversed as total imports amounted to $12.8 billion and exports exceeded $18 billion.
Globalization and HR

The term globalization was first used in 1990s but it has its roots in the 1970s. In 1971, when Richard Nixon was the President of the United States, the Breton Woods System broke down and the monetary system whereby money was backed up by gold and was stable, collapsed, exchange rates became floating and markets began to deregulate. Privatization, deregulation and free market became the subjects of the day for politicians. The achievement of the war-torn economies of Germany and Japan, the frustrations facing the socialist economies and the backward economies of the Far East managed to prosper through free market policies and these developments led to inclinations towards greater freedom in economy and trade. The collapse of the Soviet Union in early 1990 was the final blow to regulated economies and one important factor in the emergence of the process of globalization.

In fact, many factors were involved in this emergence. Some economists believe that the main reason for globalization was the rapid expansion of the financial market in comparison with that of worldwide trade and production. Early in the 1970s the amount of financial transactions was six times as large as world trade. In 1995 it was 50 times as large as total trade in goods and services. Furthermore, capital transfer had changed from local investments to cross-border investments. The second reason was the collapse of the socialist system, which gave tremendous speed to the process. The third factor or perhaps the major reflection of the process of globalization was the emergence of multinational companies. Investments were made abroad with the primary objective of reducing costs. For example the average rate of growth of foreign investment was 4 per cent in early 1980 and it rose to 24 per cent in 1990. FDI world-wide amounted to 159 billion US $ in 1991 which shows a growth of 84 per cent over the previous five years. The fourth factor in the emergence of globalization was the rapid progress made in IT, communications and transportation of good. For example, the cost of a 3-minutes telephone conversation between New York and London in 1930 as compared to 1996, at 1996 fixed prices, was 300 times larger. Ease and speed of telecommunication and transportation have remarkably shortened distances. The fifth reason for globalization was the environmental change including the green-house effect, deforestation, the acid rains etc. which do not concern any one country alone, but the whole world. The sixth reason for the
emergence of globalization was and is the emergence of regional cooperation unions/association such as the European Union (EU), North American Free Trade Area (NAFTA), Association of Southeast Asian Nations (ASEAN), Economic Cooperation Organization (ECO), which emphasized eradication, as far as possible, of trade barriers. The most notable of such unions is the WTO. The seventh reason was the rapid expansion of the worldwide tourist industry, whose total revenue in 2000 surpassed 500 billion US $. France alone earned 40 billion dollars that year.18

Globalization has given rise to varied mutual and bilateral relationships, such as that and development in any part of the world is bound to affect every other part of the globe. It has created the right conditions for worldwide competition in which only the best-organized and the most efficient companies can survive. It has also resulted in a reduction in the influence of governments over economies. The colossal and rapid moment of capital worldwide has declined the power, the local banks used to have over rate of interest and the banking systems in general.

Today, no country can enclose itself within a real or virtual wall and go into seclusion because the economy of each country is related to and dependent on those of the others. Globalization is a dynamic and organic process and its totality is a great deal more than the sum of its parts. It has given support and strength to Non-Governmental Organizations (NGOs) which are becoming effective levers in protecting the people and acting as bridges between the people and the governments.

The most outstanding achievement of globalization is that it has gone beyond economies and nationalities to encompass international politics, and social and cultural affairs. In politics, globalization has helped check dictatorships and vested interests. Good or bad, globalization is an on-going process that is bound to shake up all countries particularly the developing nations. What to do to best encounter this shock in a developing country like Iran? It appears that one way of facing the process of globalization and the power of WTO would be to have larger and larger trade unities such as Group 77, Group 24, UNCTAD etc... to give the member countries greater negotiating powers. At the same time developing countries must accept that globalization is an inevitable characteristic of today’s modern international relations.

It cannot be stopped and not to be joined would mean remaining behind in the mud. You simply have to accept it, adapt it and make the best of it.

Perhaps the most unique feature of globalization is the growing concentration and monopolization of economic resources and power by the Multinational Enterprises (MNEs) and the global financial firms now termed as ‘transnationalization’.

The new technology combined with deregulation and privatization has also contributed to uneven effects of globalization all over. But globalization goes with opening up countries, expanding trade and finance and more outward-looking policies.

Really globalization process is neither a linear or homogenous process of increasing global integration. In the north as well as the south, domestic economies alternated between the global and national, regional markets over the past 500 years. As Hirst and Thompson recently observed several cycles of upswings and downswings in the movement of international integration, globalization was intense from 1870 until 1914, followed by a prolonged period of shift to national development from the late 1920s to the mid-1940s and then followed again by an increasing and uneven effort from the 1950s to mid-1970s to a return to globalisation.19

Hence globalization today as in the past has always been confined to selected geographical areas; the MNEs are concentrated in the industrial world and in scattered enclaves throughout the underdeveloped nations. Most people are outside the system and the ranks of window-shoppers and the jobless are growing faster than global army of the unemployed.20

The term globalization alone implies a trend of expansion from an earlier system based on smaller units of analysis like nation states or regional blocks to a system existing worldwide. This factor limits the span of issues that are feasible to consider in this fashion. Globalization cannot occur in systems that are already global in scope. In such cases, a given analyst may actually be attempting to describe a

condition of increasing integration between constituent elements within the system. This difference is an important element in the confusion that is so much a part of the area itself.

According to Anthony McGrew, “Globalization refers to the multiplicity of linkages and interconnections between the states and societies which make up the present world system. It describes the process by which events, decisions, and activities in one part of the world have significant consequences for individuals and communities in quite distant parts of the globe. Globalization has two distinct phenomena: scope (or stretching) and intensity (or deepening).”

The second step towards a more precise definition for globalization involves looking at its traditional usage. In terms of its intellectual history, the mainstream literature concerned with globalization tends to have a Marxist heritage with minor Weberian undercurrents. As one would expect, this scholarly foundation compels theorists in this area to perceive in this change in the “dynamic density” between nations largely in terms of production relations.

The so-called “globalization” of capital halls into the category of being a trend of integration, since the emergence of the modern international political and economic systems in the late 1500s, capital assets has been notoriously difficult to restrict to national borders. The only difference between the beginning of this dual system and the contemporary time period is the velocity of capital’s application and its distribution of costs and benefits. Put more simply, the vehicle for capital has moved from physical to electronic transport and the volume of capital transactions has increased accordingly. Thus, international capital is merely going through a process of enhanced integration, not a “new internationalization of capital”.

Labour is another case altogether. In the early period of the dual system, domestic firms used domestic labour efforts with general capital assets to produce goods. As the period has progressed, however, domestic labour inputs have been increasingly combined with international labour inputs to produce goods for firms with organs outside the domestic environment, foreign firms and multinational corporate entities that appear to be “nation less”. The scope of international labour

---

involved in this type of production is continually growing as more and more countries throw aside state development schemes in favour of the market-based alternative. It is apparent that a new internationalization of labour is taking place as local labour efforts now are used to promote globally consumed goods.

The Relevance of Globalization to HRM in Human Capital Extent

The following factors that affect HRM in global markets are identified as such: (1) Culture; (2) Economic system; (3) Political system; and (4) Human capital.\(^\text{23}\)

There are many factors, which determine the capacity of a country for economic growth and development. Namely, availability of capital, raw materials, power, market, machinery and equipment, entrepreneurial ability, technical and skilled HR. The three broad heads under which those determinants of growth can be grouped are human, physical and financial. Of these three key resource-factors which determine a country’s capacity for economic growth and development, the HR factor appears to be in the final analysis the most strategic and critical. A country may possess abundant and inexhaustible natural and physical resources and the necessary machinery and capital equipment but unless there are men who can mobilize, organize and harness nature’s bountiful resources for the production of goods and services, the country cannot make rapid strides towards economic and social advancement. Thus, one of the major tasks confronting the developing countries is the building up of “human capital”.

There is, a long drawn-out controversy among economist, whether HRs are explicate form of ‘capital’; whether the significant difference between the concepts of ‘human capital formation’ and ‘physical capital formation’ warrant differential treatment in economic analysis; whether it is at all useful and meaningful to treat investment in HRs in the same manner as investments in physical resources and build up estimates of ‘human capital formation’ like the estimates of ‘physical capital formation’. Some have questioned the feasibility of treating HRs as a form of a capital, in view of the formidable difficulties involved in the identification and

measurement of ‘human capital’; others like Professor Hoselitr has warned that the concept of human capital particularly in the developing countries, where there is so much unemployment and underemployment, be applied with extreme caution; while others like Professor Shatter feel that even if it were possible to overcome the difficulties in calculating the return on investment in human beings, would it be advisable to do so and to attempt to use the result as a basis for policy decision.

Human Capital and Unemployment in Iran

Demography, rapid urbanization and a shift in the country’s economic structures are the main causes of growing unemployment in Iran. While government plans and policies are focused on dealing with this problem, analysts agree that high employment is a phenomenon that will not go away for at least one decade, until the pressures caused by demography are reduced substantially. Having said that, the question is whether high unemployment will lead to social and economic tensions that will undermine the country’s development over the next few years. The following item discusses the various initiatives that the government has taken to deal with the challenge of unemployment.

High unemployment and the associated social and economic phenomena have impeded the economic development of Iran for decades. The unemployment rate has not dropped below 9 per cent since mid 1960s and peaked at 14 per cent in mid 1980s. Today, official estimates range between 13.5 and 16 per cent.

Over the decades lack of employment has contributed to a variety of alarming trends such as a brisk rural-urban migration. The urban population grew from 32.9 per cent to 64 per cent in 1999-2000.

Rapid population growth during 1980s has added to the dependency of out-of-work population on the employed. Iran’s current workforce is 19 million, out of which 16 per cent are unemployed. This leaves 17.7 million people to earn the livelihood of 63 million, a ratio of 1 to 3.6.

As an increasing number of youth, born during the 1980s baby boom, reached economically active age, the unemployment concern becomes an acute crisis. While 692,750 job seekers entered the labour market each year. In 1996-2000, only 296,250 jobs were created annually.

For the next 15 years, some 750,000 to 800,000 and hence unemployment was multiplied new jobs will be per annum while even the strong overall growth during the last two years (March 2000-2002) has seen annual employment creation of only 400,000 – 450,000.

Creation of 750,000 to 800,000 jobs per annum would require a minimum real GDP growth of 6 per cent, which, in turn, can only be sustained through an investment ratio of some 30 to 35 per cent of the GDP. The recent history has seen the investment level linger at 14 -21 per cent of GDP (see Table No. 5.1).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment as % of GDP</td>
<td>20.9%</td>
<td>14.1%</td>
<td>16.6%</td>
<td>18.2%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Fixed investment as % of GDP</td>
<td>14.9%</td>
<td>15.3%</td>
<td>14.4%</td>
<td>13.5%</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

Source: Statistical Center of Iran, 1995-2000.

The Third FYDP pledged to create a gradually growing number of jobs every year, from 504,000 in the first year to 800,000 in the last year.

The government budget allocated for employment generation rose from Rials 670 billion ($ 84m) in 2000-01 to Rials 1420 billion ($ 177.5m) in 2001-2002. For 2002-2003 the council of ministers had approved expenditure of Rials 835 billion ($ 104.4m) or 0.13 per cent of the whole budget for job creation. Also, Rials 4.5 trillion ($ 562.5m) allocated to the banking system for investment in job creating projects.

In addition to these fund allocated funds from the government budget, a notable sum has been directed from the oil sterilization funds for lending to employment and export generating private sector projects.

The Third FYDP chapter on employment (Articles 48 to 57) suggests the following policies:

- Foreigners without work permits to be deported;

---

- Export of competent work force abroad to be encouraged;
- Lending for private projects to be facilitated by granting earmarked funds to Bank of Agriculture, Bank of Housing and Bank of Industries and Mines;
- Investment in employment creating and small scale industrial projects to be supported;
- Individuals unable to afford the equipment necessary in their occupation to be granted financial support;
- Private sector employment to be encouraged through reduction in employers share of premiums and elimination of salary tax from newly employed staff;
- Employment creation in departed regions to be encouraged by targeting government employment creation funds to those regions and granting regional investment exemption from duties and interest rate subsidies;
- Infrastructure utilities in industrial production to be granted preferential subscription charges;
- Establishment of training centers to be encouraged through interest rate subsidization; and
- Information on small scale occupations with low capital requirements to be spread through national media, especially broadcasting.

Liberalization, Privatization, Globalization (LPG) and IIR

The move towards market orientation (Liberalization) in many countries has been reflected in deregulatory policies by governments, including the stabilization or reduction of tariff barriers and its impact, facilitating the flows of capital and investment, and privatization of public sector enterprises.

Liberalization has proceeded or been forced by globalization (involving greater integration in world markets, and increased international economic independence). Both phenomena have been facilitated by the significant growth in
world trade and FDI in recent year, and by IT which has facilitated rapid financial transactions and changes in production and service locations around the world.\textsuperscript{28}

The determining role by the foreign investment in ensuring the development objectives is an undeniable fact acknowledged by the developing countries. The inward FDI bear a dual significance for the host country. Firstly, they reflect the confidence of foreign investors in production conditions and initiatives adopted by the host country to introduce the necessary adjustments to its social and economic structures. Secondly, the simultaneous actions by the same country to perform outward FDI would be regarded as a step to ensure its participation in the collective measures related to the globalization of economy and apply the required adjustments to its domestic structures.

As M. Haririan\textsuperscript{29} quoted “Reisen” in his scholarly paper entitled “The role of foreign investment and capital market in the process of privatization in Iran” presented in the 9th Annual Conference of the Central Bank of the Iran on the State Monetary and Exchange Policies, in 1999, that the FDI flow of a country raised as much as 3-4 per cent of its GDP, and improved the growth rate of the same country by 0.5 per cent. Table No. 5.2 indicates the FDI flow of some Islamic countries in the 90s.

\begin{table}
\centering
\caption{Foreign Direct Investment Flow}
\begin{tabular}{|l|c|c|c|}
\hline
Country & Duration & Total Capital Flow & Optimum Annual Capital Flow & GDP at the end of duration \\
\hline
Indonesia & 1990-95 & 8.30 & 3.60 & \\
Malaysia & 1989-95 & 45.80 & 23.20 & \\
Morocco & 1990-95 & 18.30 & 5.00 & \\
Pakistan & 1992-95 & 13.00 & 4.90 & \\
\hline
\end{tabular}
\label{tab:fdi_flow}
\end{table}

An independent study carried out by the United Nations came out with the result that the more extensive is the liberalization of the financial sector of a country, the higher would be the financial efficiency of the same country by ensuring improvement of the rate of the foreign exchange. The two mentioned developments, in turn, would secure an economic growth by the rate of 2.5 per cent.

\textsuperscript{28} Macdonald, D., Industrial Relation and Globalization (Bangkok: ILO Publications), 1997, pp. 4-5.

The net private capital flow in the developing countries amounted to U.S. $ 50 billion and US $ 235 billion, respectively, in the duration 1987-89 and 1990-96. Brazil, following Canada and Britain, attracted the highest amount of the U.S. investments during the above-mentioned periods. Moreover, Haririan, in his aforementioned paper, stated that the FDI share of the developing countries rose from 12 to 32 per cent during 1992-95 period.

Among the developing countries, Singapore was a prominent example in attracting foreign investments in the 60s on the pretext of being able to secure and utilize the domestic investments; Singapore became intensively interested to adopt an outward approach by liberalizing its economic system with the aim of drawing the foreign investments. As a consequence of the adoption and implementation of the mentioned policies, this country, according to Reiber and Islam (1991) managed to increase its industrial share from 20 to 30 per cent out of its annual GDP, during 1972-86. The average exports growth rate of the country too experienced a considerable growth, rising from the rate of 4.7 per cent during 1965-80 to 8.1 percent in the 1980-89 period.

According to the 1995 annual report of the Word Bank, there were only two Islamic countries Malaysia and Egypt and one developing country namely Turkey, who played an active role among the 30 countries of the world which conducted the major part of the global commercial services exchanges in the recent year. Among the three mentioned countries, Turkey by creating numerous incentives for the foreign investors, has given a high priority to foreign investments.

As Haririan asserts in the afore-mentioned paper, the FDI flow in Iran is not registered at a very high level. The figure concerning the accomplished FDI in this country amounted to a mere US $ 14 million in 1996-97 period. There were around 50 adopted production projects, with a total foreign asset of US $ 722 million, in the Iran from 1993 to October 1997 out of which only an amount of U.S. $ 40 million were actually availed.

---

30 Ibid.
33 Haririan, M., op. cit.
Impact of Information Technology on Human Development: Technology is not inherently good or bad, the outcome depends on how it is used. Some people argue that technology is reward of development, making it inevitable that the digital divide follows the income divide. Thus, as income rises, people gain access to the benefits of technological advance. But many technologies are tools of human development that enable people to increase their incomes, live longer, be healthier, enjoy a better standard of living, participate more in their communities and lead more creative lives. From the earliest times, people have fashioned tools to address the challenges of existence, from war to health care to crop production.

Technology is like education—it enables people to lift themselves out of poverty. Thus technology is a tool for, not just a reward of, growth and development.

Technological innovation affects human development in two ways (see Figure No. 5.1). First, it can directly enhance human capabilities. Many products—drought-tolerant plant varieties for farmers in uncertain climates, vaccines for infectious diseases, clean energy sources for cooking, Internet access for information and communications—directly improve people’s health, nutrition, knowledge and living standards, and increase people’s ability to participate more actively in the social, economic and political life of a community.

Second, technological innovation is a means to human development because of its impact on economic growth through the productivity gains it generates. It raises the crop yields of farmers, the output of factory workers and the efficiency of service providers and small business. It also creates new activities and industries such as the information and communications technology sector contributing to economic growth and employment creation.

Human development is also an important means of technology development. Technological innovation is an expression of human potential. Higher level of education makes especially powerful contributions to technology creation and diffusion. More scientists can undertake research and development, and better-educated farmers and factory workers can learn, master and use new techniques with greater ease and effectiveness. In addition, social and political freedom, participation and access to material resources create conditions that encourage people’s creativity.
So, human development and technological advance can be naturally reinforcing, creating a virtuous circle.\textsuperscript{34}

Figure No. 5.1
Links Between Technology and Human Development

![Diagram of Links Between Technology and Human Development]


Role of Information Technology in HRM

IT has played an important role in revolutionizing the HRM. Development of computers and internet has led to great extent in changing the HRM. Software’s are being developed for helping in HRM. Internet has helped a long way in this. The help and the use of IT in various fields of HRM are discussed below:

Recruitment and placement represents the oldest and the most categories of the personnel manager’s job. Recruitment, selecting and placing employees have always been central to personnel’s role. If anything, this role is more important than ever before. In today’s competitive world, in which jobs increasingly demand high

levels of workers commitment and in which quality, service and flexibility are required for a firm’s survival, hiring people who are capable of a committed effort can be much greater challenge. Computer with the help of internet has made it easier for them to recruit talent across the countries. It has become easier today to search for talents. Thousands of resumes are floating in the internet for recruiting people has become easier. In recruitment and placement we are concerned with identifying the human requirements of the jobs, choosing feasible job candidates and then testing and selecting those who will best fulfill the job’s demands. Hiring the right people doesn’t guarantee their success. They must also be trained and their performance appraised to make sure they are doing their jobs satisfactorily. Training and development fosters employee commitment by helping employees to use their skills fully and by involving them in their work. With this help it has become easier for the companies to train their employees. It has also become cost effective.

Developing a pay plan involves evaluating the relative worth of the jobs and the pricing each using wage curves and pay grades. Companies are recruiting people from different countries and their needs and compensation may be different. Satisfying each person’s need takes a lot of hard work. With the help of computers and internet/intranet it has become easy to satisfy the needs of the employees and give them a desirable pay package.

In today’s competitive world it is very essential to maintain a good relation with employee. Finding talent has become difficult and retaining talent has become more difficult. If a company doesn’t maintain a good relationship with its employees it is very difficult to survive. Computer has helped in maintaining a good relationship with employees in many ways by providing various types of information and maintaining a database of it.35

The impact of changes in IT on the organization of production at public and private sector enterprises level provide a specific example of the forces encouraging and supporting globalization. In terms of the organization of production, new technologies are increasing the scope for greater flexibility in production processes,

and are resolving information/coordination difficulties which previously limited the capacity for production by enterprises at different locations around the world.

Where enterprises are serving more specialized markets, smaller and more limited production processes are now involved. New technology has also made it possible to produce the same level of output with fewer HR. In both situations, there is increased emphasis on HR having higher value capacities and skills to perform a variety of jobs. This has blurred the distinction (both functional and hierarchical) between different kinds of jobs and between HR and management generally. In addition, efforts to improve products (through innovation, quality, availability and pricing) have led enterprises to establish cross-functional development teams, transcending traditional boundaries between engineering, manufacturing and marketing. These developments have been accompanied by the erosion of the standardized, segmented, stable production process which had facilitated collective industrial relations. In many industries and enterprises there are also fewer HR available to be organized in trade unions.36

To achieve the flexibility and productive efficiency required to respond quickly and effectively to market changes, narrow HR job descriptions have to be re-written. This is resulting in work tasks based on broader groupings of activities, emphasizing the undertaking of “whole” tasks. In the interests of greater efficiency, work is also being re-organized, giving greater emphasis to team based activities, and re-integrated with a view to improving linkages across units and departments within an enterprise.37

The WTO - Led LPG

Statistics place the share of the Iran in the global imports at around 0.8 per cent and in global exports at 0.5 per cent considering oil exports and 0.1 per cent without considering oil exports. About 75 per cent of Iran’s imports and nearly 60 per cent of Iran’s exports are carried out with advanced industrial states. Among these countries, Iran imports about 50 per cent of its needed goods from the EU member states and exports 40 per cent of its non-oil goods to them.

37 Ibid., p. 7.
Japan, too, is another trade partner of Iran with a 12 per cent share in what the country imports. But Japan does not have much of a role in Iran’s exports. Europe’s free trade zone also meets around 7 per cent of Iran’s imports requirements and has a similar share in the country’s exports.

The developing countries meet about 20 per cent of Iran’s imports requirements, with 5.2 per cent met by the UAE and 2.2 per cent by South Korea. Though Turkey and Pakistan are members of the ECO, they only meet 2.5 per cent of Iran imports needs and 13.5 per cent of exports. The share of other developing countries in Iran’s imports is less than 1 per cent, with the exception of Argentina which holds 14.2 per cent.

Among the Socialist and East European Countries, China holds 1.1 per cent, Russia 1.08 per cent, and the Republic of Azerbaijan 0.66 per cent of Iran’s imports. The share of most East European Countries in Iran’s imports is less than 0.5 per cent. The share of China and the former Soviet Union in Iran’s exports is 5 per cent each.

In addition, the share of the developing countries in Iran’s non-oil exports is about 40 per cent, 11 per cent of which belongs to the UAE and 11.5 per cent of which belongs to Turkey. The share of the majority of other developing countries in Iran exports is less than one per cent.

It can then be said that the major part of Iran’s foreign trade transactions takes place with the developed countries. Among the developing countries, Turkey, the UAE, and South Korea have a major share in Iran’s imports, while among the socialist countries Russia and China have the highest shares.

A comparison of Iran’s several billion exports figures with the hundred billion exports figures of advanced states of the world indicates the high potential that can be conceived for the promotion of Iran’s exports. For instance, if Iran can get hold of only one per cent of the imports of the EU member states, it can raise its non-oil exports to $14 billion per year. This rate of exports will not deal a serious blow to the EU markets.

It is worthy of note that of the 20 countries which had the highest share in meeting Iran’s imports requirements in 1993-94 (amounting to more than 86 per cent of the country’s total imports), only China, Russia, and Azerbaijan with a total share of about 5.5 per cent of the imports) are not members of the GATT. Of course,
Russia’s request for membership is under survey in the relevant working group and Azerbaijan has an observer status.

In addition, of the 17 main purchasers of Iranian commodities with a share of more than 85 per cent of the total non-oil exports in 1993-94, China, Sudan, Azerbaijan, and Turkmenistan, with a share exceeding 15 per cent of the total non-oil exports, are not members of the WTO. Of course, Turkmenistan, like Azerbaijan, has an observer status in the WTO. In addition, China’s share of the total non-oil exports is 8.7 per cent.

Global Trade in Services and Iran’s Standing: Several points should be underscored in regard to the framework of the global trade of services. First, trade of services comprises about 50 per cent of the global trade of goods. In 1992, the volume of the global trade of services exceeded $1,800 billion. Second, the developed countries are in charge of about 85 per cent of the international trade of services. Third, interests on loans and transportation make up about half of the figures for the global services trade.

Among the developed countries, the U.S., Germany, Japan, France, Italy, and Britain are the most important exporters and importers in most service sectors. They mainly hold about half of the global trade of services. Most newly industrialized countries of the world (the republic of Korea, Taiwan, and Singapore), as well as China, Thailand, Mexico, Brazil, Malaysia, and Indonesia, are among the top twenty importers and exporters of services worldwide.

The top twenty importers and exporters of services control between 70 to 90 per cent of the sub sectors of the global trade of services.

The lists of the major exporters and importers of shipping services, passenger services, and other means of transportation and travel do not have much of a difference with each other. But in regard to the export of the work force, the major exporters are among the developing countries, while the major importers (apart from Saudi Arabia and Kuwait) are mostly from the developed countries. This reflects the existence of cheap labour force in the developing countries which export such services.

In regard to Iran’s place in the global trade of services, the statistics of services, imports and exports in 1991-92 place Iran as an importer of services. In this
year, Iran’s exports of services amounted to $1.368 billion while the country’s imports in this field stood at $5.800 billion. As a result, Iran’s share in the global exports of services is around 0.08 per cent, a figure lower than the country’s share in the global trade of goods.

In relation to the important sub sectors of import and export services to Iran, it can be said that the incomes of investment and other private services make up around three fourths of the total exported services. In the import services sector, the fare of transportation and other governmental services is about 75 per cent of the total imports of services.

Like its share in the global trade of goods, Iran’s share in the global trade of services is very low. This low share in itself indicates that if the needed ground is paved, Iran can rapidly boost its exports of goods and services in a way that would not be perceptible in the global markets. But in this connection, Iran is not the only country which tries to pocket more foreign currency through the export of goods and services. Other countries around the world also compete with Iran in this process.

With the ratification of the Uruguay Round Trade Agreement, which also embraces the services sector, these competitions will from now on become systematic. If Iran joins the WTO, it should grant certain concessions in return for the concessions gained in regard to access to the markets of goods and services of other countries.

Possible Effects that Membership of WTO would have on the Country’s Economy: Any country’s membership in the WTO primarily affects its trade and tariff policies. Granting tariff concessions and opening a part of the domestic market to the foreign products (of course, in tune with the country’s level of economic development) are the most important commitments undertaken by any country that accedes to the WTO.

Here a survey has been made of the possible effects that reduced tariffs would have on some parts of Iran’s economy. In addition, reference is made to the effects of agreements on services, copyright, foreign investment, and some possible changes in other economic variables.

Turning into Tariffs, the non-Tariff Restrictions: Turning imports restrictions or imports quotas into tariffs under the worst conditions (i.e. when imports are fully
banned) will have no effect on domestic prices or government incomes. This is because the tariffs can be specified at such a high rate to prevent imports.

Under normal conditions (of imports shares), if the amount of the tariff is not correctly fixed, it will cause the transfer of interests from domestic suppliers or foreign producers to the government (i.e. customs tariffs) without affecting domestic prices and inflicting loss on the consumers. As a result, if the tariffs are correctly fixed, placing tariffs on imports barriers and limitations will be advantageous to the country.

Stabilization or Reduction of Tariffs: Economically speaking, increase in or suspension of tariffs on a particular commodity will on the whole be disadvantageous for the country, because it mars the optimal allocation of sources. Even though it increases the revenues of the government and the domestic producers, the losses incurred by the consumers due to higher prices will be more than these earnings.

Tariffs will be economically justified only when a country has exclusive or semi-exclusive power in the global markets, when its demand has a decisive role in the global prices, or when the industry under discussion is beset with market failure (for instance upward output as compared with production). As a result, in most cases, even if reduced tariffs decrease government earnings, these tariffs will be on the whole beneficial for the country.

On the whole, a preliminary estimation is needed about the change in the government’s tariff earnings, because these revenues have a considerable share in the government incomes. In this regard, preliminary estimations show that tariff incomes will not be reduced much for the following reasons:

1. If the tariffs are stabilized, they will not affect the tariff revenues. Of course, there is the possibility for the tariffs to be stabilized at a higher level. In this case, the income can even be increased.
2. Supposing that tariffs of the agriculture sector are reduced at the estimated level (i.e. 24 per cent over five years) given the −0.46 elasticity of imports over the tariffs, the rate of imports under stable conditions will increase by about 11 per cent. As a result, over these five years, the tariff income of the country will be 13 per cent (or annually about 2.5 per cent) lower than the figures specified if tariffs were not reduced.
3. Fixing tariffs for non-tariff restrictions will increase the government’s customs income. But it is difficult to estimate this increase.

Of course, simultaneous with reduced custom’s revenues of the government and the received difference, government expenses (i.e. subsidies) will also be decreased. As a result, no considerable change will be expected in the government’s net incomes.

In addition, new estimations of the effects of the Uruguay Round Agreement on global production and trade show respectively $ 500 billion and between 8 to 24 per cent growth until the year 2005.

A small part of the above figure may boost Iran’s foreign currency revenues and imports through demands for Iranian exports. For this purpose, in relation to the government’s customs income, there is no considerable decrease in sight.

Another positive aspect of stabilization and reduction of tariffs following accession to the WTO is that Iranian exporters will be able to have a better position at the foreign markets due to the following reasons:

1. Reduced tariffs of exportable goods will result in reduced production expenses and costs.
2. In the foreign markets, Iranian goods will face fewer tariff barriers and will, consequently, have more power for competition.
3. Reduced support for produced goods that will replace imports, together with the aforementioned factors, will direct the resources toward promotion of exports. This is in tune with the country's strategy to promote non-oil exports.
4. The WTO agreement has weakened the preferences of under-developed countries. This is a new chance afforded to countries such as Iran which did not use such preferences.
5. In case of non-membership in the WTO, the aforementioned advantages will not be derived. In addition, there is also the possibility that the country’s existing exports opportunities will be undermined. For instance, if the People’s Republic of China becomes a member of the WTO, it has to offer preferences to the WTO member states and might no longer purchase Iranian steel or other goods or might reduce such purchases, because imports of commodities, such as steel, from other countries will involve lower customs duties.
Impact of Reduction of Tariffs: In general, in the discussion on the reduction of tariffs, the fear of the impact of these reductions on domestic production and employment has stirred more sensitivity as compared to tariff incomes or shifts in exports. We will here attempt to reason out how justifiable this fear is.

In regard to the major agricultural products, the commercial interests are so low that their gradual decrease cannot affect their competitiveness and production. In the case of some other products such as fruits and vegetables which are exported, reduction of tariffs does not appear to considerably change the country’s comparative advantage in the production and exports of these items.

On the other hand, elimination of subsidies on agricultural goods will increase the global price of agricultural products and make Iran’s products more competitive. For this reason, tariff reduction (for instance from 10 to 7.5 per cent) does not appear to leave a perceptible effect on the overall production and employment in the agriculture sector.

The same condition can be observed in the case of mineral, metal, and chemical products. As a result, except for a few cases, these sectors will not be perceptibly affected by tariff reductions, especially at the present juncture when many items such as iron ores and metals are exported and some others such as the products of the photography industry have no domestic competitors.

But the major problem which has caused concern over membership in the WTO applies to a large extent to the industrial sector. Before dealing with a discussion on the industries, however, it is apt to make another reference to the reasons why industries are protected in the developing countries and to the justifications in this regard.

As already pointed out, fixing customs tariffs on imports of goods on the whole will always be disadvantageous to the country which has fixed the tariffs. The exception is when the said country can affect global prices or when the market faces failures such as an upward trend of output, deficient competition, or external effects of an industry which is subject to protectionism.

But unfortunately, in the developing (and even the developed) countries, protectionism do not follow the aforementioned conditions and is governed by political pressures exerted by economic groups for apparently the following reasons:
1. Increased inexpensive imports will reduce production and employment.
2. Any deficiency in the capital or labour market will speedily lead to the absorption of the production factors by other sectors.

In response to these reasons, it should be said that even if such instances are true, the tariff policies do not serve as the best solutions. In such cases, the best policy is one which directly targets the reasons why the market has become deficient, and tariff policies usually come in third or fourth places.

But due to the excessive dispersion of consumers (who incur losses by the tariff policies) on the one hand and concentration of production in several large units (which benefit from tariff policies) and coordination among them on the other hand, the power and influence of producers will be dominant in any decision-making on trade policies.

This trend continues to such a level that the expenses paid by consumers to retain a job in the industry under discussion are several times the wages given to a labourer who is supposed to enjoy protection. For instance, maintenance of any job in the U.S. steel industry requires $178,000 as protectionism. This is while a labourer engaged in this industry receives an annual salary which is lower than one third of this figure.

Despite the fact that discussions on protectionism cannot be justified, it should be admitted that Iran’s industries sector, due to weakness in regard to prices and quality, has for long required protectionist policies. This is because that most end products in the field of industries enjoy between 30 to 50 per cent customs protection. Even though capital and intermediary goods have lower customs duties, some goods such as automobiles enjoy higher rates of protectionism.

Before studying the results of tariff reduction on production and employment in the industrial sector, the following points should be mentioned:
1. Goods such as paper pulp and metal wastes which are presently exempted from commercial interests will not be directly affected.
2. Tariff reduction of goods without domestic substitutes cannot directly affect production at home.
3. The major impact of tariff reductions will be on those domestic productions which replace imports and which at present enjoy considerable protection.
Because this reduced tariffs will intensely decrease their price advantages or intensify their lack of advantage.

It should be borne in mind that reduced tariffs decrease the cost price of raw material and imported intermediary goods used for domestic production. But since the tariffs of end products are normally more than the tariffs of raw material and intermediary goods, reduced tariffs will on the whole weaken the competitiveness of end products.

The share of imports in the GDP is about 15 per cent. The share of the industries sector is about 15 per cent of the GDP. Given the – 0.46 per cent elasticity of imports as compared with the tariffs of imported goods (for instance 24 per cent tariff reduction over five years while other parameters remain stable), imports will be increased by around 11 per cent. This will lead to an 11 per cent decrease in the country’s industrial products. If the elasticity of production as compared with employment is around 0.5 per cent, employment in the industrial sector should be decreased to 22 per cent. Given the number of wage earners of this sector (amounting to 1.02 million people), it will amount to 220,000 people.

Of course, as already pointed out, this figure will not be equally distributed among all industrial sub sectors. It is expected that at present those sub sectors which enjoy greater protectionism and have close competition with imports will be highly affected.

Of the total 1 million people employed in the industrial sector, around 270,000 are engaged in the textile, clothes, and leather industries; 210,000 in the machinery and metal equipment industries; and 201,000 in the foodstuff, beverages, and tobacco industries. The non-metal mineral industries with 154,000 people and the chemical industries with 71,000 people hold fourth and fifth places respectively.

In other words, these five industries hold around 90 per cent of the country’s employees in the industrial sector.

On the other hand, a glance at the column related to these industries customs tariffs shows that most of them enjoy the highest rates of protection. For instance, protection is 25 per cent for the textiles industry, 50 per cent for the clothes industry, and between 50 to 100 per cent for the leather industries. The tobacco, beverages, and foodstuff industries respectively enjoy 25, 50, and 50 per cent protection. In the
machinery and metal equipment sector too the present protection is often between 30 to 100 per cent.

Protectionism for end consumer and luxury products in the chemical and plastic industries is between 25 to 50 per cent. Other industrial sectors of the country enjoy lower protectionism. On the whole, they comprise about 10 per cent of the employment in the field of industries. Consequently, gradual reduction of protectionism in their case cannot leave serious effects.

A comparison of the share of imports and exports of these sectors will indicate their competitiveness. Of course, those items which are also similarly produced at home should be compared with one another.

In the first quarter of 1994-1995 the country’s total exports of industrial goods were Rials 567 billion. Of this figure, exports of chemical material made up around Rials 143 billion; iron and steel, Rials 163 billion; stone and construction material, Rials 8 billion; preserved food and foodstuff, around Rials 60 billion; textiles, clothes, and shoes (apart from carpets), Rials 63 billion; copper and aluminum plates and utensils made of them, around Rials 90 billion; mosaic, tiles, and ceramic, around Rials 6.5 billion, amounting totally to Rials 535 billion or 94 per cent of the country’s industrial exports. These are the industries which will probably face increased production and employment.

On the other hand, the pressure of liberalizing foreign trade in tandem with the Uruguay round commitments will grip industries which have had no comparative advantages due to imports and extensive protectionism offered to them in recent years. These include industries such as automobile manufacturing, electrical and electronic utensils, heating and cooling equipment.

A glance at the country’s production capacities indicates that the machinery and chemical industries are sectors which will be highly affected. In other industries, either a similar domestic production does not exist or the present exports of productions indicate that the domestic items can compete in global markets. Of course, there is the possibility that negative results might emerge in the textiles, clothes, foodstuff, and beverages sectors.

Reduced domestic production and employment, which were previously mentioned, were based on the supposition that the sources and factors of production
were not transferred from these sectors to others. But the truth of the matter is something else. Strengthening liberalization in global trade will incur damages on some industries which replace imports but will increase production and exports of goods in those sectors which have comparative advantages. The reasons for this are as follow:

1. Increased production and global trade will increase demands for Iran’s exports goods.
2. Reduced customs tariffs ensuing from accession to the GATT will enhance the competitiveness of Iranian goods.
3. Reduced protectionism in the case of industries replacing imports will direct the resources toward more optimal exploitation and promotion of exports.
4. Reduced subsidies and non-tariff restrictions of other countries can strengthen Iran’s exports.

As a result, due to the aforementioned reasons, a boost is expected in production and employment in other sectors. Increased production and global trade will also enhance demand for Iranian exports. Based on latest estimates, the Uruguay Round Trade negotiations will increase global production until 2005 by about $250 billion annually and global trade by $755 billion. Given this consideration, one can regard Iran’s present share in global trade in view of the country’s diversity of export goods to come up with estimates of the increased demands for Iranian commodities.

At present, the volume of the world’s imports is about $3,800 billion. Given the country’s present non-old exports (amounting to about $3.8 billion), Iran’s share of it is about 0.1 per cent. Consequently, if the volume of the world’s imports in the next 15 years increases to about $755 billion and if this increase is equally shared by all countries, the demand for Iranian exports will increase by about $755 million.

But since it has been estimated that the share of the developing countries in the outcomes of the Uruguay round discussions should be slower than that of the industrial countries and because of about 20 per cent dependence of the industries on imports, it is more realistic to adjust the increased demand for Iranian exports goods and base the figure on $500 million.

In other words, about three fourths of the reduced employment rates caused by increased imports can be neutralized by promoting exports. Of course, alongside this
boost in employment, one should also consider the dynamic interests of optimal resource allocation. Though difficult to measure, these interests are by far higher than stagnant ones, as the dominant view holds.

Reduced Domestic Protectionism and Exports Subsidies: One should not worry over the matter of either because, firstly, for the developing countries, protectionism can be equal only to 10 per cent of the value of the agriculture sector productions. And, secondly, this figure can be spent on particular sectors such as the production of wheat or other strategic commodities.

At present, the agriculture sector has a yield of around 60 million tons. Granting that each kilogram is priced at Rials 300, the estimated value will amount to Rials 18,000 billion. As a result, total protectionism in this sector can be Rials 1,800 billion. The average subsidy paid to this sector during the Second FYDP amounts to around Rials 2,200 billion, 90 per cent of which is paid to consumers of wheat. Domestic wheat prices are not much different from global prices. As a result, this does not appear to create any difficulty, especially since subsidies on foodstuff can be paid to the deprived classes.

At any rate, it is necessary to survey the existing protection and subsidies of this sector firstly to realize which agricultural products enjoy protection and secondly to understand the extent each is protected and thirdly to find how much such protectionism should be reduced after the country’s membership in the WTO.

In regard to exports subsidies, there are exemptions for marketing and transportation subsidies. Given the slight facilities accorded to the exporters in this regard, the country’s exports will not suffer when these subsidies are cut off. This is because of the following reasons:

1. Reduced tariffs of other countries and membership in the WTO will enhance the competitive power of the exporters.
2. Major exportable agricultural goods (such as carpets, dried fruits, animal hides and intestines, caviar, fruits, and vegetables) are not subject to considerable subsidies.
3. Reduction of subsidies and protection of domestic production in the developing countries is two thirds the reduction observed in advanced countries and will take place over ten years.
4. Keeping the rate of the foreign currency low for exports will mainly affect the taxes rather than the subsidies.

Of course, some industrial commodities to which official rates of foreign currency are applied will be affected by the negative effects of subsidies. At any rate, contrary to what is popularly believed, payment of subsidies for export goods is not economically justified. Like tariffs, the subsidies have also resulted in the non-optimal allocation of resources and have, in practice, reduced public welfare.

Domestic consumers will face higher prices and the government should also pay subsidies. In practice, trade deals will change to the disadvantage of the country. But, on the other hand, producers and exporters will be able to gain benefits. As a result, in this connection, too, the country should not face any losses.

In addition, reduction of subsidies and protectionism will take place gradually without creating sudden and intense problems related to adjustment and transfer of resources.

On the other hand, in the service sector, it is difficult to estimate the effect of the General Agreement on Services because of the following reasons:

1. Countries can demand exemptions on laws related to the most-favoured nations. These exemptions can span over ten years.
2. In regard to laws related to protection, subsidies, and government purchases, negotiations have not as yet been finalized.
3. If there are any problems on the balance of payments—as observed in the case of Iran—certain limitations can be put into effect?

Services can be rendered in different forms: rend services from abroad, enabling consumers to travel, being involved in trade, and having legal entities involved. Most developing countries have not undertaken a considerable liberalization plan in this connection. Most of their commitments apply to tourism, commercial services, financial services, and telecommunications.

In these sectors, services have been rendered in the form of being involved in trade rather than being served from abroad in order to encourage foreign investment. In regard to enabling people to travel for trade deals, instead of paying attention to special sectors, agreement has been reached so that managers of companies would be able to enjoy these facilities.
Iran can also adopt a similar strategy in order to attract foreign investment, increase competitiveness in the services sector, and largely prevent the adverse effects of the involvement of foreign services institutions in the country. The needed surveys have not as yet been undertaken in regard to the competitiveness of services in the country. But apparently, in fields such as commercial services and tourism, the involvement of foreign firms will not have a very high negative impact throughout the country.

Actually, to flourish some of these fields—such as tourism—the country can use the experiences of the foreign firms. At any rate, it is not at present possible to precisely estimate the impacts of the Uruguay Round Agreement on this sector. Figures related to the country’s balance of payments in 1991-92 indicate that $1.36 billion had been spent on exports and $5.8 billion on purchase of services from abroad.

A profound and extensive survey is, however, needed to realize the competitiveness of Iran’s large services sectors such as transportation, insurance and banking, communications, health engineering and construction services and to see which requires concessions.

Generally speaking, it could be said that the major advantage of Iran in this sector will be limited to sub sectors, which do not require high capital and complex technology and skill. At any rate, since the share of the services sector in the country’s GDP is about three times the share of each of the agriculture and industries sectors, it is necessary to pay more heed to the issue of grant of concessions, especially since in this sector it is possible to make some sub sectors example from the negotiations.

Trade Related Aspects of Intellectual Property Rights (TRIPs): Matters related to TRIPs are among highly debatable items of the Uruguay round agreement. Since most discoveries and innovations take place in advanced industrial states and since the developing countries do not have much of a role in this regard, recognition and preservation of these rights for the developed countries will require increased incomes while for the developing countries, these will lead to considerable expenses. For this purpose, the developing countries will incur losses at least in the short term. Of
course, in return, the advanced countries reason out that technology is not transferred to the developing states mainly because these countries do not respect TRIPs.

At any rate, even if this is true, the developing countries—including Iran should meet two types of expenses in this regard in the short term. First, rights and expenses that they should observe to use these discoveries and innovations. Second, expenses which should be undertaken to prevent cheating and misuse of these.

A profound and extensive survey is, however, needed to realize the competitiveness of Iran’s large services sectors such as transportation, insurance and banking, communications, health, engineering and construction services and to see which requires concessions.

Unfortunately, in this regard, comprehensive statistics and data are not available in Iran to enable a primary assessment of the outcomes of accession to this agreement. But statistics presented for other countries speak of the transfer of considerable sum of money in this field.

Another matter related to the TRIPs agreement is the copyright for authors of books. In this connection, it is necessary to make estimation about the relevant economic outcomes. In Iran, each year around 2,000 books are translated for the first time irrespective of copyright considerations. The ordinary circulation of each book is 3,000 copies. If for translation of every title, around $ 100,000 is to be paid to the foreign author or publisher; this will annually involve $ 20 million for Iran.

But in practice, this will not take place because if we wish to pay $ 100,000 for every title, the price of each book will increase by Rials 88,333, supposing that each dollar is equal to Rials 2,650. In other words, a book which previously cost about Rials 1,600 will now stand at around Rials 100,000. Naturally, with such a price, there will be no demand for this book. As a result, the foreign author or publisher will not logically ask for such a price. In this case, foreign publishers can at most demand around $ 5,000. For new books, this will annually involve $ 100,000 expenses.

On the other hand, due to high purchasing power and circulation of books abroad, Iranian publishers and authors will easily be able to present only several titles of books to earn a similar amount for the country. From this perspective, no loss will be inflicted on the country. But considering the volume of books which have been previously translated, one can anticipate the payment of considerable sums in a short
span of time. In regard to recording tapes and copying computer programs, Iran will not face much damage, since the said items can hardly be controlled. In addition, Iran has the ability to engage in exports in this field.

Alongside payment of these expenses, one should consider the side effects. Since the use of foreign discoveries and innovations will involve considerable expenses, domestic discoveries and innovators will have a fit ground to engage in novelties. This can strengthen research and development in the country. For instance, instead of translating many foreign books into Farsi, books will be originally written in the country after research and compilation.

Of course, accession to this agreement will have other benefits as well. For instance, Iran’s competitors will not be able to use the names of Kerman and Kashan to offer their own carpets to the markets in the name of Iranian carpets. In return, many domestic Iranian products will no longer be able to use foreign names (for instance, as brands and marks for clothes).

As per the commercial aspects of TRIPs, a point should be underscored: Observing these rights will, in practice, create an exclusive privilege and concession for the discovers and innovators. This can reduce competition among the producers. On the other hand, the WTO agreement allows the payment of subsidies for research and development purposes.

Therefore, considering the existing academic and financial potential in the advanced countries, they are expected to enjoy ample benefits in future in regard to the TRIPs agreement. For this reason, in order to prevent the transfer of these benefits abroad, Iran should be more active than before and make utmost use of the extensive market that will appear in this field. Otherwise, each year, huge sums will leave the country to be paid for the rights of discovery and copyright.

Aspects related to Trims Investment: The major undertakings shouldered after acceding to this agreement include the fact that commitments on domestic production, as well as trade and foreign exchange balance can no longer be implemented on foreign investments. Of course, this will be gradually done over a five-year period.

As with customs tariffs and exports subsidies, for Trims, too, no acceptable economic justification can be found when there is full competition. Prevalent trade theories reason out those compelling multinational companies to use or export a part
of domestic production or to establish relative balance between their imports and exports will not help the developing countries when full competition prevails. This trend will rather reduce comparative advantages in the long run and prevent the growth and development of the said countries.

This is because if the developing country has an advantage in these fields, there is no need for it to resort to the said limitations. But if it lacks comparative advantages, the said limitations are there.

Of course, modern economic theories indicate that foreign investments are usually made in industries with high concentration such as the vehicle and petrochemical industries which normally do not have the conditions for complete competition. Elimination of Trims can be disadvantageous for the developing countries and for Iran. As a result, if the country accedes to the Trims agreement, foreign investments should be directed towards areas where the country has comparative advantages for production and exports (and/or for use of domestic products).

Other Economic Outcomes of Membership in the WTO: Iran’s membership in the WTO will have certain effects on the country’s inflation, parity rates of foreign currency, interest rates, tax and customs policies, income distribution. These will be briefly dealt with.

Inflation: Since membership in the WTO eliminates imports shares, reduces customs tariffs, and exposes Iran to global competitions, it should decelerate the pressure exerted by inflation. For instance, a 24 per cent decrease in the average existing customs tariffs will reduce the inflation rate by 0.5 per cent in the period under survey.

On the other hand, increased exports due to a 36 per cent decrease in customs tariffs of other countries can increase the country’s inflation by about 0.3 per cent, supposing a 20 per cent average tariff for Iranian goods. Increased expenses on the rights of discoveries will also lead to price hikes. But the effects of intensified competitions are expected to have a higher role—as compared with other effects—in the stability of the prices.

Foreign Exchange Rates: Apparently, after accession to the WTO, Iran will have to make its foreign currency rates more floating. This is because if the country
artificially stabilizes the foreign currency rates, Iranian exports and imports goods will be rapidly affected due to the differences in the rates of inflation at home and abroad. Since it is practically impossible or at least very difficult to grant subsidies to exports or to increase customs protectionism, change in foreign currency rates will be imperative.

Interest, Insurance, and Transportation Rates: Foreign competition in fields such as banking, insurance, and transportation will compel Iran to make the rates of its interests and insurance rights competitive. This is because if these sectors are not exempted in the negotiations to accede to the WTO, Iran’s exclusive market will become competitive.

Tax and Customs Policies: A significant point that should be accounted for prior to membership in the WTO is the need to survey and revise some of the country’s tax and customs laws. This is because after membership, the WTO members will have very limited authority to specify taxes and customs duties for imports of goods and services.

Principles, such as the most-favoured nation status and national behaviour, necessitate that concessions granted to one member be applied to other members as well. Foreign legal entities will enjoy the same concessions which are granted to citizens. Therefore, a revision of these policies prior to the start of the negotiations is exigent.

Income Distribution: Income distribution is one of the aspects related to reduction of domestic protectionism. Not much has been said about this parameter in the WTO discussions. As a general rule, reducing or cutting protectionism in a field will reduce the real income of the major producers in the said field.

On the other hand, the real income of major producers who gain access to new markets because of reduced foreign protectionism will be increased. In other words, if membership in the WTO results in increased production and exports of agricultural, mineral, some metal, and industrial goods, the real income of the labourers in these fields will be increased. On the other hand, the real income of labourers and benefits of owners will drop in industries which previously enjoyed high protectionism.

Bolstering Privatization and Economic Adjustment: Another upshot of membership in the WTO is increased economic competition and efficiency. Naturally,
under such conditions, real prices and comparative advantages will find a fit chance to emerge. For this reason, those economic sectors which lack the needed advantage and efficiency will forcibly be weakened. Reduced exclusive concessions and domestic protectionism, as well as the need to compete with foreign products, will create more incentive to a competitive one. During this process, transfer of factors of production (i.e. work-force and capital) will be sluggish.

This is because the owners of industries who enjoyed protectionism in the past will not at first take the change in the country’s strategy seriously. They will probably exert pressure to regain protectionism. Also a part of the work-force, lacking the needed skills, will not be absorbed by the industries having comparative advantages.

Over this period, the statesmen should display their political resolve so that the capital holders will quickly forget about protectionism and transfer their resources to other sectors. For the unemployed labourers, too, wages for the periods of their unemployment should be specified and, in addition, courses should be held to give them the needed training on various relevant skills. All factors impeding their progress and dynamism should be eliminated. While granting agreements in principle, the amount of production and competitiveness should be especially considered.  