

# **Development Strategy & Policies for an Oil Exporting Country**

**Prospects for and Challenges of  
Industrialization and Employment  
Creation in Iran**

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# Argument

- Iran depends on Petroleum for income and foreign exchanges;
- **But oil is exhaustible; does not provide much employment**
- **Question: What sort of Dev. Strategy needed for:**
  - **Diversification**
  - **Development**
  - **Employment Creation??**
- **How about Capabilities?**

# Outline(1)

- **1. Introduction**
- **2. Characteristics of the Iranian Economy**
- **3. International Issues**
- **4. Definition of dev. & diversification**
- **5. Impact of Oil Revenues on employment**
- **6. Oil Revenues & Agricultural Dev.**

# Outline (2)

- **7. Need for Diversification; its requirements**
  - **7.1. Problems of Acceleration of Non-oil GDP**
  - **7.2. Dev. of competitive Supply Capabilities & Upgrading**
  - **7.3. Government Policies**
    - **A. Trade and Industrial**
      - » **General**
      - » **Modalities**
    - **B. Technological Policies**
      - **General**
      - **Modalities**

# Outline (3)

- **8. The Role Of Other Factors**
- **9. Dev. Of agriculture**
- **10. Productivity**
- **11. FDI and capital Flows**
- **12: Constraints & Challenges**
  - **WTO issues**
- **13. The Choice of sectors and Products**
  - **Sectoral Issues**
  - **Dynamic Items**
- **14. Concluding remarks**

# Characteristics of The Iranian Economy

## ❖ Developing Country:

- **With over 80 millions population;**
- **Share in GDP:**
  - **Oil**
  - **Agriculture**
  - **Industry**
  - **Services**
- **Share of oil in:**
  - **Gov. Revenues**
  - **Exports**
  - **Employment**
- **But oil is exhaustible: life of reserves :**
  - **....years**

# International Issues

- **Globalization**
- **Trade Liberalization**
- **WTO Rules:**
  - **Privileges**
  - **Constraints**

# Concepts

- **Development: Myrdal and Streeten:**
  - Dev. upward of the social system
  - Identifying basic needs
- **Diversification**
- **Relation between Dev. and Div.: The key?**
- **Main aspects of dev.**
  - **Growth:** Dev. of basic needs; dynamic  
**Employment & Socio-economic factors**
    - **Participation of masses; democracy;**
    - **Happiness**



# Oil Revenues & Employment

- **Direct Contribution: small...thousands**
- **Through Gov.:**
  - **Positive impact: oil revenues**
    - **sources of income; F.E.**
  - **Negative impacts**
    - **Easy source of revenue and F.E.**
    - **Technique of production: K intensity**
    - **Impact on taxes; distribution of income**
    - **Impact on Asgriculture:**
      - **imports; migration**

# **Need for Diversification; Requirements**

- **Acceleration of Non-oil GDP**
- **Nature of dev. Policies Required**

# Problems of Acceleration of Non-oil GDP

- **Need for:**
  - F.E. for importation of “supply determined” items
  - **Agricultural products( particularly foods); & wage goods**
  - Institutional & organizational factors
  - **Limitation of Devaluation for production of certain tradables (e.g. manufactured)**
    - **Impact on production cost**
    - **Provision of uniform incentives**
    - **Impact on TOT: favouring primary products (demand determined); price of manufactured goods : cost determined**
    - **Agriculture? Subsidies**

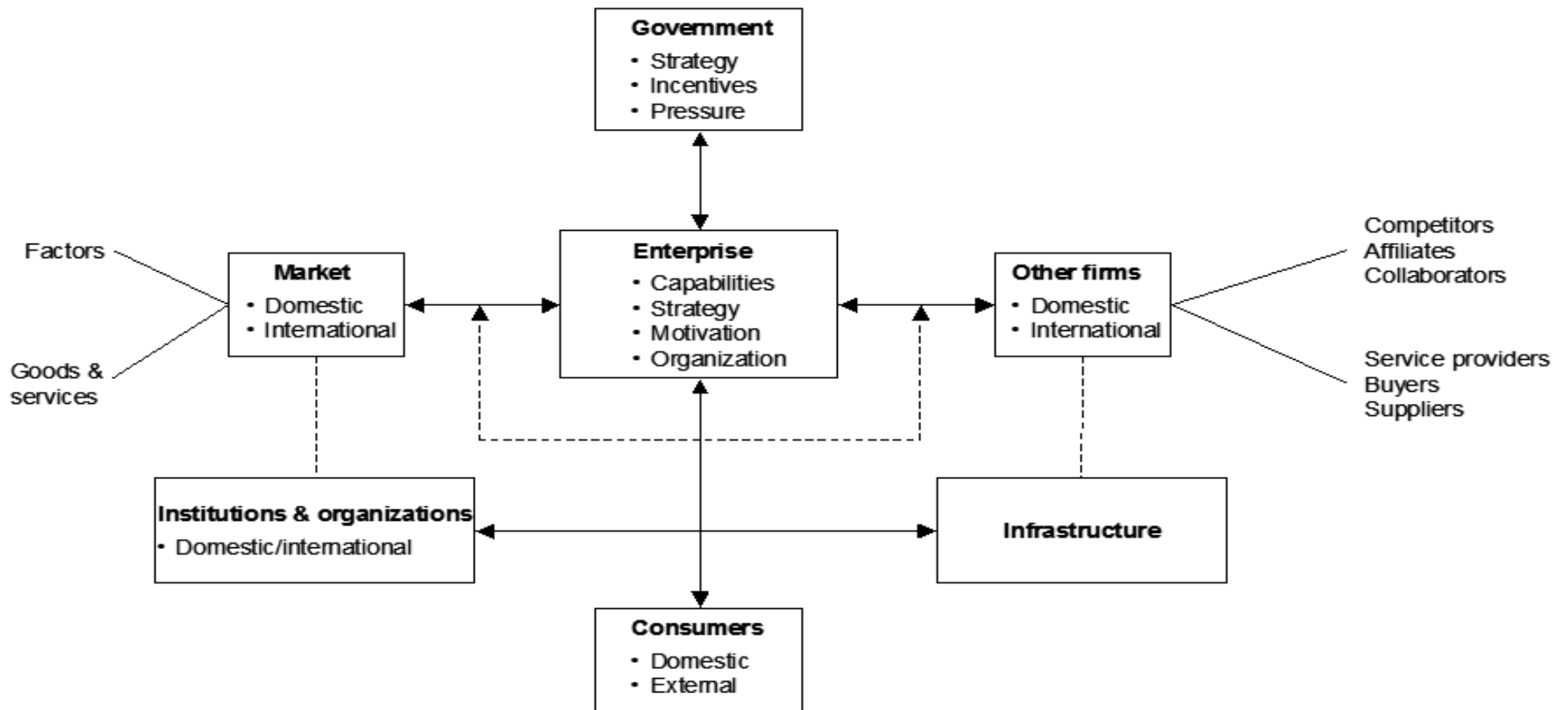
# Development Policies for

- **Developing Competitive Supply Capabilities**
- **Upgrading of the Productive Capabilities**

# Developing Competitive Supply Capabilities

- **Needs for Coordination of Economic Activities:**  
**Coordination System**
- **Government policies; firms; market; non-price factors**

**Figure 2: Interlinkages of market, firms, government and “non-price factors”**



# The central Role of Firms in Coordination System

- **Linkages with:**
  - Other firms
  - Markets: specific
  - Gov.
  - Consumers
    - Non-price factors:
      - » Institutions; organization; infrastructure
- **Context:**
  - Specific country/features
  - Specific environment/gov.  
Policies of other countries
  - Particular product/s
  - World econ. Conditions

# Characteristics of International Markets

- **Oligopolistic market**
- **Location of TNCs:**
  - 5 out of 100 in LDCs & China
  - **Rest: developed countries: mainly USA/EU**



# Situation of LDCs

- **Risk of Coordination failure:**
  - **Market failure**
  - **Entrepreneurship**
  - **Gov. failure**

**Is then the elimination of gov. intervention justified??**

**No. Why??!!!!**

# Key Role of Government

## Actions

- Create/improve markets
- Enhance capabilities of entrepreneurs
- Develop:
  - Institutions
  - infrastructure

## Action

- Develop capabilities of the state for:
  - Decision making
  - Policy formulation
  - Policy implementation

# Government Policies/Strategies

**Types:**

**Trade and Industrial**

**Technological**

**Strategic at enterprise levels**

**Macroeconomics**

# Trade & Industrial Policies

## Nature:

- Develop oriented: means & end
  - To serve long-run dev. Objectives
- Selective: **why?**: How?
- Flexible
- Predictable
- **Any measure necessary: quantitative, subsidy etc.**
- Development of non-price factors and agriculture
- **Infant industry protection is necessary: Role of TNCs; Knowledge**
  - But: avoid:
    - Prolong protection
    - Across-the board import substitution

**They are inefficient**

# Selectivity

- **Why?:**
  - Different: externalities; learning effects; linkages
- **How? Protect final products of some items**

# Selectivity(1)

- **Why?:**
  - Different: **externalities**; learning effects; **linkages**
- **How?**
- **1. Protect final products of some items leave inputs free: conditionalities:**
  - Performance/incentives; rewards/pressure**
    - **Allow new entrances; temporary nature**
- **2. Second infancy phase: infant export protection**
  - Subsidy; **tax holiday**; fiscal incentives; **phase out**

# Selectivity (2)

- **3. Select some other products for development**
  - **Other Consumer goods**
  - **Intermediate products used in first group**
  - **-gradually liberalize first group**
- **3. Some:**
  - **Sophisticated/durable C goods;**
  - **intermediate goods for the second group**
  - **Some machinery used in production of first group**
  - **Liberalize some of second group**
- **4. Choose items for X expansion**
  - **Sophisticated/durable C goods;**
  - **intermediate goods for the second group**
  - **Some machinery used in production of first group**

# Over Time

- **For A while: A combination of X Promotion/ MS**
- **Liberalization /Protection**
- **Role f Gov. decreases;**
  - Role of firms & market increases
  - **Inter-firm relations ;clustering**
  - Gov-business cooperation



# Example: Textile Industry

- 1. Protection of final product (textiles); **free imports of inputs( yarn,etc.)**
- 2. Protection of textiles decreases
- 3. **Expansion of exports of textiles/MS of yarn**
- Protection of textiles machinery / **production of yarn**
- The processes: **flying geeze**

# Deepening industrialization

- Upgrading should follow industrial widening
- **Requirements:** Upgrading of:
  - production
  - **Process**
  - Quality
- **Introduction of**
  - New products
  - **New technology**

# Types of Intervention/Policies

- **Functional**
- **Selective**
- **Framework: general support for specific activities**
- **Focussed: Specific support(e.g technology) for specific activity**
- **Blanket policies: mixture (e.g. R&D....)**

# Technological Policies

- **Upgrading Requires**

- **Technology dev.**

- **Skills**

- **Time & Experience**

- **Costly**

- Involves risks; externalities**

- Functional & selective/targeted intervention**

- Cooperation of public & private sectors**

**But: direct participation of Gov. to be decreased over time**  
**Avoid rigid/prolong intervention**

# Types of Technological Policies and innovation

- **Tech. policies.**
    - **Product**; process, **marketing**; product services
    - **Innovation:**
      - Radical
      - **Incremental**
      - Systemic
      - **Combination:**
        - Incremental & radical
        - Radical
      - **Technological Paradigm: a set of different technologies**
- Technology : Embodied in a machine; tacit; spill-over**

# Requirements of Technology Policies

- **Entrepreneurship**
- **R&D**
- **Institutional building**
- **Intangible assets : mental capital**
- **Government policies**
- **Firm strategy**

# Technology Users

- **Followers**
- **Leaders**
  - **Process innovation**
  - **Product innovation**
  - **Own design**
  - **Upgrading**

# Other Factors: important in Competitiveness

## COUPS-INS:-Ps

### ■ COUP:

- Create capacity
- Operate it efficiently
- Upgrade it

### INs: Avoid

- Instability in E.R.
- Inflation

### Requires:

Ag. Dev.

### Ps

- Political stability
- Pressure
- Predictability of policies

Control of K flows

Macroecon. policies



# Productivity

- **Meaning:** Not merely volume
- **Factors:**
  - Create value to consumers
  - Reduce P.E. of Demand
  - Quality
  - Timing of delivery
  - Requirements: Learning; skills; upgrading
- **Cost:** less important than technological dev.

# FDI & Capital Flows

- **FDI:**
  - Channels for X
  - **But little tech. spill-over**
  - It should be targeted
  - **Capital flows should be managed/controlled**

# Experience of China in management of FDI

## Share of component in X

- 1992/73 6.4
- **1997/8 14.5**
- 2002/3 16.7
- .....

## Shares of M in production

- 92/3 17-7
- **97/98 23.2**
- 220/01 24
- **2002/3 22.3** WTO entry
- ....

# Constraints; Challenges

- **WTO Rules**
- **Washington consensus**
- **Practices of IFIs**
- **Practices of Bilateral donors**

# WTO Rules

## Are they dev. Oriented??!!

- Needs for re-conceptualisation??
  - But first : appreciation that WTO Rules are not dev. oriented
  - Then: they **should change**: Needs Bargaining Power??
  - **Do LDCs have BP?**
  - Yes Some:
    - LDCs are markets for:
      - 23% of X of DCs
      - 30 %: when intra-trade of EC is excluded
      - China included:... %....

# WTO RULES

## Need for Changes

- **1. Philosophy:**
  - Need for flexibility
  - Consideration of different stages of Dev.
  - Needs for dynamic trade policy as countries develop
- **2. X performance requirements**
  - Domestic.....should be allowed
- **3. TRIPS should be changed**
  - More equitable system

# Choice of Sectors and Products

- Goods and services?
- Ag. Or industry?
  - Answer:
    - Demand dynamic products;
    - Externalities

# World Exports (1995-2013) (Goods)

	Value		Share in World	An.Av.
	-----		%	Growth rate
	2005	2013	2013	2005-13
	-----			
<b>All products</b>	<b><u>5120.7</u></b>	<b><u>18851</u></b>	<b><u>100</u></b>	<b><u>10.6</u></b>
Foods	460.9	1470.4	7.8	9.3
Ag.Raw mat.	138.2	282.7	1.5	5.7
<b><u>Total Agriculture</u></b>	<b>599.1</b>	<b>1753.2</b>	<b>9.3</b>	<b>8.6</b>
Ores and Metals	235.6	1295.3	6.5	14.1
Manufactured goods	3697.1	11952.9	63.4	9.5
<b><u>Total non-fuel</u></b>	<b>4531.8</b>	<b>15010.3</b>	<b>79.2</b>	<b>9.6</b>
<b><u>Fuel</u></b>	<b>373.8</b>	<b>3412.1</b>	<b>18.1</b>	<b>18.5</b>
Discrepancies	(215.1)	(438.1)	(2.7)	



# Services

Table 4:

-Growth of X of services < those of other LDCS

It picked-up during 2000-2012

-But growth of M of service > growth of X of services

	<u>1980-2000</u>	<u>2000-2012</u>	
Mg/Xg	-0.34	1.45	
<b>An.Av.Growth rarte:</b>			
X	4.6	11.6	
M	-1.6	16.8	
-----			
	<u>1980</u>	<u>2000</u>	<u>2012</u>
(Ms-Xs)/Xs	-6.1	-1.2	-2.8

# Table 5

## X and M of individual items of services

	Value(\$b) 2012	Growth rates 2000-12	% Share in X of Services(2012)
<hr/>			
<b><u>Exports</u></b>			
Transport	2.98	14.9	0.99
Personal, cultural & recreational	0.178	n.a.	2.5
<b><u>Imports</u></b>			
Travel	6.6	12.2	1.74
Comunication	0.21	n.a.	n.a.
Comput. Information	0.33	n.a.	n.a.
Financial srevices	0.48	n.a.	n.a.
Personal,cultural & Recreational	0.267	n.a.	n.a.

# Choice of Goods (Dynamic products)

Table 2:

**Definition of DP:**

	<b>NO.</b>
<b>Total Dynamic products</b>	<b>46</b>
<b>Manufactured:</b>	<b>13</b>
<b>Capital goods</b>	
<b>Others</b>	<b>9</b>
<b>Minerals &amp; Metals</b>	<b>12</b>
<b>Foods</b>	<b>11</b>
<b>Ag. Raw Materials</b>	<b>8</b>

## Table 6

- **Most dynamic items of services:**
- **Construction**
- **Computers and information**
- **Other business service**
- **Insurance and communication**

# Table 7

- **1. High x shares & High/moderate growth rates:**
  - Other business services
  - Travel
- **2. High share/moderate growth**
  - transport
- **3. Low shares/ moderate x growth**
  - Financial services
  - Royalties
  - Or: high growth rate: computer information
- **4. low shares/relatively high growth rates**
  - Communication
  - Insurances
  - Or: very high growth rate: construction
- **5. Ver low shares/moderate x growth**
  - Personal, cultural, recreational

# Conclusions 1

- **1. Needs for Diversification of GDP and Xs out of petroleum:**
  - **Exhaustibility**; Low employment
  - **Low linkages**; High risks of dependence on oil
- **2. Needs for formulation & implementation of a Strategy for:**
  - **Diversification**
  - **Employment creation**
- **3. Objectives of Dev.**
  - **Raise the social system**
  - **Identify basic needs in a dynamic context**
  - **Dev. As an end; trade and diversification are means**
  - **X diversification: a part of diversification of GDP**
  - **Diversification. results of Dev.**

# Conclusions (2)

- **4. How oil Resources are used**
  - **Short & medium terms go into oil by increasing the price**
  - Use revenues for development
- **5. Required Policies**
  - Trade, industrial, Technological, institutional, organizational
- **6. Nature of policies, Selective, dynamic, flexible**
- **7. Choice of dynamic products**
- **8. Evidence from history**
  - Needs for infant industry protection
  - But problems of prolonged protection

# Conclusions (3)

- **9. Role of Gov.**
  - Important at early stages
  - Needs for decrease in favour of market & firms over time
- **10. Importance of development of Ag. And wage goods**
- **11. needs for management of FDI and Capital flows**
- **12. Importance of national factors**  
**pysical, institutional, organiyational, political**
- **13. international factors**
- **14. Needs for developing capabilities of Gov.for.**
  - Utilizing opportunities
  - Dealing with constraints



**Thank You**

**For having listened to me  
At Your Disposal for Questions**

