Iran's program for industrialization

World backing for the Shah bolsters nation's development prospects

A week ago, the future of the reign of the Shah of Iran looked bleak indeed. His ouster would threaten to make Iran the center of a region-wide Mideast conflagration, and at the least was almost certain to undo Iran's painfully worked out industrialization policy.

Many observers saw the Shah staying afloat only through concessions to hostile foreign elements — particularly the London Foreign Office and the British Petroleum-led oil consortium — and to his domestic opposition. The price would have been enormous: the London demands included abandonment of Iran's nuclear energy development program, one of the essentials for the success of the new European Monetary System. But the Shah's only alternative seemed to be more wide-scale butchery by the army.

Then, in moves that must have baffled followers of Iranian coverage in the Western press, the Shah began to get important help from abroad. President Leonid Brezhnev of the Soviet Union, in a birthday telegram to the Shah, affirmed Soviet support for the Shah's policies and called for a general expansion of relations between Iran and the USSR, which already cooperate closely on economic affairs. Czech government officials did the same, and trumpeted their felicitations in their press.

Eastern European defense of the Shah has begun to unravel the London *Daily Telegraph* tale that Moscow is backing the rag-tag collection of 16th century religious fanatics and Maoist "Islamic Marxists" against the Shah. The Soviet news agency TASS in fact went on to call CIA Director Turner a liar for spreading the *Daily Telegraph* story. "In order to uncover the reasons for the present disturbances in Iran," TASS said, "the CIA Director would have to look particularly at the policy of his own country." TASS went on to detail the collapse of oil revenues that have gone down with the dollar and the ridiculous Persian Gulf arms buildup.

Not to be outdone by the Soviet initiative, President Carter fired off a telegram to the Shah assuring him of full U.S. support.

The Shah appears to be stabilizing his own domestic position as well, making deals with viable domestic opposition elements. His Prime Minister won a solid vote of confidence in the Parliament by his positive offensive in searching out allies rather than relying on police crackdowns.

More than that, the Shah's government is giving inklings of throwing out the BP-led consortium that runs Iran's oil revenues. Kicking out the BP may be the essential step to winning him the domestic coalition he needs: it would certainly start to turn his situation around internationally.

1. The Shah's race against time

With only an estimated 30 years of oil reserves remaining, the Shah of Iran is fighting to build alternative industrial infrastructure capable of sustaining his country into the 21st century. The Shah knows that if he fails, Iran will revert to the poverty-stricken wasteland it became during British Colonial domination in the 19th century, having depleted its precious oil resources with no alternative source of wealth.

At the heart of Iran's development program — centering around the development of a heavy industry infrastructure — is one of the most ambitious and farsighted nuclear-energy programs in the Third World. Four nuclear power stations are currently under construction — two by France and two by West Germany. Eight more reactors are on order from Germany and France (despite reports that these orders might be jeopardized by the current disturbances, the West German economics minister, Graf Lambsdorff, has just returned from Iran with assurances that, at worst, the orders may be subject to delays). An order for six to eight more reactors from the United States is now being negotiated, and further input by Japan into this area is being discussed by Iran with relevant Japanese firms. In all, Iran hopes to have 20 to 23 reactors in operation by 1995.

With these reactors, the Shah plans to power major heavy industrial infrastructure. He is projecting a major steel capacity for Iran, using its vast gas reserves for advanced, gas reduction steelmaking techniques. Already, two such plants are in operation. The country is also proceeding with one of the most ambitious petrochemical and refining development programs in the underdeveloped sector, despite uncertainties over future markets for petroleum products. Iran already sports the largest refinery in the world, at Abadan in the oil-rich Khuzistan region. The nation also has its own automobile manufacturing plant, and is increasing the manufacture of small appliances, to broaden its base of non-oil exports.

Combined government expenditures for the development of oil, gas, and mining this year accounts for $4 billion, or about 12 percent of the total budget. It is expected that next year's allocation will climb to $5.5 billion.

The continued development and economic stability of Iran has significance beyond the domestic implications. Iran is the crucial economic bridge between the developing Arab nations of the Persian Gulf and the Mideast, and the Indian subcontinent. The present government is highly aware of this fact, and the Shah has played a moderating role in attempting, for example, to ease tensions and possible conflicts between India and Pakistan.

Moreover, a severe economic crisis in Iran could cause a break in the critical moderate bloc of countries within the Organization of Petroleum Exporting Countries (OPEC), led by Saudi Arabia. Since 1976, Iran has forsaken its more "hardline" stance on oil prices, and formed a powerful alliance with the Saudis which has helped to sustain the oil price freeze.

Yet, despite the importance of Iranian development for both that nation and the world — or perhaps because of it — the Shah faces some formidable obstacles to his industrial goals.

Domestically, Iran must solve the problem posed by what foreign observers term its unique "parallel economy." While the government presses ahead with its modernization and industrialization goals, there exists inside Iran another, primitive economy based on money-lending, bazaars, a layer of "nouveau riche" businessmen and speculators — many with ties in England and other foreign capitals — who place their "jet set" lifestyles above their nation's development goals, and leading families of Iran's feudal oligarchy. These families, though in many cases disenfranchised of their land through the Shah's land reform programs, still wield considerable power through business and government positions. They continue to maintain traditional alliances with the powerful Shi'ite Islamic establishment and with money lenders and changers in the antiquated bazaars, where the central government exercises virtually no control over their activities.

Connected with these, and sharing their opposition to Iran's industrial development goals, is British Petroleum, which, as heir to the notorious British Anglo-Persian and Anglo-Iranian oil monopolies, heads the consortium of 14 oil companies with the contract to produce and market Iran's oil. As BP's most recent behavior in negotiations for a new contract be-

TASS: 'retort to Turner's lie'

The Soviet news agency TASS issued a sharp response to CIA Director Stansfield Turner's charges last week of Soviet involvement in domestic Iranian events:

When the CIA Director sets up interviews, the questions asked him, by a strange coincidence, serve as a kind of supplement to his answers. That was the case with Mr. Turner's recent interview on CBS. The correspondent turned to the director of the U.S. espionage agency with the following words: my first question is whether the CIA has detected any Soviet participation in the recent events in Iran?

To this Turner, not batting an eye, answered, "I am sure that to one degree or another there is a certain Soviet influence there."

Why, one might ask, is the CIA director putting out a conscious lie, and at the very moment that the massive antigovernment demonstrations in Iran are going on? On the one hand, Washington would like to whitewash U.S. policy towards Iran, and on the other, to slander the Soviet Union, to drive a wedge into the good-neighbor relations between the two states.

So American propaganda is putting out slanders about the mythical "hand of Moscow" being behind the events.

Mr. Turner knows very well of course, that relations between the USSR and Iran are based on the principles of respect and non-interference in each others' affairs....

In order to uncover the reasons for the present disturbances in Iran, the CIA director would have to look particularly at the policy of his own country. It is precisely the American monopolies that for many years have been looting Iran, paying for oil with depreciated dollars....

The U.S. has sent Iran military specialists, "advisors" and "consultants," whose subversive activities were recently led by Helms, one of Turner's predecessors at the CIA.

Is it any wonder that among delegations of the developing countries at the UN General Assembly, Turner's statement is considered as a propagandistic coverup for the American secret services in Teheran, who are actively trying to place candidates favorable to Washington in Iran's leading posts?

tween the consortium and the National Iranian Oil Company (NIOC) verifies, British policy toward Iran has not fundamentally altered since the days when Winston Churchill regarded "Persia" as the private oil field of the Royal Navy. Having flagrantly violated the terms of the previous contract, BP has adamantly refused to agree to a new contract which would boost Iranian oil revenues and thus produce more funds for development. Moreover, many of the most corrupt oligarchical families in Iran still maintain close ties to BP dating from the early part of the century.

It is this lingering old feudal power nexus that has been used by both British and Israeli foreign intelligence services to incite the recent antigovernment unrest in which Shi'ite leaders are openly calling for a drastic cutback in economic development. No analysis of Iran's economy can overlook these old vestiges of British colonialism. It is these which primarily account for the continued speculation, profiteering and blackmarketeering which has caused the peristent problem of inflation and created a serious thorn in the side of every Iranian development plan.

A City of London trap

The urgency of Iran's industrialization is underscored by the nation's increased rate of foreign borrowing to support expanded growth, augmenting oil income. From 1977-78, projects were funded with an increased percentage of loans totaling about 15 percent of development expenditures.

Prior to the recent political unrest, which has compelled the government to reevaluate many development projects, the cabinet announced a new 10-year development plan worth $600 billion. Designed to utilize all of Iran's projected future oil income, the plan would speed development to the maximum rate physically possible. Furthermore, the plan is also expected to require still more borrowing abroad, and to increase Iran's budget deficit.

Since late 1976, various reports from sources connected with the City of London financial center have openly promoted expanded Iranian borrowing. The publication *Eurofinance*, which is owned by a group of London merchant banks including Lehman Brothers Investment House, defined the trap into which Iran might easily fall through such increased borrowing: "Expenditures for building up industrial potential and infrastructure too rapidly will bankrupt the country long before the new industries can generate foreign exchange earnings for debt service." Such a scenario is coherent with City of London manipulation of underdeveloped nations through London banks and the International Monetary Fund by imposing stringent political demands on loans. Without continued economic development, Iran will have nothing left to show for the days of oil prosperity but mounting debt.

2. British Petroleum hobbles Iran's development

The failure of the Iranian government to reach a new contract with the consortium of 14 multinational oil companies which produces and markets Iran's petroleum output after eight months of talks could represent a setback for future Iranian economic growth. But it could prove to be the opening the Shah needs to boot out a major obstacle to his industrial development plans — British Petroleum. BP, which holds the majority of the share of oil marketable through the consortium, conducted the negotiations on the consortium's behalf.

The National Iranian Oil Company (NIOC), which negotiated for the Iranian government, put forth a number of pressing demands all within the bounds of the now expired 1973 contract, with which the consortium never fully abided. The primary issue of difference is the requirement in the 1973 contract that the consortium market up to eight million barrels a day (mbd) of oil by 1978. To date the companies have marketed only a meager three to four mbd. The government had formulated development expenditures based on increased revenues from stepped oil lifting (oil pumped and marketed) from the consortium.

The Iranian press responded to the breakdown of negotiations last month with indignation, assailing British Petroleum's refusal to meet NIOC's demands even half way. But the current refusal of BP to consummate an agreement with Iran which would yield greater revenues and to adopt policies to aid Iranian development is nothing new. During the years previous to the 1953 nationalization, when Iran's oil industry was totally in the hands of BP (Anglo-Iranian), royalties paid by BP to the government averaged only 15 percent of Iran's total yearly income, at a time when Iran's economy was almost totally dependent on oil.

An editorial in the official Iranian daily *Kayhan International* of Sept. 20 stated in straightforward terms the prospects for Iran finally taking its oil industry into its own hands and ending the use of the consortium as a major servicer. NIOC is one of the fastest growing companies for profits gained over the year 1976-77. If the Shah deemed it necessary Iran's oil business could easily be run by French assistance until Iran has sufficient trained manpower to run NIOC independently.

The *Kayhan* editorial said: "Iranian officials have said privately that the NIOC team brought a greater degree of flexibility and imagination to the talks and remains prepared to finalize an agreement in good faith. It is now up to the consortium, they say, to make the next move.

"Meanwhile, the NIOC will continue to step up its own direct exports which are expected to rise by about 20 percent this year over 1977, to stand at a respectable 33 percent of total sales....

"The two sides cannot continue to operate indefinitely without final guidelines governing their relationship. And if the consortium is not willing or able to show more flexibility in its dealings, perhaps it is time for Iran to reconsider its overall relationship with the companies.

"In retrospect, the 25 year partnership with the consortium and the 50 year relationship with British Petroleum which preceded it, have not been satisfactory ones for Iran.

"Today, some 70 years after oil was first commercially produced in Iran, foreign technicians continue to hold the key technical and operational positions in the country's principal oil fields. NIOC is reportedly preparing a comprehensive 'Iranization' program to reverse that situation over the next years.... But clearly there is a strong case to be made for overhauling the present relationship with the consortium. Looking to the future, NIOC should plan to handle all operations by itself, drawing if necessary, first on indigenous know-how and technical services and later on the consortium members individually or as a group as well as other independent international companies. While this would shift investment obligations wholly into the NIOC it would simultaneously have the attraction of placing the profitable marketing of all the country's oil products including natural gas into the hands of the state-owned company. The question on the minds of the oil industry here is, has the time for this change finally come?"

According to reports from the London *Financial Times*, Oct. 31, the latest wave of strikes within Iran's oil sector is based on demands that the consortium be removed from Iran. This includes the 570 foreign managers and executives that help run Iran's oil industry, the majority of whom are British nationals. Iran's Information Minister Tehrani told the press Oct. 31 that there was a brewing crisis between NIOC and the consortium.

Iran's import costs

(in millions of rials)

The rial has remained at approximately 70 to the dollar.

	Total	Food
1970-71	128,260	
1971-72	157,658	
1972-73	193,651	20,929
1973-74	253,190	26,932
1974-75	448,075	82,770
1975-76	800,819	129,524
1976-77	901,076	99,001
1977-78	721,611*	91,944*

*First three quarters

3. Iran's parallel economy

Despite the $85 billion that has poured into Iran since the 1973 oil crisis, Iran has been unable to meet the development expectations put forth in government development plans. Out of the 2,340 industrial projects announced from the 1973 period, only 430 have been started. The explanation for this failure advanced by the International Monetary Fund (IMF) and the World Bank, that Iran's "overheated economy" needs to "cool off" through a slowdown in the growth rate, is dismissed by knowledgeable observers as stock monetarist puff which these institutions employ in every situation. Rather, they say, it is the fact that the Shah has as yet been unable to bring the layer of merchants connected to London-based merchant and investment banks under the control of the central government, that has been the main cause of Iran's difficulties.

It goes without saying that the lack of basic infrastructure and the shortage of skilled labor power has been a factor in the shortcomings of Iranian industrialization efforts. But the profit hungry "industrial feudal class" formed by the old landed aristocracy and more recently monied "jetset" strata has significantly exacerbated the bottlenecks disrupting Iran's economic growth by profiteering and speculating on the abundance of oil wealth and on various development projects, particularly in the construction sector. Iran's traditional battles with inflation over 30 percent are to a large degree the product of unproductive investment of Iran's oil wealth especially since 1973.

Among the worst impediments to the modernization process are the old feudal bazaars, which not only account for a sizeable chunk of Iran's vast black market smuggling rings, but also for an unregulated moneylending market where loans are made at exhorbitant interest rates.

The Iranian bazaars still control a considerable percentage of Iranian capital. And they also transact up to 40 percent of Iranian imports and sell domestically produced items on the open markets at inflated prices. This "amazing parallel market," as it is known by international bankers, is today a prime financial supporter of the anti-Shah Shi'ite community that is calling for Iran to foresake modernization for "pure Islamic ideals."

The bazaar merchants are remnants of Persian society of the Middle Ages, who gained immense prosperity under the British. The bazaaris are, traditionally connected into similar unregulated monetary and smuggling operations within the Arab littoral states in the Persian Gulf. These operations in turn mesh with a number of prominent and financially powerful Jewish families which exert tremendous power over this uncontrolled financial nexus. Known as "Jewish rug merchants," these top financial concerns have the capacity to exert an impact on Iran's economy through massive capital flight operations on the order of tens of millions of dollars within hours.

Having established sophisticated channels through joint ventures with Israel and British based merchants banks — often through offshore banks in the littoral states — these top level Persian Jewish financial interests are known to lend money at up to 35 percent interest, and are responsible for driving up domestic inflation.

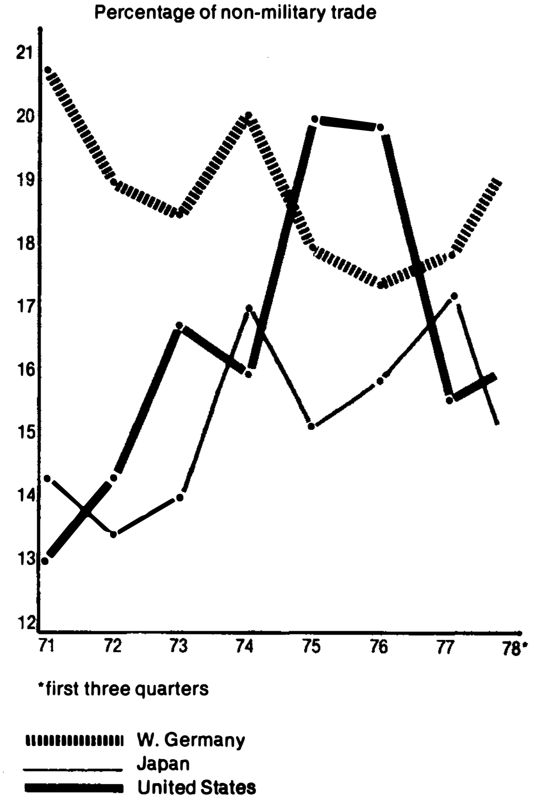
At the same time, bazaaris and related monetary speculators are known to change currencies, sometimes driving down the value of the Iranian rial to levels below the established government-quoted value of the currency. For instance, in 1977, when monetary speculation hit a high and heavy restrictions were placed on hard currency availability to commercial banks by Bank Murkazi (the central bank), the moneylenders gained short term hegemony over Iran's capital markets, driving down the value of the rial to 74 to the dollar when the quoted value was 70 to the dollar, and at the same time pushing inflation to over 25 percent.

The political influence of the moneylenders goes beyond the streets. It is estimated that at times they have exerted influence over key government officials who turned a blind eye to their operations. According to *Euromoney* of June of 1978, local banks, including the Bank Melli (the largest in Iran), continue to conduct financial transactions with the bazaaris through instruments known as "softahs." The Central Bank has repeatedly tried to stop the issuance of softahs as a means of delimiting the activities of the bazaaris.

Since World War II, as Iranian modernization began to take hold, the bazaaris have gradually lost much of their power relative to the 19th century. However, Iranian development would be expedited with an even more forceful clampdown on the bazaaris.

Informed sources estimate that unregulated Iranian money provides up to 10 percent of the hard currency to London's merchant banking community for speculative ventures on the Euromarket against European currencies and the dollar. These Iranian moneylenders are integrated into the growing offshore money markets in the gulf which are draining off oil revenues into inflationary gambits such as land speculation, presenting a formidable encumbrance to industrial development.

Iran's top three trading partners



Moreover, it is Gulf offshore banks supported by such banks as London's Kleinwart and Benson that are promoting the drawing of the Saudi riyal into these offshore money markets — a move which would inflate the Saudi economy overnight and to which Riyadh is adamantly opposed.

The cost of the political unrest

The domestic crisis in Iran led by a loose alliance of conservative Shi'ite Mullahs and the left-leaning opposition has cost Iran dearly. Over the recent months, the estimated outflow of capital has been set at $2 billion. The *New York Post* reports that last month alone $700 million left the country, thanks to the Iranian Jewish community. Moreover, Iran's foreign reserves have dropped from $12 to $10 billion as a result of the cost of massive labor strikes.

Estimates are that settlements of strikes will cost the central government $4 billion. As a result, the Teheran government has announced a series of budget cutbacks which include cuts in nuclear plant allocations and major defense cuts. The construction of an international airport in Teheran and the Teheran railroad have also been postponed.

Most serious is the reappraisal of Iran's nuclear program. The four plants now under construction by West Germany and France are certain to continue, but plans for the purchase of another eight reactors from the same venders, along with projected purchases from the U.S., are subject to delays.

As well, the *Middle East Economic Digest* reports that the current chaos has forced a delay in the finalization of the sixth development plan (to cover March 1978 to March 1983). It is speculated that the $600 billion budget projected for the next 10 years may see some trimming. The collapse of the dollar has hurt the economy. According to *Kayhan*, the cost of imports will climb 22 percent this year, while imports climbed overall by 37 percent.

Such developments indicate that even if the present government survives the crisis, at least for the short term Iranian development will suffer. The setbacks in Iran's nuclear development lean toward the demands of the Shi'ite reactionaries who have repeatedly singled out nuclear energy for attack.

4. The agricultural crisis

One of the long-term economic maladies facing Iran is that of feeding a growing population. Part of the problem stems from insufficient long-term credits to promote mechanized agricultural development. This has left Iran increasingly dependent upon imported food, which this year should reach a record upwards of $2 billion, only further compounding Iran's accelerating import costs.

The solution to the food crisis in Iran rests with completion of a regionwide agricultural development plan. Ongoing talks with the Regional Cooperation for Development (RCD, comprised of CENTO countries: Turkey, Iran and Pakistan), are aimed at joint agricultural development. But the realization of such plans is still pending stabilization of all three governments. By the end of the year the RCD is expected to have established a common market arrangement alleviating tariffs between borders. In 1974, the Shah began to fund cattle farming in Pakistan to supply Iran, as an initial step to solving Iran's food problems.

In the past the Shah has probed the prospects of incorporating India into a regionwide agricultural bread basket. But because these plans have never left the drawing board, Iran has been left trying to grow sufficient food within its own borders, an endeavor made difficult by a lack of arable land and water. As early as 1965, the Shah had expressed a desire to develop large agro-businesses in the Caspian Sea area with nuclear powered desalination plants.

Iran's domestic agriculture program has met with overwhelming bureaucratic red tape aggravated by pervasive internal corruption. Despite an allocation of $4.5 billion for food production during the fifth five-year development program (from 1973-1978), informed sources report that only a portion of that money actually went into development. Unfortunately an insufficient amount of credit for farmers has often forced them to utilize the services of the bazaaris and other moneylenders at usurious rates of interest.

According to Iranian specialist M.G. Weinbaum, members of the Iranian elite have many times "blocked the transfer of capital allocations for food production," through their positions within Iran's massive bureaucracy. The nagging problem of high-priced food or food shortages is one of the most volatile issues in Iran which has repeatedly triggered riots.

Small farmers unable to pay their loans to moneylenders have been forced to sell their lands, very often bought up by the old land owners previously disenfranchised during land reform. As a result, large numbers of farmers and peasants have moved into the cities, swelling the slums. Rural migration since 1973 has been estimated at about 8 percent of the rural population per year.

These dislocated populations form the underpaid urban labor force, especially in the highly speculative Iranian construction sector. The imposition by Premier Jamshid Amouzegar of a credit squeeze on construction has resulted in cutbacks and a new round of layoffs of low-paid migrant construction workers. In turn, these restive unemployed have, over the recent months, joined the mullahs in anti-government demonstrations.

Iranian mafia and the failure of the "White Revolution"

A group of private and commercial farmers known as the "Iranian Mafia" have been responsible for undermining the National Cooperatives and independent farmers. In cooperation with the bazaaris and their allies, the government cooperatives have been forced to sell their products below cost to the bazaaris. The cooperatives were further maligned by limited marketing, transport and storage facilities.

At the same time, the old traditional land owners, in cooperation with elements within the Ministry of Agriculture and Natural Resources and the Agriculture Development Bank of Iran, have made efforts to block the formulation of a national policy which would continue the Shah's efforts to form government supported farming cooperatives through the "White Revolution" land expropriations. The failure of the cooperatives to become productive has significantly exacerbated Iran's food shortage.

—Judith Wyer
& Takis Panagiotis