

---

# Iran: Dependency and Industrialisation

---

Hassan Hakimian

*If the free-traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another.*

[Marx, *On the Question of Free Trade*, 1848]

## Introduction

The discussion of the potential for capitalist industrialisation in the Idcs remains a hotly-debated issue. The question has appeared in various forms: 'can independent capitalist industrialisation take place in Iran?'; 'is the capitalist path to industrialisation in Kenya viable?'; or 'is imperialist penetration enhancing or retarding capitalist industrialisation in Brazil?', for example. Despite the variations in form, the essential concern so far has been to investigate the theoretical possibilities, in these countries, of revolutionising the productive forces by the pursuit of a capitalist path as exemplified by the experience of the advanced capitalist countries (accs).

Contemporary answers to this question have ranged from an outright 'no' by Frank to an outright 'yes' by Warren. In between would lie a variety of responses ranging from a 'yes' conditional on certain 'national measures' which need to be taken in order to overcome the obstacles generally imposed from the 'outside' (Sunkel and Furtado for instance), to a modified 'yes' from Cardoso, who recognised that capitalist industrialisation can and does take place but with certain fundamental characteristics which should not be overlooked (dependent capitalist development).

For our purposes in this short article, we will consider only three such views in relation to the Iranian experience: Frank and Cardoso within the dependency perspective, and Bill Warren whose views are diametrically opposed to those of dependency writers as a whole. We will assume that our readers are familiar with these writers' works, and we hope that our discussion of Iran will enable us to shed further light on the relative tenability of these views.

## The Iranian Experience: Recent Industrial Record

Iran has become increasingly integrated into the expanding international economy in the post-war period. These years have also seen some substantial structural

change in the economy, with a notable growth in the manufacturing sector. In this respect, Iran is to be grouped with certain Idcs—such as Brazil, Mexico, South Korea—which have experienced growth in their manufacturing sectors. There exist, however, interesting specificities in the case of Iran.

First, Iran's growing integration, largely through expanding exports of petroleum, has provided the country with a large and increasing amount of revenue, relieving the foreign exchange constraint. This is significant in that the recent history of most Idcs operating under the import—substitution model of industrialisation has frequently been marked by chronic crisis in their balance of payments and a concomitant cumulative debt problem. This has obviously been largely absent in Iran, particularly in the last decade.

Secondly, in contrast to countries whose exporting enterprises are mainly run by private interests (foreign or domestic), in the case of Iran, given the state ownership of the National Iranian Oil Company (NIOC), the revenues have accrued directly to the state. This has given the state—as the sole possessor of such funds—a unique position from which to control and dictate the direction of economic change and the actors participating in the process.

Thirdly, Iran has differed from other oil-exporting countries (excepting probably Venezuela and Algeria) in that its industrialisation is not merely a direct outcome of the oil price boom; its origins go back as far as the state policies of the 1930s and it is therefore at a more advanced stage now.

No less important are the social and political aspects of the Iranian experience, a forceful indication of which is to be found in the social indignation historically expressed in the massive uprising in February 1979. This mass-based social upheaval exposed as hollow visions 'the march towards the Great Civilisation' promoted by the deposed Shah's propaganda machinery and the widely-held view, encouraged by his strongest allies in the West, of Iran as an island of stability and its development path as an economic miracle.

Events since February 1979 have also cast serious doubt yet again on the conventional wisdom which envisages underdevelopment as arising from a 'shortage of capital'. Iran's unhappy experience with development from above or rather industrialisation at gunpoint—

notwithstanding the enormous capital and resources available for investment—exemplifies once and for all, we hope, such partial and inadequate understanding of development.

As mentioned earlier, the Iranian economy has experienced considerable transformations since the late 1950s. The overall pattern of the distribution of GDP indicates a steady diminution in the share of agriculture, from around one third of domestic output in 1959 to about one tenth by 1977. With the services sector maintaining a share of between 30 and 40 per cent, the oil sector had doubled its corresponding share to 32 per cent in the same period. The manufacturing sector also increased its share, from 10 to 16 per cent of GDP; indeed during the Third Plan period of 1962-67, manufacturing value added grew at nearly 13 per cent pa in real terms and then approached 14 per cent during the Fourth Plan (1968-72). It has also attracted a consistently increasing fraction of the workforce; the 2.5mn people working in manufacturing in 1977 represented a quarter of gs need to be made in this respect.

First, Iranian statistics of this period are notoriously unreliable. Secondly, even if accurate, none of the above indices can be taken as unconditional measures of development or industrialisation. As Emmanuel [1974:63] has interestingly shown, in terms of comparative shares of industry in both total product and labour force, Argentina would be roughly 'as developed or "industrialised" as the US, and indeed, Hong Kong would be even more "industrialised" than the US! Finally, the unqualified use of aggregate data often helps to conceal either the low bases from which impressive growth rates emerge, or says little about the nature and size of the plants or the composition.

For such reasons we need to look more closely at Iran's industrial performance and to characterise it as follows:

despite rapid growth of large industrial establishments, small scale labour-intensive workshops still by far predominate. In the period 1967-77, these accounted for as much as 97 per cent of the total number of establishments and more than 80 per cent of industrial employment. While the average employment size of each unit (small and large) in the urban areas was between four and five persons, the corresponding figure for the large units varied between 50 and 60 employees. The average employment in small units alone would be less than four—probably two to three persons [see Hakimian 1972:85]. A remarkable feature, however, is the *growth* of the small establishments alongside the large ones: employment in the former grew at about 6 per cent pa compared

with 8 per cent pa growth for the latter in the same period;

- despite the state's initiative, particularly since the Fourth Plan, to set up a capital goods industry which has resulted in some growth in this sector, it still remains fairly small and dominated by the production of transport equipment. Furthermore, in Iranian statistics, this sector also includes consumer durable goods. Hence commodities such as automobiles, radio and television sets, refrigerators and telephone sets are also counted as capital goods! Machine tools production or production of the means of production proper, however, remains low and, as we shall see, Iran imports much of her required capital goods;
- the nature of most 'modern plants' requires some attention. As a matter of fact, many of these are mere assembly plants in the form of joint ventures with the participation of foreign capital arising to a large extent from state protection offered to domestic production under the import-substitution model. This assembly nature of the operation is reflected in the low value added in the domestic industry: no more than one third of the total value of products produced by 'industrial' firms in the whole of the country was accounted for by the domestic industrial value added! It seems fair, in the light of the generally weak linkage of domestic industry with other sectors, to assume that the overall domestic value added (ie including other sectors also) for industrial products would be very limited as well, implying large import requirements;
- the composition of Iranian imports, indeed, illustrates this. In the period 1971 to 1977 a predominant share of Iranian imports was accounted for by intermediate and capital goods (about 74 per cent of the total on average). More specifically, 60 per cent of total Iranian imports in the 1970s went to industries (and mining) in the form of intermediate and capital goods. This shows the extent to which Iranian industry relies on international sources of basic materials and components of final production as well as technology;
- Iran's capacity to export manufactured goods has been almost negligible. Of a relatively low and even decreasing volume of non-oil exports (equivalent to only about 4.6 per cent of the import bill in 1977!) as little as 24 per cent on average consisted of 'new industrial' goods in the period 1971 to 1977. And even then these are made up of such light consumer and intermediate goods as detergents and soap, glycerine and chemicals, shoes and textiles. This is a major respect in which Iran's industrialisation differs from that of countries such as Hong Kong, India and Taiwan, which account for the bulk of Third

World manufactured exports. Moreover Iran's heavy reliance on revenues from the export of such an exhaustible resource as oil will make the capacity to export manufactures more of an issue in the longer term.

This characterisation of Iran's industrialisation process takes us back to our central question: has Iran in fact been on the path of self-generating industrialisation? Has her industrialisation been in the nature of a development of underdevelopment, deriving from her incorporation into the global system, as Frank envisages, or has it rather been directly caused and favoured by imperialist penetration as Warren would have it.

To begin with Frank, whatever one's reservations about the meaning and reliability of the data reviewed above may be, it would be very difficult to contend that the outcome of recent developments in Iran has been more or greater 'underdevelopment', or that there has occurred a process of 'accumulated backwardness'. Indeed, the evidence of high economic growth and industrialisation, even though modified in certain important respects above, in essence entailed a process of qualitative transformation including rapid urbanisation, demographic change and the differentiation and creation of new social structures and strata. But the contradictory nature of the process must not be overlooked either: this has necessarily entailed a widening gap between the haves and the have-nots and hence brought about an increasing concentration of material wealth and social privilege into certain areas and into the hands of certain groups. These social costs—both material and human—have been an integral part of the contradictory process, but they should by no means lead one to deny the reality of the transformation. If anything, 'the existence of contradictions does not indicate an obstacle to capitalist development, but rather a *condition* of that development' [Cardoso].

Indeed, it is Frank's confusion between the necessarily contradictory nature of capitalist industrialisation and his (unfavourable) ethical evaluation of it—that leads him to diagnose the malaise as 'accumulated backwardness'; hence his unwarranted conclusion about permanent stagnation and a universal lack of 'internal' dynamism—an analysis which collapses so miserably in the case of Iran. But this is not at all to suggest that we agree with Warren's version of full-blown industrialisation either. Warren's bold proclamations about the future of industrialisation in Third World countries are essentially based on three premises: the break-up of colonial monopoly powers and growing East-West rivalry; increasing popular pressure within Idcs; and finally the changed favourable attitudes of the accs. We have explained elsewhere why we regard these premises as highly questionable in relation to his

overall conclusion that the Idcs will continue to industrialise and that any obstacles are 'internal' to their economies [Hakimian 1979:30-37]. Warren's empirical observations (even if accepted) remain unaccounted for, and his generalisations about the future are largely baseless projections.

In particular, to regard the Iranian process of industrialisation as being partly fuelled by domestic popular pressures is simply fictitious. If anything, the emergence of the new post-war 'order' in Iran was actually preceded by a ruthless quelling of political forces in the country; and in the aftermath of the 1953 CIA-engineered coup, a repressive apparatus held sway whose upkeep was very much dependent on US imperialist support until the last moments of its downfall [see McMichael et al 1974].

So far we have argued against an underestimation of the dynamics of the fast growing Iranian economy—inherent in the stagnationist versions of the dependency approach; but we have also argued against a Warrenite overestimation of the dynamism and the nature of changes that are underway. This leaves us, therefore, with a position which recognises the dynamics of the transformation but also remains cautious in interpreting the process and attaching significance to its implications. We saw that, in contradistinction to both Frank and Warren, Cardoso allows for industrialisation *as well as* dependency, or 'the development of dependent capitalism' [Cardoso 1972]. This view, highlighted in Cardoso's attempt to characterise Brazil's model as 'associated—dependent development' (1973b), also seems to shed light on Iran's experience: a dynamic and transforming structure accompanied by new ties and dependent relations with the international economy which in turn impart further new characteristics to it. The similarity is shown in the fact that, as in the case of Brazil, Iran's experience is also 'characterised by a simultaneous and differentiated expansion of the three sectors of the economy: the national, the foreign and the public' [Cardoso 1976:25]. Indeed to understand fully the dynamics of the transformation and the laws governing it one would need to examine these three actors and their interaction closely. Given the complexity and importance of the subject such a task remains beyond our limited means in this article.

### **The Iranian Experience: the Significance of the Oil Industry**

We turn now to another distinct aspect of Iranian development and industrialisation, the crucial importance of the oil sector—historically the main channel for imperialist penetration and the prime force behind Iran's integration into the international economy. Indeed, an overall evaluation of Iranian

industrialisation possibilities would be incomplete without an examination of the oil industry. There are two reasons for this.

First, the history of the evolution of the industry shows a vivid and longlasting interaction of internal and external forces [see Hakimian 1979:63-69, for further discussion]. At the political level, it is now well-known that the CIA coup of 1953—which was carried out 'after a suggestion from Winston Churchill to the Eisenhower administration' [*The Guardian*, 30 March 1979]—was a direct response by the imperialist forces to contain the rise of nationalism in Iran manifested in Dr Mossadeq's attempt to nationalise the oil industry. On the other hand, the subsequent creation of an oil consortium composed of the 'Seven Sisters' and the resumption of negotiations in 1954 provided an occasion for the member companies to reach a clandestine understanding—the so-called 'Participants Agreement'—which paved the way for a direct (although discreet) method of restricting production for the purposes of avoiding an oil glut. This was achieved by the formula of the 'Aggregate Programmed Quantity', or APQ, which 'was really to become the arbiter of Iran's future growth', the significance of the new system lying in the fact that 'it effectively held down production in Iran to the levels required by the least demanding of the companies' [Sampson 1975:145-6]. Hence, with the strategic decisions over the price and output of oil subject to the vagaries of a handful of powerful transnational corporations, the Iranian oil industry belied any suggestion that it remained a national one.

Secondly, with the recent OPEC breakthrough in raising the price of oil, one wonders to what extent the resulting colossal oil revenues may be regarded as a real indication of the potential for the future transformation of the productive forces. These events are indeed highly significant for the future of centre-periphery relations. The Iranian experience, in particular, which has culminated in a breakaway from *direct* dependence on transnational oil companies, certainly provides a serious challenge to the cruder versions of dependency.

But the impact of this massive transfer of financial and monetary resources to the OPEC countries must not be overestimated either, for the following reasons. First, the 'real' price of oil (ie deflated by the price of world manufactures) actually fell in the period 1976-78. Secondly, we must consider the actual utilisation of the oil revenues. In the period 1974-78, just under one third of the total OPEC revenue was surplus (ie not absorbable in OPEC countries) and, of that, as much as 43 per cent (\$75.7 billion) flowed back into short and long term private and official investments in just two countries, the US and the UK! Even the

absorbed portion has consisted largely of purchases of armaments and luxury goods with little impact on the advancement of productive forces. This is remarkably clear in the case of Iran with a high absorption capacity: the US military sales to Iran amounted to \$18,829 millions in the period 1950-77, of which as much as 92 per cent came in 1972-77. In 1977 alone it reached over \$5 millions, constituting about 40 per cent of the total value of the imports bill. The militarising trend was further reflected in the growing size of 'defence' expenditure which assumed a size of between 24 and 29 per cent of total budget expenditure during 1974-76 [Graham 1978:176]. The era, however, came to an abrupt end in February 1979 when the expensively equipped Imperial Army crumbled before millions of bare but clenched fists.

### Concluding Remarks

In this article we have argued against two extreme views on the possibility of peripheral industrialisation: Frank's rejectionist view on the one hand, and Warren's conception of full prospects for industrialisation of Third World countries on the other. In the case of Iran, we saw that a Frankian view would lead to an underestimation of the structural change and industrial transformation which have occurred since the 1950s while a Warrenite view would lead to an overestimation of these. We argued for an alternative view: 'the development of Iran's dependence!' Hence in examining the processes of economic transformation and industrial growth, we tried to show that strong ties of dependence have linked the Iranian industrial structure to the international system. Looking through Cardoso's spectacles, in the case of Iran we found a dynamic and transforming structure with new ties and relations to the international economy which in turn imparted new conditioning characteristics to it. This was vindicated by our examination, however brief, of the developments in the oil industry.

It seems to us that the two types of approach which confine themselves either to pointing out the impossibility of capitalist industrialisation or to marvelling at its potential in Third World countries both miss out the necessarily contradictory nature of 'creative destruction' which this process has. It is clear that arguments for socialist transformation of the dependent/dominated societies require a clear understanding of what capitalism *is* capable of achieving in the periphery as well as what it is *not*. This remains essential to the formulation of any radical alternative which aims to bring about a better life for the masses of working people in these countries.

---

**note:** the more general dependency references are not given here but in the bibliography at the end of this *Bulletin*.

## References

- Graham, R., 1978, *The Illusions of Power*, Croom Helm, London, revised edition 1979
- Hakimian, M. H., 1979, 'International Integration and Capitalist Industrialisation: an Iranian Point of View', unpublished MPhil dissertation, IDS, Sussex, September
- Halliday, F., 1979, *Iran: Dictatorship and Development*, Penguin Books, Harmondsworth
- Sampson, A., 1975, *The Great Oil Companies and the World They Made. The Seven Sisters*. Coronet Books, Hodder and Stoughton
- US Congress, 1974, Senate Committee on Foreign Relations, Sub-Committee on MNCs and US Foreign Policy: Hearings, 93rd Congress, Second Session on Multinational Petroleum Companies and Foreign Policy, part 7