

Industrial Policy and Accession to WTO

Iran's Economy and the Role of Manufacturing: The necessity for comprehensive industrial policies



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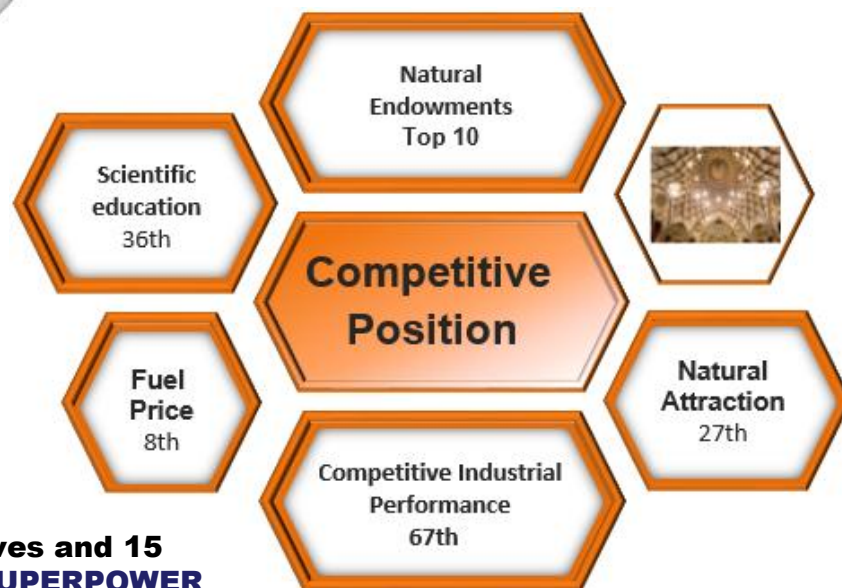


Contents





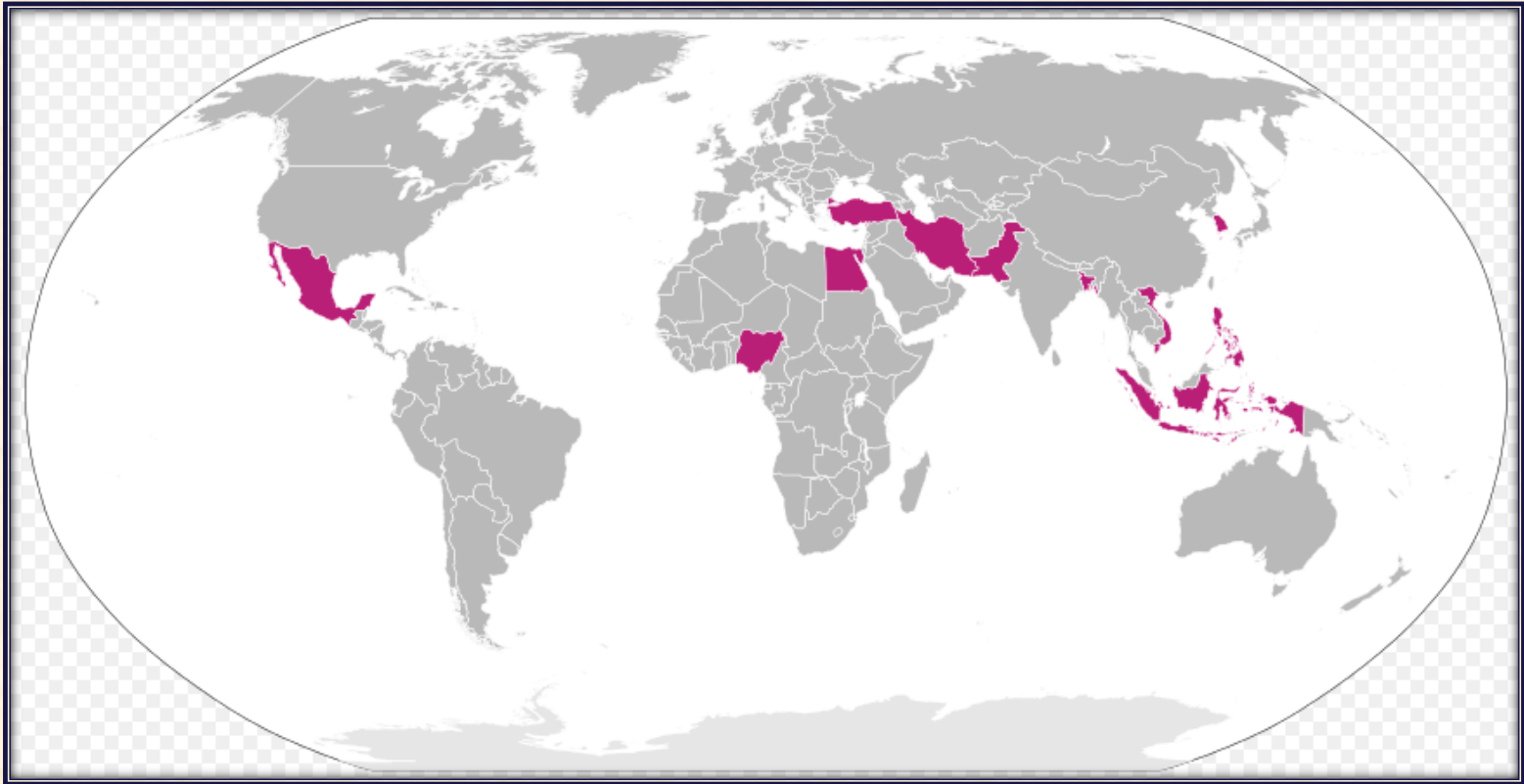
IRAN'S ECONOMY: The Global Position at a Glance



Accounting for 10 percent of the world's Proven oil reserves and 15 percent of its gas reserves, Iran is considered an **ENERGY SUPERPOWER**



Iran is a member of **NEXT ELEVEN (N-11) because of its high development potential.**



Lifting of the nuclear-related sanctions under the JPOA will provide a short-term boost to Iran's economy. For the recovery to be sustained, **longstanding structural reforms are needed.**



2

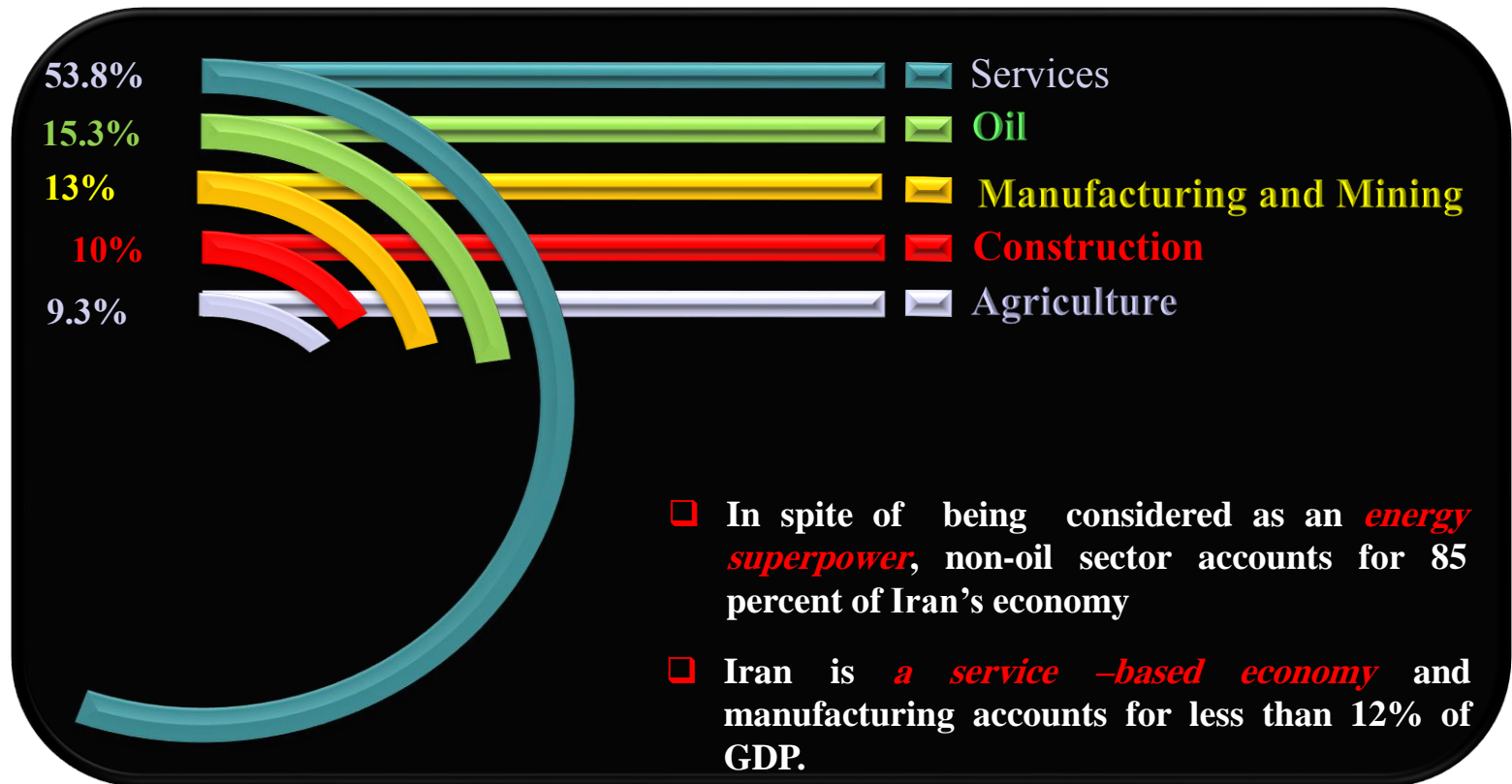
The Structure of Iran's Economy regarding the role of Manufacturing



To go through the structural reforms required in Iran's economy, it is required to take a look at the composition of economic sectors.



IRAN'S ECONOMY: Sectoral contributions to GDP



Despite a seven-decade history of Industrial development in Iran, manufacturing contribution to the economy has shown contraction within recent years as a result of:

1. Tightening pressures of economic sanctions
2. Structural challenges internal to the *Market Performance* in Iran.



3. Structural challenges in Iran's Manufacturing Sector

A. High Dependence on Resource-based Industries (2014)

activity	Value added	export
Manufacture of chemicals and chemical products	56.4	49.62
Manufacture of coke, refined petroleum products and nuclear fuel	14.57	25.49
Manufacture of basic metals	11.04	9.16
Manufacture of food products and beverages	6.47	5.63
Manufacture of other non-metallic mineral products	4.18	4.09
other	7.34	6

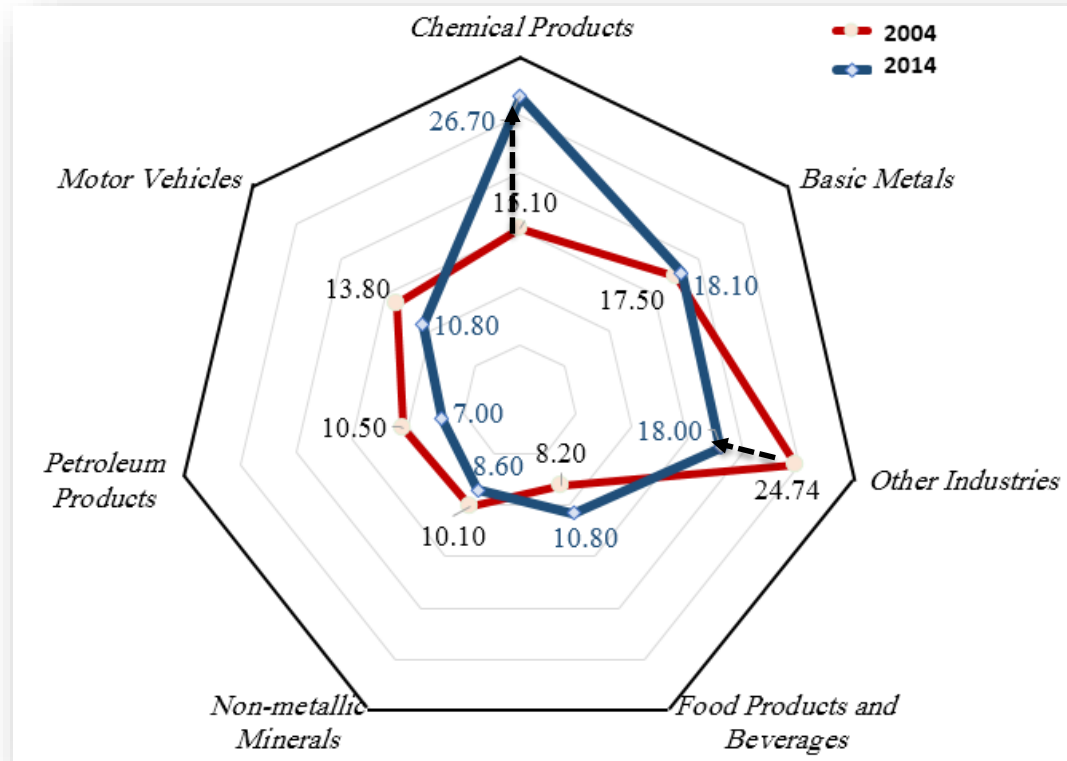


Out of 23 manufacturing activities:

- 1. Iran's manufacturing value added and export revenues are captured by 3 main activities: chemicals, refined petroleum and basic metals.**
- 2. This leaves little room for the other 20 activities to have contribution.**
- 3. A decade ago, there were less dependence on resource-based industries.**



A-1. Structural Changes in Manufacturing Production; 2004 , 2014



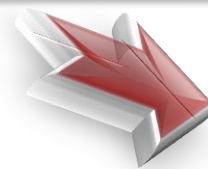
2004

Share of Top 6 Manufacturing Activities: 66%
Share of Resource-based Industries: 47%

2014

Share of Top 6 Manufacturing Activities: 82 %
Share of Resource-based Industries: 63%

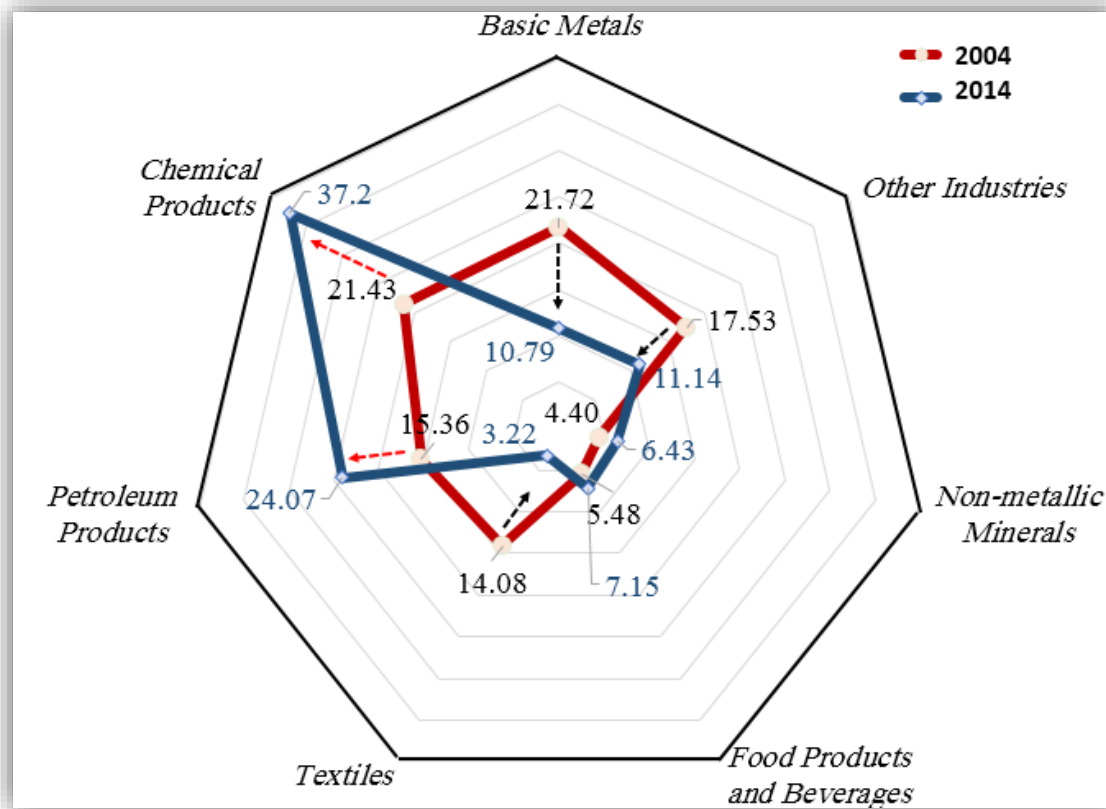
Manufacturing dynamics: towards a more **Concentrated** Structure and Increased **Reliance** on Resourced Based Industries.



Increased Economic Vulnerability



A-2. Structural Changes in Manufacturing Export; 2004 , 2014

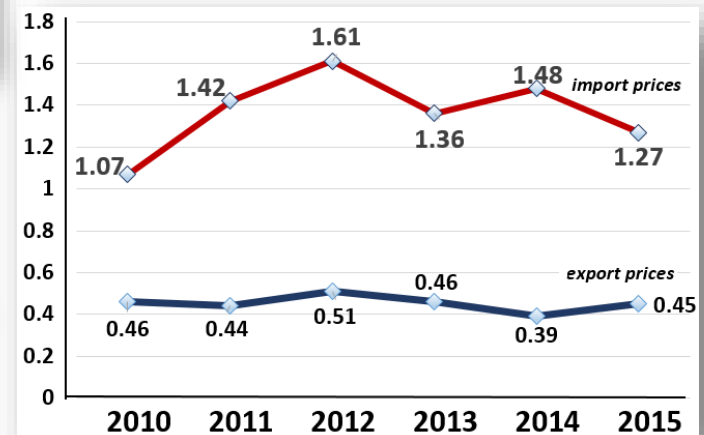


More reliance on factor-based industries
=lower terms of trade



2004
Share of Top 6 Manufacturing Activities: 82.48 %
Share of Resource-based Industries: 65.04%

2014
Share of Top 6 Manufacturing Activities: 89.64 %
Share of Resource-based Industries: 82.5%





Structural challenges in Iran's Manufacturing Sector

B. Inconsistent goals: export revenues vs. employment Generation (2014)

<i>Factor</i>	<i>Industrial with the Highest Contribution</i>	<i>Level of Contribution</i>	<i>Description</i>
<i>Employment</i>	• Food products and Beverages	16.51	Mostly dependent on domestic market
	• Other Non-metallic Mineral Products	12.99	
	• Motor Vehicles, Trailers and semi-trailers	11.39	
	<i>sum</i>	<i>40.89</i>	
<i>Export revenues</i>	• Chemical and Chemical products	37.2	All top 3 Industries resource-based
	• Coke, Refined Petroleum Products and Nuclear Fuel	24.07	
	• Basic Metal	10.79	
	<i>Sum</i>	<i>72.06</i>	

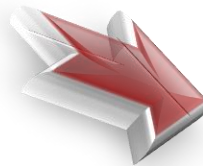
Although resource-based industries could be a source of **REVENUE GENERATION**, they have little to do with **JOB CREATION**.



C. High reliance on domestic market

activities	sales in export markets (unit: percent)	contribution to manufactured export revenue
Tanning and Dressing of Leather; Manufacture of Luggage, Handbags, Saddlery, Harness and Footwear	37.95	0.62
Chemicals and Chemical Products	35.68	49.62
Other Non-metallic Mineral Products	10.89	4.09
Coke, Refined Petroleum Products and Nuclear Fuel	9.38	25.49
Basic Metals	8.38	9.16
Food Products and Beverages	7.49	5.63
Textiles	5.92	0.75
Machinery and Equipment N.E.C.	5.84	1.06
Wearing Apparel; Dressing and Dyeing of Fur	5.18	0.05
Other industries	Less than 5 percentage	3.53
Average of Industry	12.32	100

Except for petrochemicals and leather products, there is inconsiderable export revenues available to manufacturing activities, gained through selling at export markets.

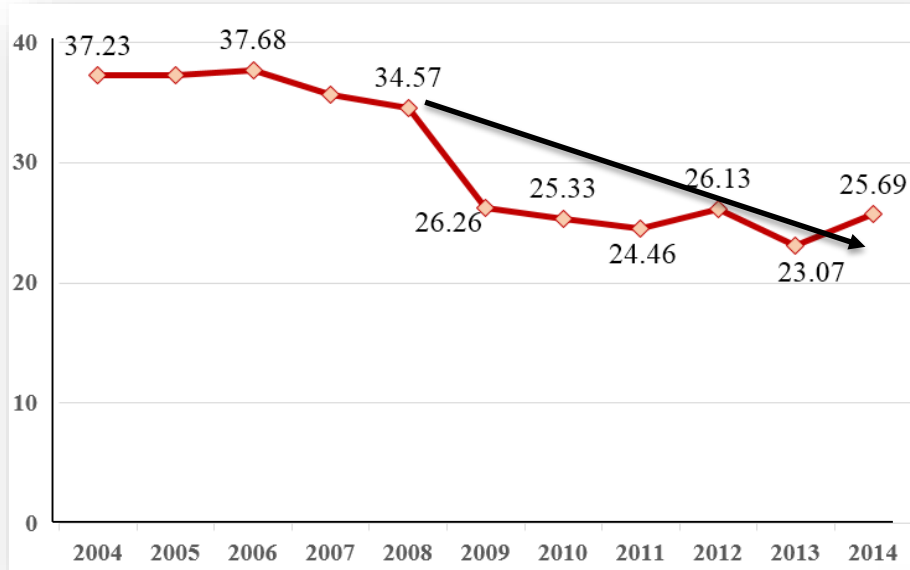


Dominance of Inward-Looking Orientation

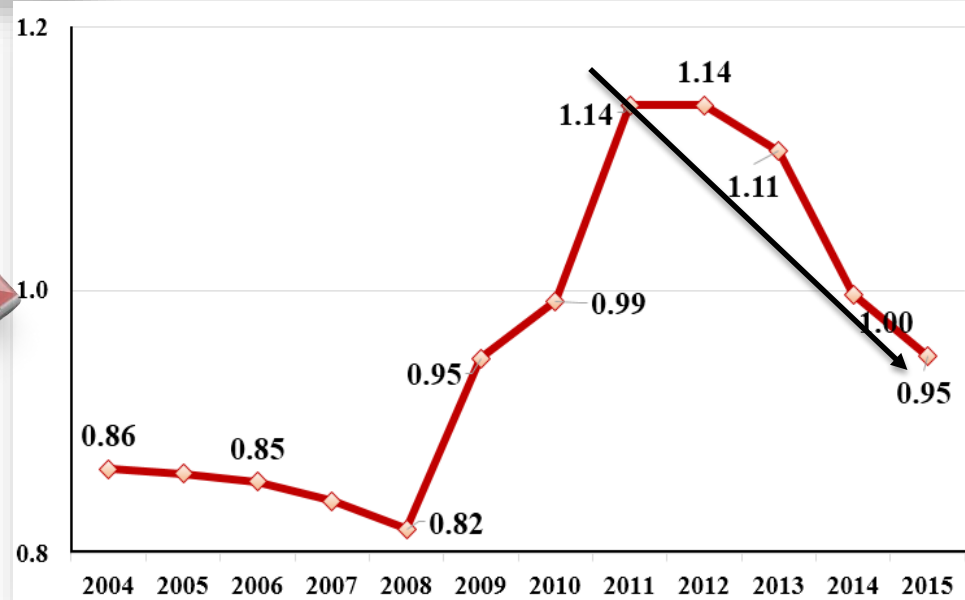


D. Decreasing industrial value generation capabilities

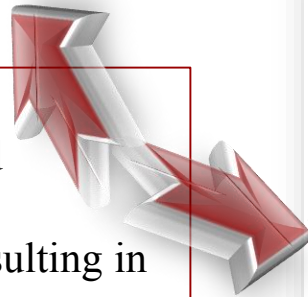
Share of value added to the output value



Manufacturing price index to PPI

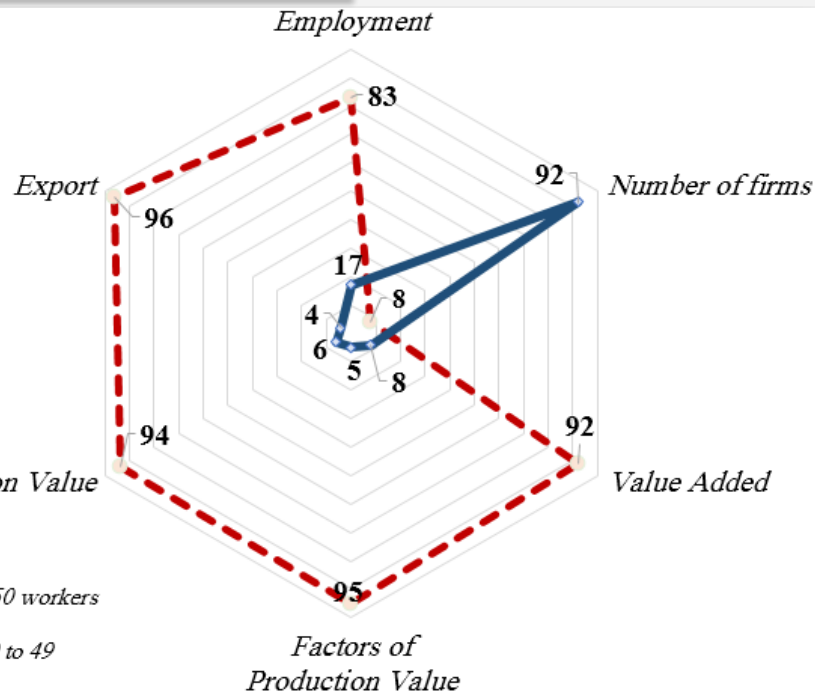


- ❑ Diminishing Productivity
- ❑ Wider demand for imported intermediary goods
- ❑ Incomplete value chains resulting in lower valued productions





E. Little Contribution of SME's to the Manufacturing Sector



despite accounting for 92 percent of total enterprises in Iran, SME's (10 to 49 employees), contribute little to key industrial indicators.

Source: Statistical Center of Iran, calculations by ITSr

SME's Economic Performance: Technology vs. Market penetration (2016)



Market Technology				
	Local	National	International	Sum
Local	37 %	10%	0%	47%
National	25%	21.5%	1.5%	48%
International	2%	2.5%	0.5%	5%
Sum	64%	34%	2%	100%

Source: Iran Small Industries and Industrial Parks Organization



4

Concluding Remarks and Policy Implications



4-1-Concluding Remarks

1. Industrial growth and export in Iran is increasingly nurtured by the resource-based industries; however, when it comes to job generation they are not on top priority anymore.
2. For the case of employment drivers (food products and beverages as well as motor vehicles, trailers and semi-trailers), there is a total dependence on **DOMESTIC MARKET** with little contribution to export revenues.
3. There is a real challenge facing policy makers: which industry to choose (and protect) to meet **EMPLOYMENT** needs as well as **EXPORT OBJECTIVES**?



4-1-Concluding Remarks (cont.)

4. Manufacturing as a **POTENTIAL ENGINE** for higher economic growth in Iran, is in need of immediate Resilience Building.
5. To realize potential contributions of manufacturing to non-oil exports in Iran's economy, it is both required to fully **EXPLOIT COMPARATIVE ADVANTAGES** in the existing manufacturing activities as well as creating **COMPETITIVE ADVANTAGES** in new industries.



4-1- Concluding Remarks (cont.)

6. Full exploitation of existing comparative advantages is in close relation with deepening value added through advancing along value chains in resource-based industries. This can be a matter of different policy options: Joint Ventures, attracting FDI, Getting License, export cluster development, improving R&D, etc.
7. To create competitive advantages in new manufacturing activities in Iran, it is needed to establish **NEW INDUSTRIAL DEVELOPMENT BLOCKS** regarding: 1- engineering capabilities and 2- service oriented manufacturing



4-2. Time Horizons: The Priority Target Sectors of Processing Industry

Horizon 1

- Scaling –up the current capacity to enjoy economies of scale in export-led manufacturing (**RESOURCE-BASED INDUSTRIAL DEVELOPMENT**)

Horizon 2

- Developing emerging capacities, including those sectors with high dynamic growth but little achievements in export markets (**SKILL-BASED DEVELOPMENT**)

Horizon 3

- Development of knowledge and technology intensive sectors that strengthen comparative advantages in the industries faced with global growing demand (**KNOWLEDGE-BASED DEVELOPMENT**).



4-3- Policy Implications: Strategic Thrusts of Industrial Development in Iran

Drivers for Economic Growth

- 1- Domestic and Overseas investment promotion in the export-led activities**
- 2- Strengthening industrial comparative advantages (advancing through the value chain)**
- 3- Market expansion (locally and internationally)**
- 4- Deepening and upgrading technological capabilities**

Enabling Environment for the Private Sector

- 6- Improving the investment climate**
- 7- Empowering SME's**
- 8- Protecting export-cluster development**





4-3- Policy Implications: Strategic Thrusts of Industrial Development in Iran (cont.)

Drivers for Economic Development

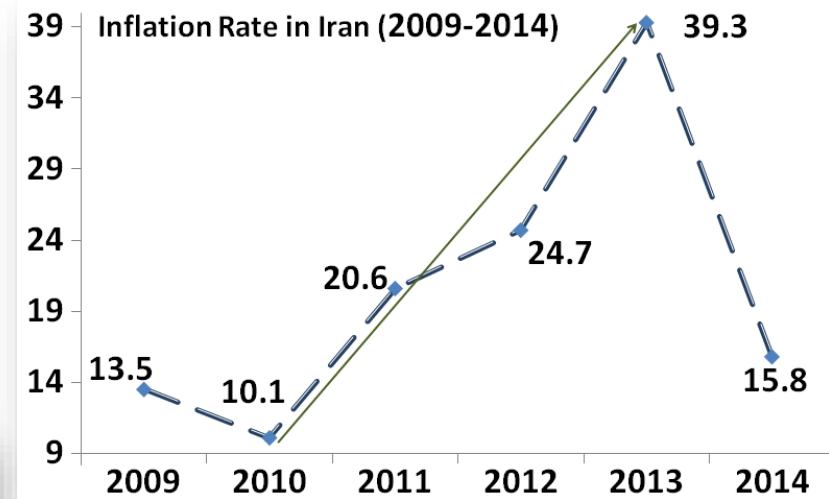
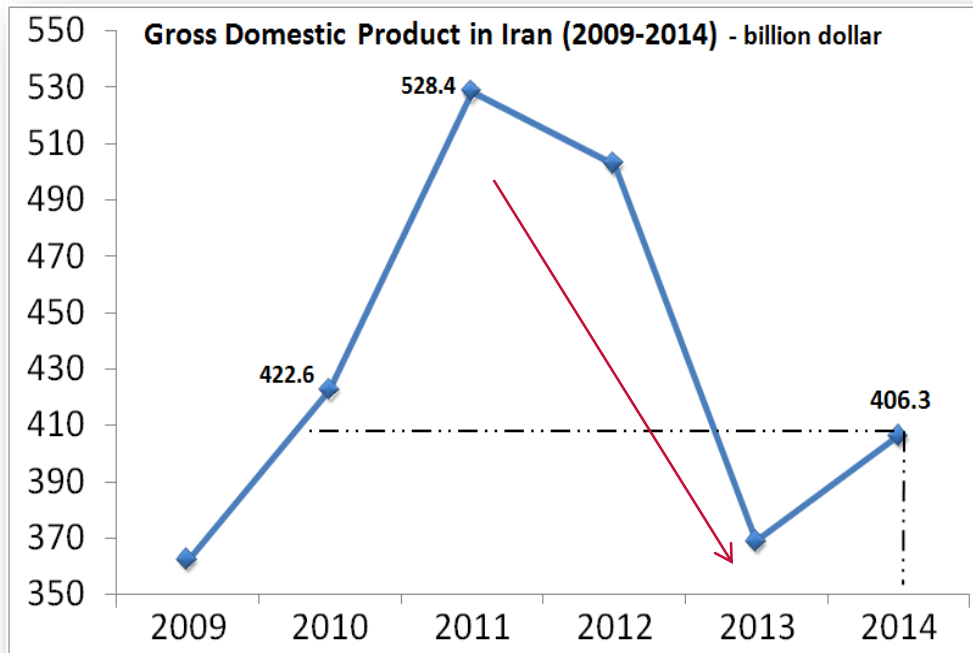
- 10- Promoting modern services related to the industry, mining and trade sectors**
- 10- Upgrading Infrastructures**
- 11- Increasing regional balances and social cohesion**



THANKS FOR YOU ATTENTION

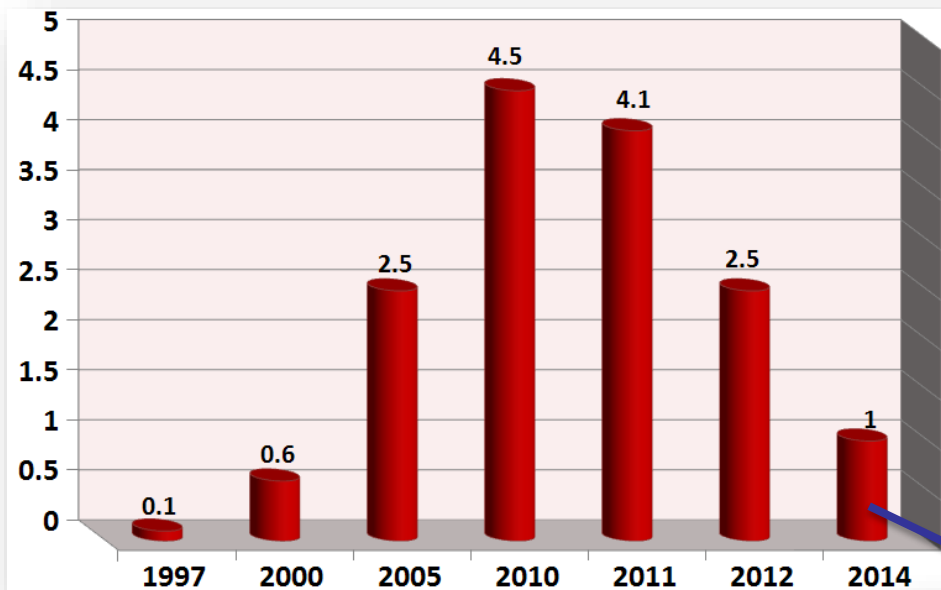


1- A Quick Review of Iran's Economy



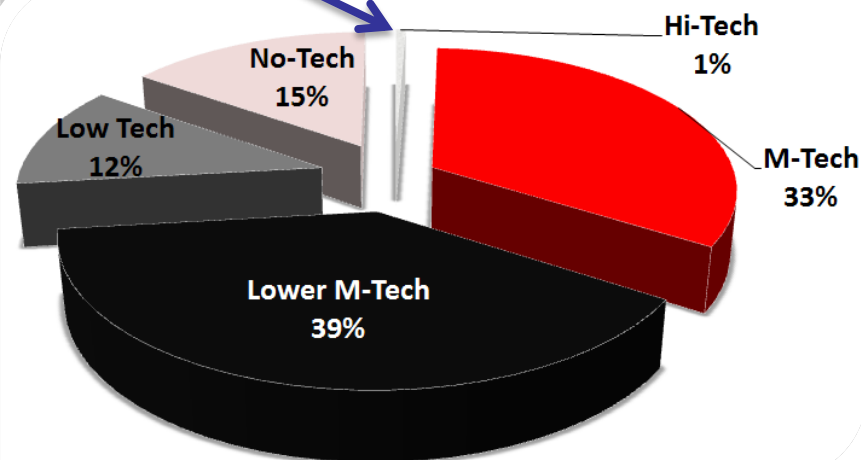


High-tech Exports to Total Manufactured Exports in Iran , 1997-2014



Low Level of Technological Deepen and Upgrading in Iran's Manufactured Exports means:

Little Room for the Economy to Enjoy Market Power In Export Markets.



Iran's Export Composition in 2014