

Yale Journal Of International Affairs

April 15, 2014

Everyone's Talking About Iran's Nuclear Program. What About Its Auto Industry?

By Masoud Movahed

Every motorized country has a symbolic car that is viewed as the emblem of its thriving auto industry. In Germany it was the Volkswagen; in America, the Cadillac; in South Korea, the Kia; and in Japan, the Toyota. Iran, too, has its own iconic car: the Paykan, which means “arrow.” Based on the defunct British Hillman Hunter, it was first exported to Iran in 1967. The homely Paykan fell far short of the world-class Japanese or German automobile standards, but for many Iranians, it stands as a symbol of their aspirations to acquire industrial development. Paykan has since been joined by much more sophisticated national cars such as Samand and Dena. Not only do they appear on the streets of Tehran or Isfahan, but also those of Caracas, Moscow and Baghdad. Paykan, once regarded as the harbinger of an economy dominated by the inefficient public-sector industries, has now become the symbol of a blossoming auto industry worldwide. Successfully producing 1.4 million vehicles in 2011, Iran’s auto industry became the world’s 12th largest automotive manufacturer. This ranking has placed Iran’s automobile industry above some countries in the Global North such as United

Kingdom (13th) and Italy (24th). With thousands of engineers designing national vehicles, the auto industry is the second largest sector in the economy outside of oil and offers a huge chunk of employment opportunity to Iran's young population.

Although the rise of auto industry in Iran has been astonishing, so too is its recent crash since the latest round of sanctions on Iran's central bank in 2011. Automobile production nationwide dropped by 40 percent in 2013 alone. The industry has since fallen to the 21st largest in the world. The recent economic sanctions, especially those that targeted Iran's central bank, struck the country's industrial might with a heavy blow.

Historically, while striving to become an exemplar of industrial development amongst developing countries, Iran's auto industry has had to go through various peaks and valleys. In the years following the US-backed 1953 coup d'état that ousted a democratically elected government, the Shah, like his father, embarked on a series of development plans to modernize the state. Building a solid auto industry was the steppingstone of a great economic leap forward. Seeking to realize his industrial vision, the Shah assisted Mahmoud Khayamai—an Iranian industrialist—to

establish the country's first auto-manufacturing site known as 'Iran National'. But Iran National did not manufacture cars from scratch. Rather, it imported almost all the spare parts from abroad and assembled them at home through a complete knock-down kit process. Later in the 1970s, although Iran succeeded to produce many parts of the Paykan domestically, the industry remained mostly dependent on foreign technology and resources.

Concurrently, many intellectuals bashed the Shah for maintaining what they called a "dependent industry," in which the indigenous manufacturing sectors were largely contingent upon foreign imports of not only the raw materials but even spare parts. They viewed this as part of a larger agenda of promoting consumerism. They begrudged the consumerist culture, which the Shah had promoted as a result of the tectonic increase in the price of oil after 1973 shock. Indeed, the massive flow of Petro-dollars in the late 1970s provided enough incentive for the Shah to promote consumerism. Iran's drastic upsurge of imports at that time is a further testament.

The Islamic Revolution of 1979 promised a more autarkic Iran. Revolutionaries reviled the Shah for turning the country into a thriving

market for imperial powers. They wanted an Iran that was not only able to manufacture commodities, but also to become a giant exporter in the global economy. Unfortunately, the new Iran also had to cope with new problems: from the protracted Iraqi invasion of 1980-1988 to the long-lasting, unilateral U.S. embargo to the recent, crippling multilateral economic sanctions on Iran's central bank. While these impediments were put in place because of the revolution, the bureaucracy's vision for an autarkic economy did manage to widen and deepen the manufacturing sectors. Iran today boasts significant competence in high-tech industries such as automotive, mining, petrochemicals and nanotechnology because of this vision.

To the surprise of many development economists, who for a long time argued that oil hinders industrialization, Iran demonstrated that industrial development is viable despite capital-intensive resource endowments such as oil and gas. Second to Norway, Iran is the only resource-based economy that has been able to embark on industrialization and relatively diversify its economy. However, despite attempts to diversify the economy, the oil and gas industries continue to account for more than 60 percent of Iran's GDP. Compared to

many oil-based economies worldwide, Iran has shown that industrial development can be harnessed even in a resource-based economy if the bureaucracy envisions it.

In the early 1990s, President Hashemi Rafsanjani raised the automotive industry from the rubbles of the long Iraq-Iran War (1980-1988). By the turn of the millennium, during Iran's reformist President Mohammad Khatami, the auto industry in Iran witnessed a formidable success, which continued even during President Ahmadinejad. In 2000, Iran Khodro, the same company that manufactured the lax Paykan, began producing and selling the Samand and later the Soren along with seven other nationally designed passenger cars.

Although Iran did manage to manufacture vehicles, it failed to export them to the lucrative international markets. This has been primarily due to ill industrial and trade policies as well as the ever-present sanctions. My aim here is not to suggest that the Iranian cars do not have quality deficiencies. Iran's Samand or Dena are not, by any means, competitive to Toyota or Honda. But they are arguably comparable to Kia or Hyundai if exposed to more international competition. Not surprisingly, the quality issue has to do with the fact that the Iranian cars have not been

prone to global markets. China barely manufactures world-class cars and South Korea has been able to do so only in the last decade. But they both have larger market shares in the global auto market than Iran. They have been able to do so only because of their fidelity to export promotion. There are reports that Iranian cars are better than the Chinese in terms of quality, but its car exports fell short even before the last round of sanctions in 2011. Easy access to hard currency through oil revenues, compounded with the heavily protected and attractive domestic market, prevented the auto industry from seeking export opportunities.

Industrial development in an oil-based economy such as Iran is significant. Simply because it calls into question the veracity of the old economic convention that the capital intensity of natural resources such as oil distorts the incentive structure for economic diversification and thereby, impedes industrialization. Quite the contrary, Iran is a conspicuous example demonstrating that industrialization is feasible despite massive oil endowments. If Iran has managed to oversee some respectable industrial development—as most sober observers believe—this is largely because of the bureaucracy's vision for an

autarchic Iran. To boost the auto industry further, Iran should seek to resolve the dispute over its nuclear program. The recent nuclear agreement with the world powers in Geneva removed the sanctions on the automotive sector. This relief seems to have galvanized the industry after two years of stagnation. Iran has already hosted an international conference on its automobile industry to attract more foreign investment and exchange of more advanced technology. Iranian industrialists should seek more export opportunities and thereby, render the quality of automobiles more competitive internationally. They should also invite the world-class auto manufacturers to invest in the national auto companies such as Iran Khodro and Saipa. With more integration in the world economy as well as higher rates of exports, Iran's national auto industry can produce first-rate cars.

About the Author

Masoud Movahed is a graduate student of Economic Sociology and Development Studies at New York University. He works on the development of resource-based economies.