

Reconstruction: Iran Debates Its Strategy

by Dr. Hooshang Amirahmadi

The Iran-Iraq war, which began on September 22, 1980, with the Iraqi invasion of Iran and ended with the United Nations-sponsored cease-fire on August 20, 1988, inflicted heavy damage on Iran. War casualties include over 300,000 killed, another 500,000 disabled and maimed, and some 2,500,000 refugees.

Damage to the country's settlements and infrastructure has been equally devastating. For example, some 60 percent of Iran's port facilities were destroyed, 52 cities were damaged (six were completely leveled and 15 were from 30 to 80 percent destroyed),¹ and 4,000 rural settlements were destroyed, with many more sustaining damage.

Economic losses have been very severe. The Iranian government calculated war damage through 1985 at about \$309 billion (at the conversion rate of \$1.00 = IR80). If we extrapolate from this figure through the end of the war, we reach a total of about \$592 billion in damage (this figure, of course, would be far lower if a market rate of exchange is used).² Of this \$592 billion, some \$210 billion relates to what the government calls "direct" damage, including losses of machinery, equipment, buildings, material, goods and similar national wealth. Opportunity costs comprise the largest part of "indirect" economic costs. The direct economic loss alone amounts to about 19.5 years of oil revenue at Iran's 1987 earnings level of \$10.7 billion.

To get a fuller picture of the costs, war expenditures of some \$50 billion (at 76 rials to the dollar) should also be taken into account. In addition, the war, on the average, destroyed some 44 percent of Iran's annual fixed capital formation, leading to a significant decline in productivity and future productive capacity. Finally, a picture of the country's war losses is incomplete without noting the extensive, nonquantifiable sociopolitical and psychological costs.

Debate On Reconstruction Priorities

Reconstruction priorities have been the subject of sharp debate since the cease-fire. Now, with the death of Ayatollah Ruhollah Khomeini and with major constitutional changes in the offing, the debate is sure to take on a new urgency. Iran's resources are limited and the course chosen will shape the nature of the country's emerging economic and political system. The debate centers around four basic issues:

- energizing the national economy;
- rebuilding the military both institutionally and materially;

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- promoting the economic well-being of the population, especially the families of those killed in the war; and
- reconstructing war-damaged areas.

Social justice, which had been the subject of continued concern after the Revolution, has been deliberately eliminated from the list of priorities for the time being.³

All four of the above issues must be addressed. But how will Iran do so? And what resources will Iran allocate to them? Indications suggest that economic growth will have top priority simply because Iran needs to generate, within a reasonable time, between four and five million jobs and control the country's ever-rising prices. At the same time Iran revitalizes its productive capacities, however, it must provide food to its population and rebuild the military if it is to match Iraq's strong army.

Foreign exchange will be required for all this. Iranian industries are dependent on international markets for about 65 percent of their input such as raw materials, intermediate goods, machinery and technology, very little of which can be generated locally no matter how emphatically the government stresses the use of indigenous resources. The needed inputs for merely bringing industrial production back to its prerevolutionary level will cost some \$6.5 billion a year in foreign exchange. The military must also be rebuilt and the annual cost of imported spare parts and equipment will amount to about \$3 billion, since only a small amount is produced domestically. The current "neither war nor peace" situation between Iran and Iraq has created significant pressure for even larger defense expenditures.

Food imports, which were always high, account for at least another \$4.5 billion a year. If another \$1 billion is added for yearly costs of scholarships, embassies, missions and similar items, Iran's total foreign exchange needs will come to some \$15 billion a year. Even the most conservative official estimate puts the government need for foreign exchange in the Iranian year 1368 (1989/90) at \$12 billion.

Yet oil earnings, which account for over 90 percent of Iran's foreign exchange, may not exceed \$13 billion a year

for the next few years even if OPEC is able to maintain its recently established production ceiling of 19.5 million barrels a day, at \$18 per barrel. (At the end of June, the European spot price for Iranian light crude was \$16.15 per barrel.) Iran's production quota is established at 2.783 million barrels a day, of which around 0.8 million is for domestic consumption and the rest for export. Only a portion of oil-earned foreign exchange, however, 50 percent at most, is actually received by the government. The rest goes to pay for costs of production, distribution, transportation, marketing, insurance, parts and repairs, new investments including exploration, and the like. Thus, of the \$13 billion estimated annual oil revenue, only around \$6.5 billion is actually available for reconstruction. About \$1 billion could also be earned from non-oil exports.

Which Strategy?

The question then becomes whether Iran should reconstruct society through an open-door strategy, with the participation of the domestic private sector along with foreign investment, or through a strategy of self-reliance with extensive state involvement. Or should there be a mixture of the two approaches?⁴

The Open Door

So far the Islamic Republic has used very little foreign assistance and has relied basically upon domestic resources. But the open-door advocates, mostly conservatives with bazaar links, argue that the policy of self-reliance will not work for reconstruction because the country has to move quickly and the needs are so great. They insist that the people have sacrificed enough and do not want to wait much longer to see their lives improve. The government, they argue, should take steps to import consumer goods and encourage the private sector to do the same and this will require liberalizing trade policies.

Investment in quick-return projects directed toward the immediate welfare of the population should also receive priority over long-term projects. This rapid-growth approach may require the use of foreign resources and expertise.

The open-door advocates oppose any extensive state intervention in the economy and reconstruction beyond its acting as indicative planner and regulator of last resort. They also maintain that unless the economic pie is made bigger by a strategy of rapid growth, there is little to share with those under the poverty line, currently about 65 percent of the population. The current president and now also successor to Ayatollah Khomeini as the "leader" of the country, President 'Ali Khamene'i,⁵ is known to favor a somewhat similar line, although he has also been open to certain aspects of the opposing view and is considered a pragmatist. According to President Khamene'i, economic growth assists the poor by boosting employment opportunities and wages, while at the same time it increases production and thus reduces inflation.⁶

Self-reliance

Others, mostly the radicals, argue that the pace can be slower, that the country must invest in industries to produce the materials needed for reconstruction—such as cement, construction, steel, and machine tools—and in social services to help the neediest. Under this approach, Iran can also rebuild sectors that rely mostly on domestic

resources and do not need much foreign exchange, such as agriculture and light industry. Radicals say that the people, who have lived in extreme hardship for 10 years, will not mind waiting a bit longer to see their lives improved.

Moreover, instead of encouraging the private sector, the government should expand and further develop cooperatives in the areas of production and distribution. The government should also continue to encourage a policy of self-reliance with a measure of protection for domestic production and resist the temptation of the quick-fix solution that the open-door policy promises.

Otherwise, the radicals maintain, the country will soon become indebted to foreign governments and companies, multinational corporations in particular. The result, as shown by Egypt's post-Nasser "Open Door Policy" known as the *Infitah*, will be increased foreign dependency and income inequality along with creation of a minority consumer market and a relative reduction in the level of industrialization. Prime Minister Mir Hosein Musavi is known to favor the radical alternative, although at times he has shown significant flexibility in accepting largely moderate or pragmatic policies.⁷ His post will be eliminated when the constitution is amended (a referendum on proposed constitutional changes is being held July 28 with the presidential election). Regardless of what his political future is, however, the radicals will remain influential in the government for many years to come.

A Mixture

Which course seems more likely? It is still up in the air, but policymakers and planners will probably produce a mixture of the two, in which the private sector will play a major role with the state maintaining a strong controlling position in the economy. Advocated by such pragmatist/centrist leaders as 'Ali Akbar Hashemi Rafsanjani, Speaker of the Majles and the man who most probably will become the next president of Iran in this month's election, the strategy would also incorporate a mixed market/planning framework to guide the coexisting public, private, and cooperative sectors.⁸ President 'Ali Khomeini's successor and shares views with Hashemi Rafsanjani and other key pragmatist leaders.

A favored approach is the privately organized cooperative, which brings, in Hashemi Rafsanjani's words, "a large number of people together as a private sector" and activates balanced economic growth. Opposed to this middle course is "Western capitalism," which is both "unjust and exploitative," and "Eastern communism," which "kills private initiatives" and "instigates antagonism between the state and the populace."⁹

In the mixed approach, the public sector is most likely to dominate industries and mines, the banking system, exports, some social services and all infrastructure, while the private and cooperative sectors will expand in housing, agriculture, small-scale productive activity, imports, and most services relating to consumption and distribution.

The mixed approach would require a nonconfrontational foreign policy that would seek to export the Islamic Revolution by creating a model to be emulated rather than by the use of force. It was indeed this new thinking in foreign policy, along with economic hardship, that was responsible for ending the war. The policy is also sup-

posed to lean the Islamic Republic toward more openness to the East and the West and reliance on foreign assistance.¹⁰ Normalization of relations with the West may be expected to follow the recent attempts to normalize relations with the Soviet Union. Advocates of the strategy also favor a certain degree of political openness and have a more positive attitude toward educated Iranians living outside the country.

Ayatollah Khomeini's Communiqué

Ayatollah Khomeini had been equivocal toward the two approaches. Though he distrusted the East and the West, particularly the United States, he approved certain policies that were put forward by the pragmatists. For example, he accepted the cease-fire and sanctioned the postwar policy of gradually normalizing relations with France, Britain and Canada, to name the most important cases. The Ayatollah also took a centrist stand in a fall 1988 communiqué he issued in response to a letter from the chiefs of the three branches of the state and the prime minister requesting his views on priorities for postwar reconstruction.¹¹

The communiqué listed the priorities as follows: provision of all kinds of socioeconomic and cultural privileges for the martyrs' families and those who helped the war effort; improvement of the country's defense capability and development of military industries, self-reliance in agriculture and expansion of scientific and research centers; planning for the welfare of the general public; liberalization of international trade in consumer commodities; and participation of the people, that is, the private sector, in reconstruction. He made it clear in the communiqué, however, that he continued to consider the U.S. and the U.S.S.R. as enemies of Islam and the Islamic Republic.

This spring, however, Ayatollah Khomeini received Soviet Foreign Minister Eduard Shevardnadze, and in mid-June, before the official mourning period for the Ayatollah was over, Hashemi Rafsanjani traveled to Moscow and signed a \$6-billion trade accord with the Soviet Union. Iran thus appears to be tilting toward the East. The move, however, could—indeed should—be considered as part of a general policy of openness that was well underway before the Salman Rushdie affair put a temporary stop to it.

Mixed Approach Vulnerable, Could Cause Problems

It must be noted that the mixed approach remains vulnerable to unexpected developments. The latest example of such an event is the uproar caused by Salman Rushdie's *Satanic Verses*. No doubt Ayatollah Khomeini's distrust of the West deepened in the aftermath of the affair. To most members of the Islamic leadership in Tehran, the event was set up purposefully by the West to inflict damage on Islam and, in consequence, on the Revolution.

Incidents such as this particularly weaken the pragmatists whose "liberal" policies were attacked by the Ayatollah in a speech he gave after relations with Western Europe deteriorated over the episode. This event indicates the immense difficulty that the pragmatists face in implementing a more moderate foreign policy so critical for postwar reconstruction. Moreover, the pragmatic approach can take root only after the presidential elections this month, when executive power is expected to come under the control of the pragmatist faction. Even then,

how permanent the policy is will depend on advances in the peace process with Iraq, for which the pragmatists are held responsible, and improvement in economic conditions.

Aside from being vulnerable to the unexpected, the mixed approach might in and of itself cause certain serious problems. It could perpetuate the ongoing ideological debates within the state. Since the mixed approach is a combination of elements from the open-door and self-reliance strategies, proponents on each side can be expected to continue to struggle for more ideological representation in the mix and more political representation in its implementation. This could waste a significant amount of time and energy badly needed for reconstruction.

The mixed approach could also lead to worsening economic conditions, at least in certain areas. The relaxation in the area of international trade could lead to a diversion of the existing huge private investable savings, some IR12 to IR15 trillion, to profitable import-export services and away from productive sectors. While employment may not rise significantly, income concentration would certainly worsen. Demand for foreign exchange would also rise, as would the trade deficit, leading to a further decline in the value of the rial. The inevitable consequences would be higher inflation and a further worsening in the purchasing power of the majority.

The mixed approach could avoid these pitfalls if the state would put strict controls on the expansion of international trade and domestic services. It could impose higher taxes on investments in these activities and make them subject to cumbersome licensing. A recent bill imposing value added taxes on luxury consumption goods and services is a step in the right direction.¹² Another bill imposes a "national tax for reconstruction" on wealthier classes of the population. A significant number of bazaaris used the war as an opportunity to amass tremendous wealth. The state could also devise effective incentive policies to channel savings into productive investment.

Fundamental Agreement On Some Issues

Despite their differences, all parties to the debate agree on a number of fundamental issues concerning the nature of the Islamic system they wish to construct and on less ideological policy matters. They all agree that domestic resources should be used to the maximum, that foreign dependency should be avoided, that "public participation," which means various things to various factions, should be encouraged, and that war-damaged areas and populations should receive added attention. They also agree that investment priority should be given to the following critical goals:

1. promoting defense industries and related establishments;
2. repairing and expanding infrastructure such as power plants, roads, and port facilities (science and technological research are included here as well);
3. rebuilding the oil industry (wells, refineries, and petrochemical plants) and oil export facilities, including pipelines and wharves;
4. developing agriculture and its supporting infrastructure, including dams, canals and other irrigation networks;
5. rebuilding and expanding construction industries, including cement and glass factories;

6. reconstructing damaged basic industries, including steel and machine tools complexes;
7. redeveloping certain war-damaged localities and cities; and
8. attending to the immediate needs of the war-afflicted families.

Stages Of Reconstruction

It is also believed, as outlined in the recently revised and amended First Socioeconomic and Cultural Development Plan of the Islamic Republic, that economic reconstruction will go through three more or less distinct stages.¹³ The first stage aims at restoring the economy to its normal functioning. In this stage, resources and effort will be directed toward the maximum use of existing productive capacity, infrastructure, and human resources, with special emphasis on agriculture and rural development. In the second stage, oil revenue will be used to achieve economic growth and a higher per-capita income. Finally, in the third stage, the growth process will be consolidated and made independent of the oil sector. Only then will achieving the goals of social justice and economic self-sufficiency become feasible.

There is no indication as to the duration of each stage. What seems certain is that the government, regardless of which faction controls it, will rely heavily on oil revenue to bring about reconstruction.

Reconstruction In War-Damaged Areas

Some important decisions vis-à-vis reconstructing the war-damaged urban areas and economic activities are being made.¹⁴

First, before plans can be developed, authorities want to know how many people will return to the devastated areas. Population projections are therefore being developed. Second, they are studying what the various cities' functions should be rather than presupposing that they will assume their previous roles. Third, they have decided to take a regional view of development; that is, in planning reconstruction, cities will be seen as integral parts of their provinces and the provinces will be seen in relation to each other.

According to this strategy, known as National Spatial Strategy Planning (*amayesh-e sarzamin*), reconstruction of rural settlements and agriculture will precede that of the cities.¹⁵ It is hoped this strategy will prevent the unwanted migration of rural people to the cities as they are rebuilt. Moreover, the strategy is consistent with the government's policy of making agriculture an "axis" or pivot of development and helping rural settlements in the first stage of economic growth and reconstruction.

New Urban Patterns

Next, cities would rebuild on their old sites but not necessarily as they were. In the past, there were few parks, but lots of markets, narrow streets, and mixed land usage—with residential housing and commercial establishments mixed together. Now, the plan is to create modern cities, with industrial and commercial sites separate from residential areas. This means that significant changes are going to take place in landholding patterns within these cities. Attempts will certainly be made to enforce Islamic building codes and vernacular architecture.

The new spatial structure of the cities is also expected to affect patterns of social and economic interactions among the residents and property relations. Old neighbors could, for example, find themselves spatially separated. The new land-use pattern will undoubtedly increase demand for modern communication networks and affect the transport system, since in many cases people will no longer be able to walk to work.

This particular urban reconstruction strategy conforms nicely to the government's priority of economic normalization and growth. The plan is to reconstruct the productive sectors first, then to respond to the infrastructural, housing, and services bottlenecks as they develop. Clearly, this is a different strategy than the one followed in the pre-cease-fire period, when the government put some 44 percent of its reconstruction budget into housing.¹⁶ The new strategy is also aimed at having the displaced population return gradually, in stages and as planned, depending on the government's ability to rebuild. Otherwise, there will be no housing or jobs for those who wish to return to their cities, except of course for those who will build their own housing with little or no reliance on the government.

Footnotes

¹The six cities that were totally destroyed are Hoveizeh, Qasr-e Shirin, Musian, Ozgoleh, Khosrawi, and Naft Shahr. Khorramshahr, which had 300,000 people in 1980, was 80 percent destroyed. Other cities between 30 and 80 percent destroyed include Nosoud, Dehloran, Gilan-e Qarb, Abadan, Bostan, Mehran, Susangard, Shush, Dezful, Andimeshk, Baneh, Sar-e Pol-e Zohab, and Sardasht.

²The Iranian government's estimate of war damage was IR24.707 trillion through September 1985, or about \$309 billion at the rate of \$1.00=IR80. Direct damage accounted for 35.5 percent or about \$110 billion. Direct damage through March 31, 1987, was estimated at \$189 billion by some government officials; if this represents the same 35.5 percent of total damage, then direct and indirect war damage through March 31, 1987, totaled \$532.4 billion. If costs continued at the same rate through the end of the war (August 20, 1988), a total damage figure of about \$592 billion would result, about \$210 billion of it direct damage.

³*Tarh-e moqaddamati-ye harakat-ha-ye kolli-ye keshvar ba'd az jang-e tahmili* (A Preliminary Look at the Overall Trends in the Country's Economy After the Imposed War), (Tehran: Ministry of Plan and Budget, not dated, but most probably 1988) (hereafter: *Tarh-e moqaddamati*); *Kayhan-e hava'i*, 4 Aban 1367, p. 3.

⁴See Hashemi Rafsanjani's sermon at the Friday Prayer on 28 Mordad 1367, printed in *Kayhan-e hava'i*, 2 Shahrivar 1367, p. 9. (Note: Add 621 years to the Iranian year to get the equivalent Gregorian year; the Iranian new year begins on March 21.)

⁵Ayatollah Khamene'i will cease to be president after elections are held this month.

⁶*Kayhan-e hava'i*, 9 Shahrivar 1367, p. 9; and 20 Mehr 1367, p. 9.

⁷*Kayhan-e hava'i*, 27 Mehr 1367, p. 11.

⁸See Hashemi Rafsanjani's sermon at the Friday Prayer on 28 Mordad 1367, printed in *Kayhan-e hava'i*, 2 Shahrivar 1367, p. 9.

⁹*Kayhan-e hava'i*, 4 Aban 1367, p. 10.

¹⁰See Hashemi Rafsanjani's statement on the occasion of the Seminar for Cultural Elevation of the Reconstruction, in *Kayhan-e hava'i*, 30 Azar 1367, p. 3.

¹¹*Kayhan-e hava'i*, 20 Mehr 1367, p. 3.

¹²*Kayhan-e hava'i*, 7 Day 1367, p. 25.

¹³"Reconstruction Policies Clarified," in *Iran Focus* (published by Menas Press, London), vol. 1, no. 2 (November 1988), pp. 8-10; and "The First Economic Development Plan," in *An Economic and Political Bulletin* (published by Echo of Iran), vol. XXXV, no. 1, November 1, 1988, pp. 5-6.

¹⁴Hooshang Amirahmadi, "Iran: At the Threshold of Reconstruction" (interview), in *The Urban Edge: Issues & Innovations*, vol. 12, no. 10, December 1988, pp. 4-5 (published by the World Bank).

¹⁵*Bazsazi va barnamehrizi-ye touse'eh-ye melli va manteqeh'i* (Reconstruction and National Regional Development Planning) (Tehran: Ministry of Plan and Budget, 1366). The document was prepared for presenta-

tion at the Seminar on the Role of Research in the Postwar Reconstruction, Shiraz University, 1366. And see Hooshang Amirahmadi, "The State and Territorial Social Justice In Postrevolutionary Iran," in *International Journal of Urban and Regional Research*, vol. 13, no. 1 (March 1989).

¹⁶*Tarh-e moqaddamati*, op. cit.