

Where Do We Stand in Global Economy?

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Mohammad Mehdi Behkish



Over the last 50 years, most countries in the world have benefited from the competitive production processes. Developing countries, especially in East Asia, by attracting foreign investment and supply of low cost production tools produced competitive products and supplied them to markets, including the Western world, and both sides made profits. For example, China, which lived in poverty, has recorded a growth rate of plus 9 percent and even 13 percent (except for four years) over the past 24 years (1982-2011). The United States and Europe, by importing cheap goods from countries like China kept their inflation below 2.5 percent (of course by applying appropriate monetary policies), and returned huge profits to the exporting countries from their investments in the developing countries: A win-win deal!

Perhaps China has benefited more than the US, because in less than 40 years, it now owns the technology and remarkable capital that can compete with that of the US so much so that capital accumulation in China has been more than that of the US in recent years. If China did not adopt this policy and like the time of Mao turned its back to foreign capital, expansion of foreign trade and the huge profits generated by its investments, today we would have the same poor China. This is while today China is a rival of the United States in many fields, but over the past few years, the factors that make up this transformation are changing and opening new windows that are different from what we have experienced in the past 40 years. Examples of these changes can be cited below:

1. The post-WW tariffs of 40-50 percent, which had reached 3 to 5 percent as a result of competitive procedures in 1980s and 1990s, have a tendency to go up again. The tariff war between China and US, as the world's two big economies, displays this same approach and it seems that in the next one or two decades, they will not go back to the last decade, because low tariffs will expand foreign trade and investment. The West was able to take advantage of affordable facilities in other countries.

Therefore, the development of communications will increase the pace of growth. This process in recent years has created economic giants such as China and South Korea... which have become the main contributors to investment in the developed world; but in contrast to this trend, problems have been created; For example, cultural contacts created due to development of information on the one hand and development of trade and technology exchanges on the other, have enabled low-growth societies to learn about the developed world and sparking a massive wave of immigration. For this reason, some countries under pressure of job seekers or under the influence of cultural problems have sought the solution in restricting freedom of trade and investment; nationalist parties have grown in most European countries and even in the US, and some have played down the benefits of competition and globalization and are seeking to limit the flood of immigrants.

2. Economic freedom without the backing of technological growth is not capable of generating a profitable competitive market. Technology growth can only facilitate economic growth, which improves the quality and reduces the cost of producing goods and services. The link between the activities of research centers and universities (including R & D) and manufacturing processes (whether goods or services), such as the

developed world, are defined in a manner that provides faster economic growth. But in most developing countries, this relationship remains unknown (or unnecessary in oil-rich countries), and as a result, specialization has become unsafe in many countries and virtually credential inflation plays the dominant role.

Of course, some of the countries that were more alert and probably out of rich resources like oil were able to correctly define this connection, like China and South Korea, and provide the infrastructure for sustainable growth and development; technological growth in these countries, along with capital accumulation and positive trade balance have diminished their dependence on Western technology and capital, although access to their markets is still a matter of urgency. As a result, it can be predicted that the two-way relationship of the developing countries with the West is changing.

3. In the space ahead, it seems that the foreign direct investment (FDI) process in East Asia will slow down, or at maximum will remain in line with the past procedures in countries that have not yet grown sufficiently, such as Vietnam, because on the one hand the price of cheap tools in the newly developed markets is gradually increasing and, on the other hand, large importing countries such as the US will throw tariff based obstacles in their way. But newly created capital will seek new markets and it seems the most important market for them in the coming decades, is the Middle East. This may indicate reducing the pace of economic growth via FDI in East Asia. But the need to shift investment that seeks to maximize profits will increase the focus on new markets. As a result, countries will benefit more in the new process that are vigilant and have learned the requirements of absorbing investment and could find an appropriate place in the direction of attracting newly emerged investments.

4. China's stunning economic growth over the past 40 years has turned the country into the second largest economy in the world so much so that it has challenged the world's largest economy, the US (which generates 24% of GDP in the world). China's nearly 1.4 billion population, with rapidly increasing per capita income has raised concerns in Western countries, especially in the US that they may lose their status in the next few years. Of course, the American economy is so large, diverse, and capital and technology oriented that it can be managed economically and independently for decades. But the Washington's Western allies do not have such facilities. So obviously the United States is worried about its hegemony in the world.

Of course, Washington possesses different tools to control the growth of the rival. For example, it trashed the Soviet Union through economic and technological means, and now it seeks to organize different economic instruments for controlling China. One such tool is the control of the resources needed by China, namely energy.

China imported close to 10 million barrels of oil in 2018 and desperately needs gas supplies to run the wheels of its industry. Considering that 30 percent of the world's oil need is exported from the Persian Gulf and Iran has the second-largest gas reserves in the world, the US seeks to dominate the Persian Gulf and has so far brought most of the Persian Gulf states under control. If Iran is added to the list the future of China would depend to some extent on the kind of agreement Beijing would strike with Washington in terms of energy supplies; especially with the development of shale oil in the United States, the country will no longer need to import energy. Therefore, the existing conflict between Iran and the US are probably not related to current written issues, including the nuclear dossier. In other words, Iran may have been fallen into the trap of international rivalries.

Other developments may also be added to what was said, in particular the sanctions, but in order to keep abreast of international issues in this note, we are currently limiting the discussion to the same extent and looking at the impact of these changes in Iran.

Our country has never been a competitive and export-oriented economy and therefore it has not used the competitive advantages over the past half a century as in countries such as China, Korea, Malaysia, Indonesia, Turkey and ... The level of tariffs in Iran has never been lowered to be concerned about their increase. But our country has not properly benefited from the growth and exchange of technology, accumulation of capital and appropriate interaction with export markets which are the driving force in boosting productivity, reducing production costs, increasing exports, and consequently creating sustainable growth. We have also failed in creating employment and improving the welfare of the society as compared with the facilities of the country remains weak. Science and expertise have not found a significant place in our economy, and Iran's economy remains dependent on raw materials, and more and more cases have been added to our problems every day. On the other hand, our country has been forced to use the resources of future generations to survive. Examples of exploitation beyond reasonable and scientific procedures of water resources, the environment, and limited or inappropriate use of expertise and ... are clear evidence of how the economy is being mismanaged.

The abundance of underground resources in our country has led to a loss of our competitive ability to the extent there is a deep gap in economic performance with other countries, such as South Korea or even Turkey, in such a way that the finished cost of a product or service in our country is much more than those in countries at our level. More importantly, the concept of productivity in our country remains unknown.

If we compare privatization process in our country with, let's say Germany, we will easily find out that our treatment of our assets (whether private or public) have been handled like an inheritance we have given to trusted individuals to exploit; whereas we did not realize that these assets were national and intra generational inputs for more production and making more profits. To do this it was required to put these assets at the disposal of specialist administrators who can create added value and in order to do so, they should identify ways to increase productivity, or hire efficient individuals who have learned optimal use of tools. Of course, we know such performance would require an appropriate legal and business atmosphere.

Under such conditions, the government's only task is to provide an appropriate space for business, increase productivity and prevent corruption, and, of course, supply general goods and services, rather than engaging in economic administration itself or delegate the affairs to relatives. We not only did not create productivity boost tools, but rather used the country's assets, and, after pursuing political goals, every day, more than the past, instead of being producers, we became consumers of assets and therefore we were unsuccessful in privatization because we thought we have obtained a cake we should not let outsiders consume it and in this way, we also easily prepared the ground for spreading corruption.

Russia, like us, took the wrong course in privatization process. The result is that out of \$350 billion in annual exports about \$220 billion worth of oil is exported. Therefore, all the above-mentioned factors, along with the sanctions, provide conditions that make it necessary to review how the country's economy is managed. Perhaps we have been preoccupied so much with our daily affairs that we could not understand the significance and immense influence of good governance on the performance of the economy and find a solution for it.

To change the course first of all, government officials should answer the question of how to turn existing assets into an initial capital to boost production. State managers must understand that the most important

means of development is investment and it will not be achieved unless it turns the consumption of today into savings and then investment and, of course, attract foreign capital that has its own requirements.

This will be done only through the transfer of affairs to qualified professionals and in a competitive and secure business environment. In other words, this will be achieved if the country's facilities first serve production, and then members of the community consume or export from generated surplus and in proportion to the value added they have created and the government receives a reasonable amount of taxes to spend on infrastructure and institutions. Meanwhile, the government should provide the environment for engagement with foreign markets.

I would like to draw the attention of dear readers to the point that I have not forgotten the daily problems we are facing. I just want to say that if we do not have a proper strategy and do not pay enough attention to the changing conditions of the world, dealing with everyday problems may solve the problems of that day but we will not only fail to move forward but even take steps back. To explain this, it is enough to look back at the average economic growth of our country over the three decades after the war (with Iraq) and compare it with what has happened in East Asia.

In continuation of our discussion on productivity, let's take up two examples to let non-specialists join our debate. If one hectare of land is made available to a farmer, he should be provided with conditions so that he could have proper production. He is expected to have value added in addition to the expenses of land, water, environment, labor, and... But if he is forced, directly or indirectly, to produce non-profitable commodities, such as wheat in a land that can be more profitable it is natural that he would consume the resources (either his own or those of the government) without having properly contributed to economic growth. Or, if a steel mill today is worth several million euros internationally, it must produce a product that, in addition to providing for the cost of depreciation, replacement and payment for raw materials and labor, and ... produce value added that would justify the investment by considering competitive prices (that is, the factory could replace the depreciated parts of the plant from its capital consumption allowance).

Unfortunately, in most cases in Iran, manufacturing processes are making losses and cannot be replaced from this perspective and due to government intervention in pricing. However, thanks to the existence of abundant resources, such as oil and gas, which are used in the form of overt and covert subsidies, and by using resources of future generations, such as climate, the environment and, above all, the employees being (or kept) poor (paying inappropriate salaries), production processes have been able to survive.

We have used the country's climate, as well as the environment, without making it a tool for productivity. We have used underground resources worse than other sources. We have created numerous universities and research centers without a reasonable relationship between education and research and production in the country, and many examples of this kind. Moreover, I have not relied on any of the important issues mentioned in the first section. We always kept the tariffs high, have not boost the technology and do not have a good relationship with the world. But as the world is changing and a new wave of events is on the way, it is imperative that we do not lag behind this stage and prepare ourselves to take advantage of the upcoming developments. To be ready, there is definitely a need to change the attitude of the administration of the economy. Let's accept that the methods used and the governance applied in the economy in the last 50 years would not give an effective response.

Therefore, we are faced with changing the paradigm or attitudes (due to new developments in the world and the region). The concept is that priorities must change. In the years after the Revolution, we set political goals first. But we have sustained a heavy cost in the economy because we did not make an attempt towards

optimal production and to reach the export markets, while China within the same period prioritized economic growth and achieved both its political and economic goals.

China last year exported \$570 billion worth of goods and services to the US, which was its number one enemy, and imported only \$180 billion from the US, that is close to \$400 billion in positive trade balance in only one year. In other words, approximately \$400 billion of US resources have been transferred to China in just one year. This goal, other than the method adopted in prioritizing, would not have been possible in another way. Instead of spending resources for pricing, the Chinese government has strived to help Chinese exporters access markets like that of the US. China is not only the largest exporter to the US, but also the largest exporter to countries such as Russia and... In other words, China has turned the hostile America to a rival America, and does the same with Russia.

If we can find our way to economic success in a space where new possibilities are created then our social, cultural and political policies will be defined in the same direction. I hope that the country will value scientific methods once and hire experts to analyze problems from the perspective of new developments. At present, there is a widespread debate about whether the country should negotiate with the United States or not. It is natural that resorting to diplomacy is the main focus of the adjustment of relations between countries in the democratic world.

Nevertheless, diplomacy or negotiation, without a clear goal, would not reach a specific destination, unless the strategy of governance is defined according to the common needs of the country and the world, and the needs of the people for living in compliance with the available facilities. This is something that has not been taken into account in the Joint Comprehensive Plan of Action (JCPOA). But when the nature and form of relations between countries are changing - as described above - the formulation of new strategies is of more importance than the past and even compared to the time of JCPOA. Of course, such a plan would not be possible to implement except in broad cooperation with experts and having knowledge about the current and changing mechanisms in the world.

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