

## Iran, world economy and World Trade Organization (WTO)

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**Abstract:** To achieve strategic goals, Iran with an oil dependent economy, needs to make arrangements to join world economy. Participating in international economical organizations including WTO is an essential tool to reach this goal. Although disagreements exist among governmental authorities, industry owners and economical experts, becoming observer member and starting full membership process bring up more serious discussions about its relation with world economy and consequences of membership in WTO. In this article the attitude of Iran toward world economy, different views and the process of gaining observer membership, consequences and barriers of Iran's full membership in this organization have been reviewed.

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### Introduction

Iran is one of the major oil producers; however these resources would finish in not a long time. Since this country can not rely on one product economy, it has to make some arrangements to join world economy. Membership in WTO is one of the most important ways for the country to join international economy. In general council meeting of WTO (26 may 2005) Iran's application accepted and the process of full membership of this country in the organization started. In spite of that there is not complete agreement inside the country about the manner of communication with world economy and different aspects of membership in the organization.

The objective of this article is to investigate the position and role of world economy alterations and world trade economy on Iran's macro-economical strategies and to review different internal views about this subject and also to evaluate consequences and problems of joining this country to the organization.

Hence, in the next four sections first by considering the country's prospective policy and development programs, the attitude of Iran's government about world economy and WTO and then process of gaining observer membership in the organization were investigated. And then the consequences of the country's membership in the organization are evaluated and at the end some issues, required measures and problems on the way of full membership were discussed.

### 1- Iran, world economy and WTO

#### 1-1-globalization of economy and WTO

Globalization generally means expansion of scale, dimension growth, acceleration and deepening effect of global movements and social communication

patterns<sup>1</sup>. Today the signs of globalization are appearing in many domains including economy, politics, culture and one of the most brilliant domains is the economy.

Some of the experts of international economy believe that globalization of economy is related to a set of global and international parameters and elements which are trying to spread and to accelerate relation and interdependence between governments and also civil societies in international political economy. Some other experts believe that globalization of economy means complete elimination of national borders; its characteristics are integration of national economies in international economy by means of expansion of volume of commodity and service merchandise, direct foreign investment and investment on share market and international tourism<sup>2</sup>.

"Mc. Ivan" believes that the trend of globalization of economy is toward free and international development and more extensive distribution and certainly without restriction of economical and commercial relations. "Paul Krugman" defines globalization of economy as an

<sup>1</sup> -Hold D. and Mc Grow, "globalization and its opponents" translated by Karbasian M., scientific and cultural press, 2003, p.1

<sup>2</sup> - Javan F., "policy of export development and its relation with joining to world trade organization" Tehran, Economical-Political Information Magazine, 2002, No. 179-180, p.241.

opportunity and extensive opening of national markets to international trade.<sup>3</sup>

About the relation of globalization of economy and national development, it has been said that in the framework of globalization of economy, acceleration of international economy and production trend and also bursting growth of transferring global and international capitals cause development of fundamental and macro strategies of nations to commercial and economical liberalization. And based on the ideas of classic economics, increasing competitiveness following reform and promoting economic privileges and relative production of national economics will improve life standards in such countries<sup>4</sup>.

From the early 20<sup>th</sup> century and particularly after world wars, international trading becomes essential for industrial countries to develop. For developing countries trading with foreign countries was not only a tool to supply the needs but also in a larger scale it was strategically used for economical development<sup>5</sup>.

In summary globalization of economy includes elimination of national economy borders, multilateral extension of international trading, productive and financial activities and growing power of multinational companies and international financial institutes in these processes<sup>6</sup>. Also, in the trend of globalization of economy extension and deepening of bilateral dependence of countries and national economies, integration of national markets and development of commercial exchange, deregulation and elimination of supportive rules are observable; these steps are applied by policy making of global economical associations, activities by international companies and commercial institutes like World Bank

and international monetary fund<sup>7</sup> and particularly world trade organization.

The countries who wanted to participate in international trading market signed General Agreement on Tariff & Trade (GATT) in 1947 and after that in 1995 they agreed to change it to WTO.

Globalization is the main characteristic of economy and this phenomenon has been evolved and in now moving toward enactment of common rules among world countries and establishment of global regime. For instance development of organizations and regional economical associations including establishment and evolution WTO<sup>8</sup> and generally substituting countries' national organizations in many tasks with international organizations<sup>9</sup> and consequently liberalization of capital transfer among countries are the signs of globalization of economy in the present time<sup>10</sup>.

### **1-2-Iran's attitude toward world economy and WTO**

Based on Iran's prospective policy in 20 years which is provided in 2003, the country's attitude toward world economy has been cleared. Iranian society on the outlook of this prospective will have characteristics like developed, the first economical, scientific and technological position in south western Asia (including Middle East, central Asia, Caucasia, and neighbor countries) by rapid and continuous economical growth, relative increase of per capita income and achieving full employment. And Iran will have a effective and constructive communication with the world. As this policy indicates the main characteristic is being developed and reaching first stage in economy in the region. This can not be fulfilled without having a constructive and effective communication in international field, globalization and bilateral dependence.

Most of the experts believe that in the present time the members of WTO have better opportunity for competition and effect in world economy<sup>11</sup>. The

<sup>3</sup>- Piltan F., "world trade organization and union of south countries", Tehran, Economical-Political Information Magazine, 2004, No. 213-214, p.98.

<sup>4</sup>- Hussein Pour Ahmadi Meibodi, "new dialectic of international economical political system: globalization of economy and economical and commercial regionalism", Tehran, Economical-Political Information Magazine, 2000, No. 155-156, pp. 187-188

<sup>5</sup>- Akhavi A., "international trading, commercial and economic development strategy", Tehran, Commercial Research and study institute, 1993, pp. a, c, d

<sup>6</sup>- Xore M., "Globalization and South", translated by: Cheshmeh Khavar S., Commercial Research and study institute, 2003, pp.2-3.

<sup>7</sup>- Simbor R. "globalization of economy and its effect on national ruler ship", Tehran, Economical-Political Information Magazine, 2000, No. 175-176

<sup>8</sup>- Nonejad M., "globalization, Concepts, Tools, Consequences, Views", Tehran, Economical-Political Information Magazine, 2005, No. 207-208, p. 201

<sup>9</sup>- Doayi H. A., Aali M., "Organizations on the Ground of Globalization", Tehran, Bayan Hedayat Nour, 2005, pp. 49-50

<sup>10</sup>- Ghafoori M., "Nature of Globalization, Aspects and its challenges, Tehran, Economical-Political Information Magazine, 2005, No. 207-208, p. 215

<sup>11</sup>- Mousavi Qomi S. A., "An Opportunity for Globalization", 2010, <https://www.hamsharionline.ir/news>

process of joining Iran to World Trade Organization had and will have Ups and downs. But in this period two development plans have been implemented in Iran and new plans will be implemented and the country's development strategy and economical purposes will be determined. In addition, to fulfill the objectives of the prospective there are 3 five years program ahead of the country. This means 15 years and it is the time that the process of joining will last. However, for this process which will be long, complex and multi step, Iran requires a strategic management to affect its development programs<sup>12</sup>.

The first executive stage of the prospective policy started with fourth development plan and in recent four years the first steps have been taken to achieve its goals and the government has had wide efforts in this aspect. In fact, the Fourth Development Program (2009-2005) in the framework of Prospective Policy in 20 years and with the missions "knowledge based sustainable economic growth" and single-digit unemployment and inflation, has been formulated and implemented. Continuous and sustainable growth and development based on knowledge, active engagement with the global economy, opportunity of competition in the economy and etc. are the objectives and requirements of this program.

Fifth Development Plan (2015-2011) also developed principles that some of the most important ones are as follows:

- Access to the position in the region depicted in the Prospective Policy in 20 years.
- Create the appropriate atmosphere for achieving high economic and social mutations.

In fact, the fifth development plan has prepared in the form of requirements of the Prospective Policy in 20 years and moving towards gain first place in economy in the region is of its core topics<sup>13</sup>. However, Iran's foreign economy in the coming years will be faced with many challenges.<sup>14</sup> Membership in WTO does not mean to obtain a seat as with other international organizations, but it means permanent, without discriminatory, transparent and predictable presence in global market in the future and gaining such a presence require arrangements within the legislative, legal and negotiations and particularly accepting certain obligations.

In the past 19 years constructive and positive measures has been done in the direction of understanding the organization in Iran. Of course WTO agreements should become law in this country.

<sup>12</sup>- Omid Bakhsh e. "Iran on the way of World Trade Organization", *ibid*.

<sup>13</sup>- Prospective Policy in 20 years and macro economical programs dari. [irib.ir/index](http://irib.ir/index)

<sup>14</sup>- Omid Bakhsh e, *op.cit*

Moreover, interference of non-economical factors and sometimes political in the process must not neglected.

In fact, the quality of interaction with world trade and economy and impact of this in the process of Iran's economic development is most important issue in the coming years And actually joining negotiations which is a gradual process can be the best opportunity for this country to use world economy's dynamism and factors in development programs and economic legislation and policies<sup>15</sup>.

## **2- ups and downs of the process of joining Iran to WTO**

### **2-1- observer membership in GATT**

In addition to 23 countries founders of GATT, Iran with 29 other countries was among the signatories of Havana Charter<sup>16</sup>. However, the Havana Charter was not successful and the plan of founding an international trade organization that was its most important suggestion did not come to reality for half century after the charter. But GATT which was chapter 4 of the Havana Charter and was temporarily implemented continued its existence.

In addition to observer membership at the contracting parties meetings, in 1974 Iran calls for observer membership in the GATT Council of Representatives, this was accepted in July of that same year.

However, Iran never signed the protocol of provisional application of GATT and did not consequently participate in any of the eight periods of tariff negotiations. Also, Iran participated in negotiations to establish the preferential arrangements among developing countries based on the decision on 26 November 1971 of GATT contracting parties, although it never join in this protocol<sup>17</sup>.

### **2-2-efforts to full membership in GATT and WTO**

Following attendance at the Tokyo meeting of Ministers in 1973 and simultaneous to severe increase of country's revenue due to the oil shocks of 1973-1974 the cabinet ordered the Ministry of Commerce to investigate the membership of Iran in the GAT. But this investigation did not lead to any measure.

From April 1991 study and evaluation of GATT and the possible consequences of Iran's membership was in the agenda of Iran's Ministry of Commerce. A few weeks after Uruguay negotiations round in September 1993, Iran's government agreed with establishing a committee to investigate the consequences of membership in GATT.

The decision by ministers of 124 GATT contracting parties in Morocco on 15 April 1994

<sup>15</sup>- *Ibid*.

<sup>16</sup> I.R.Iran Office of Trade Representative, Tehran, Newsletter, year 9, No.71, 2005

<sup>17</sup>- [Http:// www. Irtr. gov. Ir/Pages / News Letter.](http://www.Irtr.gov.Ir/Pages/News_Letter)

regarding the establishment of the WTO, from the beginning of 1995 GATT replaced by the WTO and Iran extended its observer membership of GATT to this organization<sup>18</sup>.

### **2-3-From the accession request to investigation in the General Council**

After summarizing the researches and views, the Cabinet in 1996 greed with the official notification of accession request to the organization. Although Iran's accession request was submitted at 19 July 1996, but because the U.S. opposed, Director General postpone the country's accession request and achieving consensus to further consultations.

On October 1996, Iran called for the observer membership in the Ministerial Meeting in Singapore. The application investigated in General Council meeting on November 1996 but this request was not accepted by consensus<sup>19</sup>. And Iran's accession request had never been brought on the agenda of the General Council for the last five years. finally at General Council meeting on 7-8 December 2000 it was agreed to bring it on the agenda of the next meeting of General Council<sup>20</sup>.

### **2-4-Investigation of accession request in General Council of WTO**

For the first time, General Council meeting on May 8, 2001 brought the accession request of Iran on its agenda. In this meeting, the U.S. representative stated that his government was not in a position to discuss about Iran's accession request. This statement was repeated in 20 other meetings, during the years 2001-2004, and prevented consensus on the establishment of the Working Party of Iran's accession and starting accession negotiations process. But with the support of the organization's members especially developing countries its accession request remained on the agenda of the General Council meeting.

During the nuclear talks between Iran and the European Union based on the Paris Agreement on 15 November 2004 European Union in exchange of the temporary suspension of activities related to the fuel cycle in Iran committed to active support of the Iran's accession request to the WTO.

Finally twenty second General Council meeting on May 26, 2005 ended prolonged waiting and its accession request reached consensus of the WTO members. With acceptance of this request, Iran became observer member of the WTO and the process of full membership (accession) to the organization started. Thus, after a decade hiatus, Iran restored again

its observer status in the multilateral trading system which had all the 50 year period of GATT<sup>21</sup>.

### **3- Different view points related to the membership of Iran in the WTO**

#### **3-1- Regarding to the joining or not to join the organization**

##### **3-1-1- optimistic view**

This group believes that not only the joining in the WTO isn't compulsory, but also it is a voluntary affair in order to take advantage from the benefits of the free trade with other member countries. Thus, considering the increase in number of members of this organization during last years and day to day developing the role of this organization in international trading and paying attention to this fact that member countries take mutual advantages from accessing to the markets of each other and mutual trade facilities; joining Iran in this organization at current circumstances is taken to account as an inevitable necessity. Also, membership in this organization will lead to the hard and effective competence between domestic and foreign producers and this in turn will cause the balanced growth in domestic industries.

Optimistic group also demonstrate that the article of association of the WTO has foreseen short period advantages especially in the case of developing countries, and Iran as a developing country can enjoy of these advantages.<sup>22</sup>

##### **3-1-2- pessimistic view**

Pessimistic group - which now holds the majority of the executive and legislating departments of the country – believe that membership of Iran in the world trade organization will cause devastating the domestic industry and will put Iran under domination of the powerful industrial countries. On this issue, and during the evaluation of some of articles of law of the fifth plan which obligates the government to prepare and empower the economical bases of the country for membership in the world trade organization up to the end of the second year of the plan along with orchestrating the laws and instructions of the country's trade sections with laws and instructions of the regional and international corporations such as the WTO, the delegates of the legislative assembly disagreed with acting based on urging the government for being member in the WTO up to the end of the second year of the plan.

The group under consideration argues that based on the third prototype of constitution, obligating the

<sup>18</sup> - ibid

<sup>19</sup> -ibid

<sup>20</sup> -ibid

<sup>21</sup> -ibid

<sup>22</sup> - Hasan rezaeie , the prospective of Iran membership in in the world trade organization, Tehran, the journal of political-economical information, year 2005, no. 217-218, page 129

government to be the member in WTO up to the end of the second year of the plan contradicts with this prototype of the constitution. Also, based on their point of view, considering the eighty fifth prototype of constitution regarding the fact that every type of contract that may cause the domination of foreign countries on natural resources, economics, culture and values is forbidden; thus, Iran shouldn't join in the world trade organization, however, it should represent economical and economical model approaches to the world. Thus, in legislations it should be acted such that the government shouldn't be obliged to join WTO in short period. Based on this fact, accelerating to be member in WTO up to the end of second year of fifth plan was omitted and government was assigned to move slightly toward being the member in this organization.<sup>23</sup>

### **3-2- Regarding the consequences of joining Iran in the WTO**

#### **3-2-1 commercial view point**

Those who believe this point of view, argue that Iran has relative advantage in some of the productive resources and items and they specifically point on the fossil fuel and extensive human resources and they mention these factors as advantages in producing district and being out of this organization, it will seclude from others at the world trade area more than ever.

Based on this, when the existing obstacles of importing goods are removed, domestic industries will get coerced to make their productions competitive in the circumstance of pressures from competing imported goods in order to survive and as a result they will have the possibility of presenting effectively in the world markets.<sup>24</sup>

#### **3-2-2 structural or development view point**

This view point has been represented mostly by development experts. This group demonstrates that the principle of relative advantage is the indicative of a country's potential advantages in the area of producing some of goods in a particular moment.

This group believes that, entering the free trade based on relative advantage in fact will lead to the growth of small part of production by absorbing the resources in current advantageous goods, but it will never be capable of empowering the districts that will be necessary for objective growth of country's economy. In other words, before joining the world free trade, it is necessary to provide and execute an effective development plan and argue about conditions of entering the organization with determining the objectives of the development.

#### **3-2-3 management view point**

In fact, third view point involves the management understanding from mixing first and second view points presented earlier. In this view point, existence of industrial productive units and their potential ability for competing with free imports and entering the world markets are admitted, but it is emphasized that for actuating these capacities, it is necessary for Iranian companies to have suitable and qualified management and optimized organization in advance, to be capable of producing and offering the competitive goods and also to provide the necessary facilities for activity of qualified managers.<sup>25</sup>

### **4- Consequences, difficulties and other points about full membership of Iran in the WTO**

#### **4-1- Benefits of full membership of Iran in the WTO for the country**

Most of the experts in Iran believe that at current situation, Iran products in international arena aren't capable of commercially competing. Nevertheless, with getting member in the world trade organization, simply the possibility of more extensive attending Iran's economy in world markets will be prepared and this will put the country in the competitiveness space which it seems to be a beneficial affair.<sup>26</sup>

From this point of view, presence of this country in communities and international political and economical arrangements is one of necessary tools for reaching to the strategic goals like increasing the economical competence power in the world trade arena.

From the point of view of this group, fully joining Iran in the world trade organization will have following advantages for the economy of this country:

1- The possibility of absorbing the foreign investments in to the country and taking advantage from the facilities of transferring technology from developed industrial countries and developing job vacancies and increasing the tax incomes.

2- Accepting the commitments related to trading the services, providing the basis for getting more familiar with modern banking and increasing the competence power and efficiency of banking industry and improvement of economical conditions of the country.

4- continuous and safe access to the exporting markets, help the development of the non oil exports and development of the commercial relations among member countries.

5- Software development in presenting the services, taking advantages from the facilities of

<sup>25</sup> -ibid, p 132

<sup>26</sup> - Faroq keikhosrovi ( commission head of Iran's commercial room), the conditions of membership in world trade,2010, [www.hamshahrionline.ir/news](http://www.hamshahrionline.ir/news)

<sup>23</sup> -ibid, p 130

<sup>24</sup> -ibid, p 131

transferring technology and extending the training in the area of air, marine and land transportation.

6- The improvement of the quality of the produced goods and the possibility of the competence with similar foreign goods because of the commitment to observe the international standards.

7- Reduction in the hindering rules and instructions and empowering the scientific management with improving the technology.

8- Competence in the world market and generating more movement in the industry.

9- Providing job vacancies for human power which is more than seasonal capacity of the domestic job market.

10- Accelerating the access to the governments goals of economic policies in order to reach the real prices and clearing the goods markets.

11- Reducing the administrative violent, bribery and embezzlement.<sup>27</sup>

12- Providing the possibility of the entering in to the market of 153 member countries of this organization

13- Enjoyment from the commercial facilities of the organization<sup>28</sup>

14- The probability of putting the energy argument in agenda of future negotiations and the benefits of attending in these negotiations.<sup>29</sup>

#### **4-2- The negative effects of joining to WTO for Iran**

From some of the expert's points of view, the government authorities and those who are in charge of the Iranian industries; some of the negative effects of the membership in the World Trade Organization for Iran are as follow:

1- Considering the industrial structure of the country, currently about 50 percent of the Iranian industries require tariff and non- tariff supports and in no way it is not economically suitable for the amateur industries of the country to be quitted in the competitive arena of the international competitions.

2- The industry in Iran is new and at in beginning of its life and in the case of membership in mentioned organization and admitting the instructions of intellectual property rights, there should be paid very heavy costs related to the right of mimicking and copying by the authorities of such industries in Iran and as a result, there wouldn't be balance between receiving and paying in this arena.

<sup>27</sup>- Nonejhad op.cit, p 203

<sup>28</sup>- Rezaeie, op.cit , p 133

<sup>29</sup>- Reza akbarian, the consequences of joining iran in the world trade organization, Tehran, the journal of political-economical information, year 2005, no. 213-214, page 116

3- Currently, the major part of the Iran exports is composed of oil and some of the agricultural and traditional products (carpet) and the domain of taking advantage from the benefits of this organization for this country is very limited.

4- Chaos in the trend of country's imports and the lack of currency provision which limits the imports, considering the shortage of currency resources may destroy the economy of this country.

5- If in the case of accession of Iran to the world trade organization, the custom tariffs decrease, then tax incomes of the government from the importation sector and other resources related to the foreign trades will decrease.

6- Occurrence of serious problems – with entrance of similar foreign goods – for some of the products such as medical equipments and tools which are produced with lower prices.

7- In the case of joining the organization, the value of currency wouldn't be necessarily fix and it will cause some problems in country's foreign trade.

8. changing the subsidized economy in to the market economy in all the economical attempts and omission of governmental supports – although it has been started recently in the country- will put more pressure on societies vulnerable groups and parts.<sup>30</sup>

4-3- Some of the problems, points of under consideration and required actions of Iran about joining to the w to.

Economy experts believe that joining in the WTO requires extensive improvements in the economic, commercial and legal fields that although it can be very beneficial for member countries, but in the case of weak economical substructures it can create some problems. Current laws of Iran to join the country in the mentioned organization aren't suitable and they should be modified.

From the other hand, the governmental, centralized economy and the economy which is dependent to the oil exportation is a big problem which without extensive modifications the possibility of joining Iran at this organization will be decreased or the approach of joining at this organization will be lasted. Also, the process of omitting the supports from fuel and other fundamental goods including oil, cubic sugar, sugar, cheese and imported rice which has been begun in this country should yield good result with following a correct planning.<sup>31</sup>

In fact, about 75 percent of Iran's economy is governmental. Inefficient governmental management will cause loosing the competition, decrease in efficiency, lowering the quality of goods and on the other side, it will cause expensive price for domestic

<sup>30</sup>- Nonezhad, op.cit , p 202

<sup>31</sup>-Akbarian op.cit, p 134

products against foreign similar goods and thus it will cause the citizens to have tendencies toward buying foreign and imported goods. For permanent membership in the WTO, this system should be changed with correct planning, otherwise, risk less joining at organization and taking advantage from its different economical advantages will be impossible.<sup>32</sup>

Also trading the services is the activity which is mostly scientific and some of its kinds need the physical attendance of service providing country in service receiving country, however in reality, Iran's market is facing with the most legal, basis and behavior obstacles. Disability of banking system in Iran from competition with international banking systems and the weakness of management in this system and positioning in the first stages of the privatization and releasing governmental support in all the fields are the other problems.<sup>33</sup>

In addition, Iranian producers do not have the chances for competition with foreign opponents due to lack of competition in market and also due to taking advantage from the governmental supports. In fact, having the ability to compete is one of the basic components for joining in the world trade organization. But, being competitive on the field of economy will only be meaningful a real private section enters the arena. Based on this, other requirement is performing the policies of 44<sup>th</sup> prototype of this country's constitution which based on that, the real private section should play the role in competitive arena. The other requirement for joining in the world trade organization is modifying the tariff system.<sup>34</sup>

### Conclusion

As it was pointed out, nowadays the foreign commercial sector is important part as one of aspects of the world economy and its importance increases each day with developing the technology and increasing the diversities in produced goods. Other than some of the exceptions and difficulties, experience shows that attendance in global markets and taking advantages from the benefits of foreign trade in early decades has caused the economical growth of most of the developing countries.

In Iran, because of the economy which is dependant to oil exportation and accessing the currency resources due to oil exportation, foreign trade sector hasn't been developed proportional with the requirements of the day. The development of the economical problems and probable reduction of oil currency incomes in future, in one hand highlights the

importance of foreign trade sector and the necessity of attending in global markets, in other hand, it introduces the increase in production, raising the exportation and competitive abilities in worldwide and membership and taking advantage from the facilities of the world trade organization – despite the existence of some domestic disagreements - as a necessity for this country.

As mentioned, based on the twenty year prospective plan of Islamic republic of Iran, this country should be the premium economical power in region and should be in the position of active interaction with global economy and in the competitiveness economic conditions. In this case, the government should pursue efforts to promote the country's economic sectors and various international standards for production, distribution and export of goods and with performing economical modifications, it should provide the conditions of fully joining this country in the world trade organization and extensive economical attendance in global markets.

In fact nowadays, determination and establishing the country's place in the cycle of economy and global production has been converted to an inevitable necessity and from the other hand, it can be said that the country's products growth in all aspects depends on the exportations and joining in the world trade organization will help to promote the country's exportations and in long period, it will cause the increase in employing advanced technologies, competitiveness, increase in the efficiency of production factors, accessing in more markets, increasing the income level and welfare in agricultural section and the improvement of overall economy of Iran.

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<sup>32</sup>-ibid -, p 135

<sup>33</sup>- nonezhad, op.cit

<sup>34</sup>- Keikhosrovi, op.cit

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