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The Islamic Republic of Iran: A New Horizon for Canada

verely from the events that followed the 1979 United States embassy hostage crisis. By 1985, the volume of trade had fallen to an all-time low of \$202 million from the decade-earlier \$900 million. Today, Iran's market shows fresh promise in light of the latest policy developments there, including a new Five Year Plan.

Iran's priority has been real and full independence, even at the expense of isolation. Radically idealist politicians were driven by Ayatollah Khomeinei's exhortation that "we must become isolated in order to become independent." Although this should not be taken out of context, it indicates how sensitive Islamic Iran is to the question of any policy that might lead to dependency. It also explains Iran's caution in re-establishing relations with the West. Much more than a political upheaval, the revolution changed social and economic values as well as concepts of modernization and economic development.

These fundamental shifts affected dramatically, and even interrupted, some of the ongoing industrial projects, including those sponsored, or participated in, by Canada. Development will continue but only under conditions acceptable to Iran's revolutionized values as it not only rejects some aspects of conventional modernization but also works hard to eradicate all previous effects considered immoral. "In the past, a big house, a luxury car, a fat bank account, was the mark of values," President Hashemi Rafsanjani observed four years ago. "Today, the revolution has completely reversed this; these have become anti-values."

The idea of strict observation of Islam and confrontation with the outside world has not been shared equally by Iranian politicians. Although all decisionmakers believe in a global Islamic order, their commitment to this has split them into idealist and realist factions. The idealists, who dismiss any relation with non-Islamic world, are no longer the sole foreign policy architects. They have lost ground to the realists, a development that has tempered Iran's foreign policy, particularly those with regard to trade,

Also putting pressure on Iran's leaders to open the doors is the spread of

Canada's trade with Iran suffered se-sophisticated communications technology that brings in news of socioeconomic development, fashion, arts, ideology, etc., from everywhere. This creates and expands demand for new goods and services.

It would be a grave error to believe that the post-Khomenei politicians in Iran are ignoring their new social values. The concept of an Islamic system that is neither a "pragmatist West nor a materialistic East" is very much alive. Nevertheless, Iran has made it clear that it is willing to co-operate with other countries and to import their technology at fair prices as long as the co-operation and trade does not threaten its independence and

An External Affairs trade official said more than a year ago that trade with Iran was "erratic." Is it still so? Not really. Iran's struggle for economic survival under the tremendous pressure and heavy burden of the war with Iraq as well as ongoing internal unrest is admirable to many economic observers. The disarray that followed the fall of the former regime, the exodus of thousands of badly-needed professionals and the interruption of oil production was aggravated severely by drought, floods and earthquakes.

Few Signs Of Economic Instability

Despite it all, Iran maintained some control over inflation and its deficit, even reducing government spending during the war. The 1986-87 report by the central Bank Markazi showed government spending falling from 2.49 trillion Rials in 1977-78 to 939 billion. The deficit ranged between 8 and 11% of Gross Domestic Product during the war, not too different from the year before the revolution.

Iran is paying its debt, estimated at more than \$5 billion, and President Rafsanjani reported to the Majlis in February that the debt was down 37% from a year earlier. And, since 1981, inflation has always been below 25%, which could be argued as a rather acceptable situation for a country at war. Neither are there any of the other symptoms of economic instability.

Some non-economic factors might have affected Iran's reliability as a trading partner. The Salman Rushdie affair and

allegations about Tehran's support for international terrorism are two examples. The former set back Iran's renewed efforts to establish better commercial ties with major industrial countries; having just normalized relations again, Canada recalled its ambassador early last year after the death threat against Rushdie. Nevertheless, the major industrial powers' continuous trade with Iran — West Germany and Japan more than others is clear evidence of revolutionary Iran's capacity to be a reliable trading partner.

"Iran has never had any problem with its payment," says Guy Cadieux, a trade official with External Affairs. This viewpoint is shared by the Export Development Corp. and the Canadian Export Association. Companies selling goods to Iran receive a letter of credit drawn on Iranian Banks. Exporters can get the letter confirmed by the receiving bank with a premium of approximately 0.5%. The discounting rate is normally about 6%. Lloyds Bank, with its Canadian International Banking Centres, is the most active foreign bank in Iran, handling 90% of its trade with Canada. Bank Markazi quarantees the letters of credit issued to Canadian companies, paying interest on such financing. Canada's annual exports to Iran have fluctuated between \$22 million (1981) and \$300 million (1989) in the past decade. Mainly cereal grains, the trend is upward and, Saudi Arabia aside, Iran is Canada's largest Middle East market. Although exports to Iran are not a significant percentage of total exports, only 0.2%, recent growth is encouraging.

The volume of cereals exported to Iran has, in relative terms, soared. It reached \$256 million last year from only \$29.4 million in 1979, a trend that most likely will continue because of the new Five Year Plan that began in February. Within this framework, agricultural development has received only a small portion of the budget, \$8.5 billion, so it is clearly not a priority. It is concentrating more effort on commerce, industry, and so on. So there will be no extra effort to produce foods even though the average annual population growth rate is forecast at 3.8%. This means more money allocated for food imports and, hence, more de-

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mand for Canadian cereals.

A review of Canadian merchandise exports to Iran over the past two decades indicates that there has been a gradual shift to food, mainly cereals, from end products. From 1975 to 1978, Iran imported an average of \$100 million in Canadian end products annually, roughly two-thirds of total Canadian exports to Iran. This has changed dramatically. End products now account for a small portion while cereals are moving up to the 90% mark.

Petroleum drilling equipment is another growth market. Canadian companies now have their Iranian customer right in their own backvard, with the opening by Iran's Ministry of Petroleum of its Kala Naft office in Calgary last December. With a \$1.2 billion annual procurement budget, Iran offers attractive potential for Canadian suppliers. Oil industry reconstruction, with a budget of more than \$19.2 billion, has priority in the new Five Year Plan which means, among other things, new offshore oil and gas fields in the Persian Gulf.

Iran also may seek Canadian equipment and services in other sectors such as electrical generation, for which the Ministry of Power is planning to borrow \$1.2 billion. This affords opportunities in consulting and engineering services as well as the supply of hardware. Other opportunities exist in Iran's transporta- ports, primarily fruit, nuts and carpets.

massive Metro project, a new international airport — and in telecommunications.

Iran's shortage of skilled manpower and college graduates is a serious impediment to reconstruction. There were 300 applied field graduates for every 100,000 Iranians in 1986-87 as compared with 5,500 in Japan and 5,100 in the Soviet Union. Similarly, there were 600 technicians per 100,000 population compared with 600 per 25,000 in Japan. Iran is signing a contract to bring experts from various countries, so there is potential for Canadian consultants.

As for Canadian imports from Iran, crude oil has dominated the flow over the past decade, ranging from 72 to 98% of the total. Last year, Canada imported some \$3.6 billion worth of oil, of which only 9% was Iranian. This is far below the all-time high of 25% in 1974 and there are indications that oil imports will continue to increase in the coming years. According to the Organization of Petroleum Exporting Countries, global oil demand will require OPEC production of 27 million barrels per day compared with only 22.65 million B/D in 1989. Notwithstanding the recentlyannounced OPEC production cuts to bolster prices, this means eventual higher oil production by Iran and increased Canadian imports. Non-oil imtion sector — tanker trucks, Tehran's rose from 2% in 1979 to a 1988 high of

27% and also offer potential.

The foregoing tends to support a statement by Mr. Cadieux that "the prospect for Canada Iran trade is potent." Demographers estimate that Iran's population of 53 million could reach 85 million by the turn of the century. Feeding them presents an enormous challenge for a country where the constraints imposed by considerable semidesert areas are compounded by the slow pace of postwar reconstruction. External Affairs estimates that \$3 billion in imports of basic foodstuffs will be required by the year 2000.

Canada, which exported \$3.7 billion worth of cereal grains in 1989, seems an eminently suitable match for Iran, which has 13.7 trillion cubic metres of recoverable natural gas reserves, larger than any except those of the Soviet Union. Its proven crude oil reserves are almost 93 billion barrels. More than an exchange of wheat for oil, it could include oil technology for oil. Iran must speed up its offshore operations to meet the hard currency goals set out in the Five Year Plan and Canadian companies obviously could capitalize on this.

Finally, Canada is Iran's gateway to North America and its reputation as a liberal country with no political interest in the Third World makes it an ideal trading partner for Iran.

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| (Discounting small special transactions) | | | Exports | 1990 | 1989 |
|--|-----------|-----------|--|------------|-----------|
| Carlo a management and a second | | | Fruit, nuts & peels | \$ 124,000 | |
| Imports | 1990 | 1989 | Cereals | 25,696,000 | |
| Vegetables, roots & tubers | \$ 1,000 | | Salt; sulphur; building materials | 10,008,000 | 2,424,000 |
| Fruits, nuts & peels | 2,692,000 | 2,587,000 | Minerals fuels, oils & products | 1,691,000 | |
| Coffee, teas & spices | | 3,000 | Pharmaceuticals | 931,000 | 82.000 |
| Prepared meat, fish, etc. | | 5,000 | Oils & resinoids; cosmetics & toiletries | | 7.000 |
| Prepared vegetables, fruit, etc. | 946,000 | 82,000 | Plastics & products | 2,009,000 | 1.00 |
| Beverages, spirits & vinegar | 2,000 | 7,000 | Rubber & products | 179,000 | |
| Miscellaneous chemical products | 2,000 | | Wood & wood articles; wood charcoal | | 176,00 |
| Plastics & products | 68,000 | | Wood pulp & other cellulose | 3,839,000 | 252,00 |
| Books, newspaper, etc. | | 1,000 | Paper, paperboard and related articles | 1,994,000 | |
| Carpets & textile floor coverings | 2,339,000 | 2,089,000 | Iron & steel & articles | 10,193,000 | 149,000 |
| Clothing & accessories | 13,000 | 7,000 | Copper & Nickel & articles | 40,000 | 116,00 |
| Tools, implements & cutlery | 17,000 | 9,000 | Other base metals & articles | | 125,00 |
| Boilers, machinery & mechanical | | | Tools, implements & cutlery | 19,000 | 189,000 |
| appliances | 56,000 | 8,000 | Boilers, machinery & appliances | 1,511,000 | 2,990,000 |
| Electrical machinery & parts | 18,000 | 319,000 | Electrical machinery & parts | 27,000 | 76,000 |
| Motor & rail vehicles & parts | 1,000 | | Motor & rail vehicles & parts | 1,120,000 | 29,000 |
| Optical & precision instruments | | 1,000 | Aircraft & parts | | 9.00 |
| Art, antiques and collectors' pieces | 89,000 | 138,000 | Optical & precision instruments | 620,000 | 419,000 |
| TOTAL | 6,252,000 | 5,278,000 | TOTAL | 60,007,000 | 7,128,000 |