

Iran economic collapse

Foreign contractors are left in limbo

The near shutdown of the Iranian economy after months of political turbulence has had a major impact on the world economy. The dollar value of cancelled contracts with the industrialized nations runs into the tens of billions, not to mention contracts whose status is undecided. The U.S., Europe, Japan, the Soviets and even a number of more advanced Third World countries have all placed major investments in Iran's development, which was one of the most aggressive programs in the underdeveloped sector until the political crisis hit last year.

If the fanatical Ayatollah Khomeini succeeds in replacing the government of Shahpur Bakhtiar, and enacts the economic plans for Iran — drawn up by Khomeini advisors Rene Dumont and his Iranian counterpart Abdul Bani Sadr — Iran will regress to an anti-Western rural economy. But, if Khomeini can be isolated and a compromise worked out between Bakhtiar and some of Khomeini's more moderate allies, then there is a likelihood that many of the old contracts will be salvaged and new development contracts with Western business will be signed.

Bakhtiar's Finance Minister this week affirmed his willingness to renegotiate development deals with the West, but stressed that unlike the multibillion dollar contracts for arms under the Shah, these new agreements must facilitate economic progress for his country.

Iranian economy sinking

Since December, the country has been losing approximately \$450 million a week as a result of the shutdown of its oil exports, its sole source of income. Iran is the second largest oil exporter in the world. Estimates of reserve decline since September show a drop from about \$10.5 billion to somewhere between \$6 and 7 billion. New York banking sources indicate that much of these reserves have gone to servicing debt.

Due to widespread strikes, most of Iran's banking system has been closed. As a result, the moneychangers in the Bazaars of Iranian cities are lending and changing money, fueling an inflation rate in Iran of 60-70 percent.

With a massive evacuation of all foreign workers in Iran, the government is now unable to resume oil output without the know-how of skilled technicians to repair damage done to the oilfields.

U.S. industry has been the hardest hit by the Iranian crisis. Of the 40,000 U.S. nationals that worked in Iran, less than 5,000 still remain. Outside of U.S. multinational oil companies, most of the major U.S. industrial powers had major operations in Iran. Just within the aerospace and military sector, the U.S. has lost an estimated \$8 billion in contracts. Many of the U.S.-

assisted projects were very near completion when evacuation procedures were stepped up last month. Notably, a \$200 million project to upgrade Iran's telecommunications by AT and T American Bell was left 90 percent finished last month. Similarly, work on a petrochemical plant in Isfahan, supervised by the Fluor Corporation was also in the final stages of completion.

Since October, the gas pipeline which supplies the USSR with natural gas has been shut down. As a result, the Soviet government has been forced to evacuate sections of Soviet Armenia solely dependent upon Iranian gas for heating and power generation. Moreover, the gas shipments to the USSR were part of an ambitious deal involving a number of European countries whereby Iranian gas would be swapped for Soviet gas which would be piped into Eastern and Western Europe.

Western Europe and Japan, too, have been hurt by the Iranian crisis. Last month Tokyo ordered workers and technicians with Mitsui to evacuate the construction site of one of the biggest petrochemical plants in the world. According to Japanese sources, the deal is not necessarily off. But, under the present circumstances in Iran, it was impossible to pay their staff with the Iranian banking system closed or to provide security for Mitsui workers.

There are scores of other projects involving French, Italian and West German companies which share the same problems as the Mitsui project.

Within the underdeveloped sector, Brazil is one of the worst affected by Iran: over \$1 billion is in oil-for-technology agreements which have been scotched. Beyond this a \$1.2 billion project for the construction of a hydroelectric dam never got off the ground due to the outbreak of political chaos over 1978. Most of the trade and industrial agreements which Iran and Brazil have worked out were based on bartering oil. According to Brazilian press sources, Iran's neighbor Iran has moved in to take over Iran's oil markets in Brazil at least until Iran's oil exports resume.

As the situation is shaping up, according to a Washington source, if a compromise can be reached between Bakhtiar and Khomeini and a "government of technocrats" from the moderate opposition is set up, then Iran is expected to continue its development, minus the wasteful corruption and military spending which occurred under the Shah. One of the new orientations which such a government is expected to take is state-to-state oil-for-technology agreements.

Nonetheless, Iranian development has been set back at least a decade as a result of the political crisis.

— Judith Wyer