Oil, economic development and national security of developing countries: a case study of Iran

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ABSTRACT: In decentralized international systems not having a central authority, the first goal and priority is protecting national security. In past providing national security has included three preparations: 1: marital preparation, 2: political preparation and 3: economic preparation. With end of the cold war, economic factors of national security found more significance. In fact in the present world, economic growth is one of the most conditions of governments for reaching to stability and security. Security of oil exporting countries is influenced by prosperity and boon of oil industry in these countries. Nowadays the negative outcome in countries depending on oil and minerals is regarded resource curse. However proponents of this theory believe that oil exports has generally left negative influence on economic growth and development during the last 40 years but the experience of lots of oil-exporting countries shows an opposite stand. Notwithstanding, most of economists consider lack of capital as the most important obstacle of economic growth and development, the present study answers the following question: How oil can be sued as an opportunity making factor in fulfilling national security? The research hypothesis states that it seems that management of petroleum income lead to economic growth and development through obviating the problem of save currency account of Iran accompanied with innovating methods beyond buyback contracts to attract foreign capitals. Through this oil becomes an opportunity making factor in fulfilling national security of Iran.

INTRODUCTION

National security is one of the main national goals and also the base of determining the goals of foreign policies. Iran’s economic boom, investment, planning development and every kind of activity needing a secure and tranquil context depend all on fulfilment of national security (Taqizadeh Ansari, 2001).

In modern discourse of national security, the concept of security is not tangible and objective to promote its weight with storage of marital recruiting equipment and executive mechanisms but it is a proportion and relevance taking different weights in relation with different issues. In new consideration instead of marital issues and their preparations, economic circumstances and factors are regarded (Qadirnasiri, 2002). Every country needs a specified level of political stability and domestic security for guaranteeing foreign security which depends greatly on economic development. Backwardness is a kind of insecurity because making domestic tensions and crisis and foreign interventions. Authorities and people of undeveloped countries called the third world consider great importance for economic development so that some of them asseverate that national security emanated from development and the limits and criteria of development are also the limits and criteria of national security (Rowshandel, 1996).

Theoretical framework

Resource curse theory (resource curse)

Nowadays the negative outcome in countries depending on oil and minerals is regarded resource curse. However proponents of this theory believe that oil exports has generally left negative influence on economic growth and development during the last 40 years including less than expected economic growth, lack of economic structures diversification, low level of social welfare criteria, high level of poverty and inequality and etc. the curse or damn of sources doesn’t mean to claim that resource abundance always leaves negative effects on economic growth and development but vice versa, important historical examples can be found where development has happened depending on natural sources such as Canada, Australia, Norway, Chili. However it should be noted that not any example of successful development based on oil export has been proved (Mirtorabi, 2009).
Based on proponents of resource curse, the more dependence on mineral and oil resources in a country, the worse economic growth will be. The mystery of resource abundance or curse is a phenomenon which is in opposition with public belief that natural resource wealth leads to economic growth. Proponents of resource curse refer to following reasons about their bad economic performance of oil-dependent countries:

Price fluctuation: it has a severe negative effect on discipline and budget organizing and controlling financial affairs of governments also disturbing governments’ planning.

Dutch disease: a phenomenon where oil sector increases the rate of local money exchange with foreign markets casing export of goods taking a non-competitiveness state. So oil export creates barriers for other sectors’ exports (Mirtorabi, 2001). After Holland’s experience in discovering natural gas resources in North Sea in late 1950, this phenomenon was called Dutch disease. Exploiting the new resources improved Holland’s trade’s balance greatly but lead to decline of domestic industries through increase of unemployment, the danger menacing economies with rich natural resources. So resource export boom increases the incomes of resource export significantly but suddenly in a short period the local currency exchange rate makes serious damages to domestic agriculture and industry leading to irreparable losses of managerial skills and productive work force. Soon a wide economic slump with high unemployment is inevitable (Behboode, 2007).

Weakness of vocational skills and intensification of inequality: oil industry is the most capital consuming and the most technological industry of the world. Because of this in this industry, not many jobs are created and the needed skills made by oil industry to be presented by unemployed people in oil-exporting countries.

Surrounding of oil sector and tax problems: depending on oil act as an obstacle against performing more productive activities and however removes government’s answering caused by obsession of tax payers about expending government’s incomes (Mirtorabi, 2001).

**Oil, economic development and national security in Iran**

As the main fuel source and government’s income, oil is of the basic foundations of government power and stability in Iran. As economic power is the main base of political power, oil and energy are bases of economy and oil is among important factors of political power.

Iran’s economy depends on oil in three ways:

1. Oil is the biggest currency making resource and also the main government’s income resource. This issue is very important for a country severely dependent on imports with a government committed to do heavy economic tasks and duties for people based on institution and regarding special conditions of war and revolution.

2. Oil and gas provide nearly 95% of the total energy source of Iran. The current mechanical economy depends on using oil and energy and intensity weight of energy shows that nearly one percent of annual economic growth needs the growth of oil and energy consumption. So, only from this perspective, the movement of Iran’s economy depends 95% to oil and also the government’s power depends on oil with the same percentage.

3. Oil and gas are the raw materials for petrochemical products also used as the raw material of many of economic activities (Heshmatzadeh, 2001). Due to single-product economy of Iran and reliance on oil sale incomes, energy sector is the most important security source of Iran provided that investment is logical in it (Nasiri, 2002). There is a complete correlation between the rate of economic growth and petroleum income rate. When petroleum income s increase, economic growth rate also increases and vice versa. With increase of investment in oil and gas, petroleum incomes and consequently economic growth increase. The deficiency and shortcomings in producing and exporting oil impede the fulfillment of economic growth and national security. The following graph shows the relationship between economic growth and petroleum incomes. The question coming to mind is that why economic growth has descended in spite of petroleum income increase, and how petroleum income increase can help economic growth of Iran?
It can be concluded that the lack of proper investment can have security effects and change to a threat element seriously. The followings are security outcomes of inadequate investment in energy industry:

**Losing the growing world energy market**

Oil and gas are now the most important energy materials and with global production and consumption growth, the needs for these two vital materials is increasing. The lack of proper investment in production and export of energy can impedes Iran to dominate on new markets and strengthen the regional competitors.

**Reduction of Iran’s share in OPEC**

If Iran’s share in OPEC declines, this shares go to countries that their oil resources are close to Iran. Kuwait, Iraq and United States Emirates are countries having the same amount of oil with Iran. However their investment for extracting oil is much more and the income is distributed between their very low populations.

**Quick extraction of common energy sources by neighbors**

Iran’s neighbors like Saudi Arabia, United States of Emirates, Qatar and Iraq allocating significant investments can decline Iran’s energy power and increase their national power. The technology used by them in common energy field have increased their extraction nearly 60% but Iran’s equipment can extract only 24% and 36% of Iran’s energy power wastes due to not using the modern technology.

**Delegation of 10-15 percent of OPEC extra production capacity to use in emergency conditions to regional competitors.**

**Increase of Iran’s national risk due to decline of petroleum incomes and not paying the foreign financial commitments timely.**

**Increasing amortization of equipment and reservoirs**

Reservoirs and the related equipment currently being used have a limited lifelong. Most of the times extracting some of the reservoirs is not affordable due to low percent of return not having the capacity of massive investment. Also in some cases transfer of the installed equipment on a field or wells is very costly. The experts have estimated that intense amortization of the reservoirs and equipment reduces Iran’s daily oil production to 200000-250000 barrels annually. The lack of adequate investment in existing reservoirs, in the most obvious prediction has led to capital deviations and disturbance of economic cycle hereby declining national security weight (Nasiri, 2002). In the next
section the importance of two issues in economic development of Iran which are attracting foreign capital in oil industry and management of petroleum income are considered.

**Attracting foreign capital**

Generally oil industry is a capital-consuming industry. Different stages of oil extraction include exploration, drilling and extraction need great capital and modern technology. Because of this from the beginning of oil industry especially in developing countries, the need to attracting foreign investment has propounded (Mirtorabi, 2006). The policies of Iranian government in the first decade of Islamic Revolution for attracting foreign investment was faced with negative answers of the world’s financial organizations. Political prosecution, inattention to international system, governmentalizing the banks, factories’ confiscation, limitations on attraction law and supporting foreign investment, continuous political instability and the existing risk rate for investment were among the most important deterring factors on attracting foreign investment. In the second decade of Islamic revolution, foreign investment during the first and the second economic development program showed a disappointing picture but after many years of inattention to international system, this status was considered as a promising beginning for using global credit by Islamic Republic of Iran. In the third decade with beginning of Muhammad Khatami government deletion of lots of official formalities and presentation of suitable facilities and advantages in the law of the third development program such as customs and tax exemption, delegation of raw material with 30% discount, the context for attracting domestic and foreigner investment especially in free regions was provided. Then the government exempted free commercial regions from general rules of import and export and allowed capital transfer and investors’ profits based on free currency rate (Javad, 2002). During 1996-2004, totally 18 oil and gas buyback contract were signed by Iran manly focused on gas, so that 17.5 billion dollars was allocated to development of gas industry out of total 25 billion dollars of all contracts (Mirtorabi, 2008). 1990s Iran came to 58th rank among 60 countries attracting investments. The total foreign to Iran during the last decade was nearly 3 billion dollars mainly focused on oil and gas buyback contracts. This statistics shows the high risk level of foreign investment in Iran and the lack of economic security from investors’ perspectives. The most important reason of the lack of economic security is political issues (Emamikhouy, 2001). Some believe that regarding the necessity of investment in oil industry, the inadequacy of domestic capital and other limitations, buyback contract is currently a proper method to attract foreign investment. However there are some defects in making and executing the contracts which should be removed (Hassanbaigi, 2003).

**Buyback contracts**

In buyback contract the investor company does all aspects of investment like installation of the equipment, launching and transferring the technology and delegate the field after setting up to the host country. Capital and interest return of investor company is done through receiving the products. Also cash payment can be given to investor company. Buyback contracts don’t have the risk of discovery because they are executed in fields having been proved of oil and gas resources (Mirtorabi, 2008).

The followings are the effects of buyback contracts on national benefits:

**Domestic effects**

Creating public welfare: more extractions from oil and gas fields resulting from investment and capacity development leads to increase of petroleum income and consequently income per capita improving economic, welfare and living criteria of all members of the society and finally increase of national security weight through political legitimacy inside the country.

Employment: unemployment crisis is one of threatening factors of national security, so more extraction of oil through buyback contract to provide entrepreneurship capital can solve the problems in this area.

Providing domestic needs

**Regional effects**

Exporting gas to neighbor countries: this case is important from two sides; first the goal of exporting gas to neighbor countries is to gain foreign income and supporting national benefits and second, exporting gas to these countries is done through mutual trust.

Increasing the attention of OPEC members to Islamic Republic of Iran standpoints creating balance in economic power of the region

**Global effects**
Increasing worldly needs to energy: since all of oil countries are developing their production capacities, Iran’s current share in global production should also increase to move with world standards; unless Iran will sideline from the main picture.

Protecting marital authority: strengthening economic and marital power through gaining more income and consequently increasing the capacity of oil and gas production, Iran can return to its superior past achievements. 3-connection of investor countries’ profits with Iran’s national profits: the nature of developed countries investment in Iran shows first the high political legitimacy of Iran in international courses and since most of these governments possess technology, power and wealth, their investee in Iran line up Iran’s national profits with their profits which create a kind of national security (Hassanbaiki, 2003).

**Weak points of buyback contracts**

- Not transferring the advanced technology desirably. These contracts in identification, exploration and extraction phases don’t transfer the technology. To improve the conditions it’s better to prolong the contracts more and put direct commitments on investor company.
- Capital return rate of the contractor is fixed but the risk of price change is upon national oil company of Iran because capital return rate and contractor’s costs is considered based on the price of most desirable customer. To stop this risk for Iran national oil company, it’s better to consider the price based on daily competitive price to share the foreign contractor in price risk.
- Foreign investment company takes the highest profits in short terms to compensate its costs and doesn’t have any responsibility upon Iran’s national oil company. So it’s better to stipulated that production increase for use should be optimized and even after the end of contract period, the investor company compensate the losses if production is faced with deficits caused by the investor company.
- Possession of equipment and technology is transferred with paying the last capital instalment and its price. So to this time the risks and the responsibilities are upon the foreign company (Alidoosti, 2007). It seems that the legislator in Iran, due to prediction perspective on oil issues has made lots of limitations to attract foreign investments in oil and gas sector and outstanding the role of governmental authority in these investments. But this perspective regarding the changed conditions of worldly oil industry and Iran’s circumstances and features of oil reservoirs is not necessary in line with national profits. Based on this approach, buyback service contract has been suggested as the only model of foreign investment attraction in oil and gas sector.

**Management of petroleum income s**

Oil reserves are formed with the same goal which is helping governments for facing with petroleum income problems and issues. The rules and regulations of these reserves emphasize on changing petroleum income to financial capitals (domestic and foreign) and real capital of the materials and budget expenses are permissible only from the place of current incomes of the reserves (Kianpour, 2011).
The following table shows the world existing oil reserves.

<table>
<thead>
<tr>
<th>Establishment year</th>
<th>Country</th>
<th>Fund name</th>
</tr>
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<tbody>
<tr>
<td>1974</td>
<td>Kuwait</td>
<td>Public saving fund</td>
</tr>
<tr>
<td>1976</td>
<td>Papua New Gina</td>
<td>General stabilization fund</td>
</tr>
<tr>
<td>1980</td>
<td>America</td>
<td>Alaska continual resource fund</td>
</tr>
<tr>
<td>1990</td>
<td>Oman</td>
<td>Government general resource fund</td>
</tr>
<tr>
<td>1990</td>
<td>Azerbaijan</td>
<td>Government petroleum fund</td>
</tr>
<tr>
<td>1999</td>
<td>Norway</td>
<td>Government petroleum fund</td>
</tr>
<tr>
<td>1999</td>
<td>Chad</td>
<td>Income management fund</td>
</tr>
<tr>
<td>1999</td>
<td>Iran</td>
<td>Foreign exchange reserves</td>
</tr>
<tr>
<td>1999</td>
<td>Venezuela</td>
<td>Macro-economy stabilization investment fund</td>
</tr>
<tr>
<td>2002</td>
<td>Kazakhstan</td>
<td>National fund</td>
</tr>
<tr>
<td>2002</td>
<td>Sudan</td>
<td>Petroleum stabilization fund</td>
</tr>
</tbody>
</table>

Source: Kianpour, 2011

In the current economic experience, there are some examples of the countries that have possessed the blessing instead of curse of petroleum incomes. The outstanding example is Norway which is a model for other countries having petroleum resources (Gylfason, Herbertson, Zoega, 1999). In a comparative study between Iran and
Norway, one of the important reasons of different effects of petroleum incomes return to management style of these incomes (Shirkhani, 2001). Thirty years ago Norway found in North Sea. Nowadays Norway is on top of human development index of United Nations having the highest per capita income equal to 38,000 dollars for every Norwegian. Establishing petroleum fund from 1996 to 2003, Norway has saved nearly 120 billion dollars (Mirtorabi, 2008). The structure and method of foreign reserve fund has been designed to fulfill the following uses:

- Confronting with every kind of economic fluctuation caused by price change of exporting products
- Creating the needed trust for foreign financial markets for ability of Norway to pay the currency obligations in critical conditions or foreign shocks
- The possibility of profitability of current national savings
- A resource for abroad investment (HeshmatiMowlaei, 2005).

The problem of foreign exchange reserves in Iran

Iran's efforts for optimized use of petroleum incomes started more than half a century ago with establishment of planning and planned economy system through formation of planning and compilation of development program institute in 1949. In this programming, all of crude petroleum export income was allocated to performing development plans (infrastructure and productive). But allocation of entire incomes to infrastructure and productive investments which was half of the use of development method based on planning method, in the fourth development program removed with the first oil shock and intensive increase of the government expenses showed the close relationship between non-development expenses with petroleum incomes (Manzour, Pourmahdi, 2010). In fact, in Iran the philosophy of the formation of foreign exchange reserves from 2001 was balancing the pressures of oil price fluctuations on national economy, so that the government can keep its economic equilibrium against oil price fluctuations through establishment of saving account. The followings are the goals of the policy makers form opening reserves account:

- Decreasing the intense fluctuations in government's budget
- Preventing uncontrolled expansion of the government's budget in condition of petroleum income improvement leading to government getting bigger
- Decreasing the government's dependence on petroleum export incomes
- Strengthening the possibility of non-governmental sector to use extra incomes of exporting (Gudarzi et al; 2003).

Based on the laws of the third and the fourth development program, the government can withdraw this account if the income of crude petroleum decreases in relation to predicted digits. Also withdrawing foreign exchange reserves to provide the budget shortage caused by non-petroleum incomes is prohibited. In the five-year law of the forth development program it's been considered that for investing and providing a part of the needed credits of productive plans and entrepreneurship of non-governmental sector which its technical and economic justification is ratified by the related specialized ministries, up to 50% of foreign exchange reserves through domestic banking network and Iranian abroad banks is allocated in the form of adequately guaranteed facilities.

Foreign exchange reserves of Iran have deviated from its goals in practice while Norway has achieved considerable success in this field. Among the significant achievements in Norway is using the fund to motivate the investors working on developing petroleum fields. Norway has been able to double the recycling weight of petroleum fields through encouraging these investors to use the most advanced technology and innovating new methods. Through this method, Norway oil recycling has reached nearly to 70% while it is 30% for most of Iran's reservoirs (Shikhani, 2011). Availability of foreign exchange resource due to lack of the formation of an independent fund legally with a specified and independent management has facilitated government's accessibility to it causing abortion of the predicted goals from forming foreign exchange reserves. In fact neglecting the reasons and conditions of the formation of this account has caused the factor which could help development and growth of Iran and be an instrument to fulfill the macro-goals become a factor of inflation and liquidity increase, increasing government dependence to petroleum incomes, government becoming bigger, increasing expectations and decreasing government's financial discipline (Shirkhani, 2003). Mahmood Ahmadinejad took foreign exchange reserves with a significant amount from Muhammad Khatami and descending trend of petroleum price increase continued. The seventh parliament agreement paved the way for using this account more and more and liquidation of management and planning organization by Ahmadinejad minimized the monitoring of government’s withdrawals from this account and spending methods. Overabundant withdrawals of Ahmadinejad from foreign exchange account leading to intense inflation rate increase and losing one of the best opportunities for Iran's progress caused harsh criticisms of the experts.
The suggestion of national development fund establishment

It seems that one of the most important factors and reasons of the lack of complete success of the considered goals in foreign exchange reserves is inadequacy of the mechanism and identity of the practiced method which has considered it as an account not regarding any independence or originality for it. Basically the concept and mechanism of saving account is mostly an accounting and auditing system which lacks independence and identity and is subdominant. So such a mechanism is not adequate for correcting economic structure and as its name speaks it only acts as an account and as a filtering for arrival of extra incomes of petroleum to public budget and domestic economy. Although this act is positive and useful it’s not adequate.

So it is suggested that foreign exchange reserves promote to national development fund and using prescribed concepts in the fourth program, bill all the gained incomes titled as petroleum ownership interests be considered as national fund deposited in it. These funds in different forms through the fund should be changed to assets having return and invested (Behboodi, 2007). First of all in the sue of the fund, underground and unrenewable capitals exposed to positive and negative exogenous shocks are changed to dynamic financial capitals which are stable and have return. So the main use of the fund which is increasing economic stability and preventing exogenous shocks and providing inter-generation justice considerations and protecting the origin of this capital is fulfilled and in the second stage of the fund, consumption management of income flow is modern.

Features of the suggested model
Mission and use field

the suggested model can cover two new and important uses focusing on correcting economic structure and protecting and providing the welfare of the future generations in spite of the current uses of foreign exchange reserves (preventing the direct positive and negative shocks of petroleum market).

The title and the status

the title of the fund in spite of having legal specified form as an institute is formed with related responsibilities and options and answers its functioning. Also it often follows special goals and missions and has specialized uses.

Resources of und

it seems that all fund collected based on the terms and conditions of the fourth program is considered the main source of the fund.

Protecting the origin of the capital

the sources of the fund are hanged to different financial assets (bonds and bills of exchange) and real assets. So against the current and prevalent trend of reserves account, the origin of the underground capital is protected in modern forms and on the ground assets.

Consuming petroleum incomes

the consumptions of the fund can be divided to strengthening the specialized and developmental institutions, strengthening the welfare system and social security and helping to income sources of public budget and providing the shortage of the probable budget.

Brokers and specialized funds

in order to cover specialized activities, institutionalization of establishment of specialized activity fundsguarantees and covers the considered issues and provides the possibility of optimized activities and transparent supervision and accountability (Kianpour, 2011).

CONCLUSION

The importance in today’s word is obvious to all. In spite of the fact that petroleum is the main source of energy in today’s world, it also plays a significant role in determining national power and international credit. However the prevalent approach about oil producing developing countries is that these countries have a weaker performance and economic growth but the experience of lots of countries showed opposite of this approach. Since in the modern national security approach, economic security of national has gained significant importance, so in developing countries exporting petroleum, through timely and opportune investment in energy sources, economic growth and development is fulfilled. This study tried to investigate the role if petroleum in economic development of Iran and pay special attention special attention to it. Nowadays investment is considered as growth motor and economic development and
the most important determining factor in recent years has been petroleum. Since the lack of proper and logical investment causes negative security outcomes for the country, we suppose that through managing petroleum incomes and attraction of foreign investment, petroleum can be used as an opportunity making factor to fulfill national security. In management issues of petroleum incomes, the problems of Iran foreign exchange reserves and its substitute (national development fund) was explained. Also regarding the importance of foreign investment in capital consuming petroleum industry, the current method of attracting foreign investment which is buyback contract and its security making and security menacing effects were considered. Finally with managing petroleum incomes and attracting foreign investment in a correct way, petroleum is not only curse or disaster, it also provides the conditions for economic development and provides national security.

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